African Economic Outlook

2007/2008



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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 2007, the African Development Bank Group cumulatively approved 3 174 loans and grants for commitments of close to UA 42 billion (approximately USD 63 billion). The commitments were made to 52 regional member countries and institutions to support development projects and programmes in agriculture, transport, public utilities, industry, education and health services. Since the mid-1980s, a significant share of commitments has also gone to promoting economic reform and adjustment programmes that help to accelerate socio-economic development. About 57 per cent of the total Bank Group commitments were financed on non-concessional terms, while the balance benefited from concessional financing.

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Foreword

The *African Economic Outlook* project is a joint initiative of the African Development Bank and the OECD Development Centre, joined in 2008 by the United Nations Economic Commission for Africa. The Report was drafted by a core team essentially from the AfDB and the Centre, 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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Acknowledgements

The African Economic Outlook was prepared by a consortium of three teams led by Kenneth Ruffing. The team at the African Development Bank (AfDB) was led by Barfour Osei and Beejaye Kokil at the Chief Economist Complex. The team at the United Nations Economic Commission for Africa (UNECA) was led by Léonce Ndikumana, and the team at the OECD Development Centre was led by Lucia Wegner. The Outlook was prepared under the overall guidance of Louis Kasekende, Chief Economist, AfDB, Temitope Waheed Oshikoya, Director, AfDB Development Research Department, Abdellatif Bernoussi, Manager, Networking and Research Partnership Division, AfDB, Javier Santiso, Director, OECD Development Centre, and Hakim Ben Hammouda, Chief Economist, UNECA.

The comparative synthesis of the report was drafted by Ken Ruffing (macroeconomic section), Lucia Wegner and Christian Kingombe (thematic section). Additional inputs were provided by: Yero Baldeh, Jeff Dayton-Johnson, Thomas Dickinson, Adam Elhiraika, Ki Fukasaku, Andrea Goldstein, Federica Marzo, Francesca Pavarini, Helmut Reisen, Audrey Verdier-Chouchane, Susanna Wolf and Felix Zimmermann.

The country notes were drafted by Mahamat Abdoulahi, Oluyele Akinkugbe, Abou Amadou Ba, Mohammed-Hedi Bchir, Farid Benyoucef, Sylvie Anne Conde, Assitan Diarra-Thioume, Jeff Dayton-Johnson, Adam Elthiraika, Alain Fabrice Expo, Gaston Gohou, Racine Kane, Kavazeua Katjomuise, Christian Kingombe, Federica Marzo, Ahmed Moummi (with the assistance of Luis Bokung), Felix N'Zue, Oladeji Ojo, Peter Ondiege, Barfour Osei, Ben Idrissa Ouedrago, Rasheed Oyaromade, Taoufik Rajhi, Kenneth Ruffing, Mustapha Sadni-Jallab, Désiré Vencatachellum, Audrey Verdier-Chouchane, Lucia Wegner, Susanna Wolf and the following research institutes: Centre d'Etudes et de Recherche en Economie et Gestion (CEREG, Cameroun), Centre de Recherches Economiques Appliquées (CREA, Sénegal), Economic and Social Research Foundation (ESRF, Tanzania), Egyptian Centre for Economic Studies (ECES), and Namibian Economic Policy Research Unit (NEPRU).

The work on the country notes greatly benefited from the valuable contributions of local consultants: Prince Agbodjan (Benin), Fatima Zohara Alaoui (Morocco), Iharimar Andriamarozoka (Madagascar), Daniel Bambara (Burkina Faso), William Bekoe (Ghana), Youcef Benabdallah (Algeria), Emilio Dava (Mozambique), Peter Draper and Philip Alves (South Africa), Francis Gatare (Rwanda), Ousseini Hamidou (Niger), Aloysius Heagbetu (Liberia), Yaro Jinjiri (Nigeria), Serge Kpassokro (Côte d'Ivoire), Oumar Makalou (Mali), John McGrath (Malawi), Michel Matamona (Congo), Alexandre Nshue Mokime (Democratic Republic of Congo), Patrick Musila Mwaniki (Kenya), Chiwama Musonda (Zambia), Joel Muzima (Mozambique), E.S.K. Muwanga-Zake (Uganda), Tabo Symphorien Ndang (Chad), Modeste Mfa Obiang (Gabon), Adesida Olugbenga (Cape Verde), Alves da Rocha (Angola), Sawkut Ally Rojid (Mauritius), Happy Siphambe (Botswana), and Abderrazak Zouari (Tunisia).

The committee of peer reviewers of the country notes included: Maria João Azevedo, Sylvain Dessy, Paul Koffi Koffi, Anne-Marie Geourjon, and Stephen Golub.

Valuable statistical inputs were provided by Hilaire Kadisha, Koua Louis Kouakou Fetor Komlan, and Nirina Letsara at the AfDB Statistics Department. At the UNECA, Dawit Birhanu, Tsedale Demissie, Moctar Diouf, Laureline Pla, Abiola Sunmonu, and Sylvie Umuhoza provided research assistance while Theresa Ouedraogo provided administrative support.

The macroeconomic framework used to produce the forecasting was updated and managed by Federica Marzo at the OECD Development Centre and Beejaye Kokil at the African Development Bank. The statistical annex is the product of a joint work carried out by Beejaye Kokil and Federica Marzo, with the support of Christian Kingombe.

The project also benefited from the assistance provided by Ralph Christian Maloumby-Baka and Yvette Chanvoédou, and Thomas Dickinson at the OECD Development Centre and Rhoda Bangurah and Nelson Abiana, at the AfDB Development Research Department. Michèle Girard, Librarian at the OECD Development Centre, was also of assistance.

The country maps were produced by Roland Pourtier. The maps and diagrams used in this publication in no way imply recognition of any states or political boundaries by the African Development Bank Group, the European Union, the Organisation for Economic Co-operation and Development, the Development Centre or the authors.

A large number of African government representatives, private-sector colleagues and civil society members provided extremely valuable inputs and comments, including all the participants in the joint AfDB/OECD Development Centre expert meeting on Technical and Vocational Skills Development. Several institutions also contributed to the project at various stages: the AfDB country operations departments, the AfDB Human Resources Department, the *Agence Française de Développement* and the *Groupe Experts Formation Professionnelle* (GEFOP), the African Partnership Forum Support Unit, the European Commission delegations in Africa, The European Training Foundation, the Heiligendamm Dialogue Process Support Unit, the ILO Skills and Employability Department, the OECD Economics Department, the OECD Development Co-operation Directorate, the OECD Directorate for Financial and Enterprise Affairs, the UNESCO UNEVOC International Centre for Technical and Vocational Education and Training, and the World Bank Economic and Prospects Group.

The OECD Development Centre's Publications/Media Unit, led by Colm Foy and Sheila Lionet, was responsible for transforming the manuscript into the publication.

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Preface

This seventh edition of the *African Economic Outlook* marks a turning point. Not only has primary responsibility for the project been transferred from the OECD Development Centre to the African Development Bank, but we have a new partner, the United Nations Economic Commission for Africa (UNECA). In addition, we have invited independent research institutes in several African nations to join us in preparing country studies and to participate in the dissemination activities of the *AEO*.

The *African Economic Outlook* thus moves into a new stage of maturity and its already considerable reputation and standing can only benefit. Indeed, the *AEO* is now a permanent feature of the African socio-economic literature and we are proud to carry it forward together. This year's edition sees a further increase in the coverage of the continent to 35 countries, up from 31 in 2007, covering 87 per cent of Africa's population and 95 per cent of its economic output. This is a significant achievement, but our hope is that the country coverage will continue to be extended until it ultimately covers the entire continent.

Growth in Africa is estimated to have been 5.7 per cent in 2007, the fourth consecutive year with growth above 5 per cent. Moreover, that trend is expected to continue at slightly higher levels – 5.9 per cent – over the next two years, the limit of the current *AEO*'s forecasts. Prospects are, therefore, favourable for the continent overall. At the level of individual countries, however, there are marked differences between the oil-exporters and the others. The former group continues to benefit from the boom in oil exports and persistently high prices, though production in some countries is either already falling or set to do so. The challenge remains for this group of African countries to invest in the future through improved infrastructure and services including education, training and health. For the oil importers, once again the outlook is somewhat less favourable, although many of them, particularly exporters of minerals, are also doing well. Nonetheless, most of them must either contain or finance expanding current account deficits which have been heavily impacted by increases in the international prices of food and fuel. Both groups of countries need to make greater efforts to contain inflation which has begun to tick upwards. Within each group of countries the largest factor explaining different performances appears to be the quality of governance.

Elsewhere, the economy is at risk from unresolved or new crises caused by the breakdown in governance structures or continuing competition for scarce resources. There have been positive moves by international organisations, including the African Union and the African Development Bank, to help bring an end to conflict, but its resolution will also require the goodwill of African leaders in government and in opposition. The continent's political leaders will need to show more maturity and more forbearance if we are to see an end to political disruption, armed conflict and displaced populations. This remains Africa's greatest challenge.

The 2008 *AEO* sheds its spotlight on technical and vocational skills development (TVSD). Despite the increasing recognition that higher technical and vocational skills are crucial in enhancing competitiveness and contributing to social inclusion, decent employment, and poverty reduction, our country reviews, backed up by independent experts, show that technical and vocational systems in Africa remain influenced by multiple constraints that limit their expansion and impact. Fewer than 5 per cent of secondary school students are enrolled in technical and vocational programmes, which is very low compared to other regions, and their share in educational budgets is only about 2 to 6 per cent. Few countries have training policies which emphasise skills development in the informal sector, the largest employer and provider of training in Africa.

The report demonstrates that opportunities offered by the private-enterprise sector, including that part of what is generally called "informal", hold the most promise for the training of Africa's youth and the next generation of entrepreneurs likely to provide employment and prosperity.

At the same time, many countries are reforming their training systems to adapt them better to the needs of both the formal and the informal labour markets, and are introducing or strengthening partnerships between school-based training and apprenticeships in both the formal and informal sectors. These reforms must continue and become generalised.

It is our hope that such initiatives, supported by responsible governments and the international community, will contribute to African countries' continued progress, documented in this year's *African Economic Outlook.*

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April 2008

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Part One



Overview




ALGIERS
Oran
Annaba
RABAT
Casablanca
Fes
Constantine
TUNIS
TRIPOLI
Marrakech
Alexandria
CAIRO
Zouerate
Assouan
Nouâdhibou
Nile
Port-Sudan
NOUAKCHOTT
Senegal
Niger
DAKAR
KHARTOUM
ASMARA
BAMAKO
NIAMEY
Lake Chad
Ouad-Medani
BANJUL
OUAGADOUGOU
N'DJAMENA
Blue Nile
Kano
El-Obeid
DJIBOUTI
BISSAU
Chari
Logone
CONAKRY
Bouaké
Bahr el-Ghazal
White Nile
FREETOWN
ABUJA
ADDIS ABABA
Harar
LOME
Benue
MONRAVIA
ACCRA
Ngaoundéré
Buchanan
Abidjan
Lagos
BANGUI
Port Harcourt
Douala
YAOUNDE
Oubangui
Kisangani
MOGADISHU
LIBREVILLE
Congo
KAMPALA
Equator
Lake Victoria
NAIROBI
KIGALI
Kasai
Ilebo
BUJUMBURA
Mombasa
BRAZZAVILLE
Mbuji Mayi
Arusha
KINSHASA
DODOMA
Dar-es-Salaam
ATLANTIC OCEAN
LUANDA
Lubumbashi
INDIAN OCEAN
Lobito
LILONGWE
LUSAKA
Nacala
Zambezi
Mahajanga
HARARE
Blantyre
Toamasina
Beira
ANTANANARIVO
Walvis Bay
WINDHOEK
Toliara
GABORONE
PRETORIA
MAPUTO
Lüderitz
Johannesburg
Orange
Richard's Bay
Bloemfontein
Durban
East London
Cape Town
Port Elisabeth
> 5 million inhabitants
1 000 000 - 5 000 000
500 000 - 1 000 000
< 500 000
major road
railway
track
0
1000 km

Overview

The *African Economic Outlook* draws upon the expertise of the African Development Bank, the OECD and the United Nations Economic Commission for Africa. This Overview provides an overall analysis of the state of Africa's economies at a continental and regional level in a global context. In this year's edition, the special focus is on technical and vocational skills development.

The 35 countries examined in this seventh edition of the *African Economic Outlook* account for some 87 per cent of Africa's population and 95 per cent of its economic output. The countries are classified by sub-region:

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

Economic activity in Africa is estimated to have risen by 5.7 per cent in 2007, and is expected to remain high, at 5.9 per cent in both 2008 and 2009. The outlook for much of Africa continues to be highly favourable. 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, conflicts and political unrest in Chad, Kenya, and Somalia, which are likely to dampen their growth prospects. Nonetheless, the continued global expansion – albeit slowing considerably due to the fallout from the sub-prime crisis in the United States – continues to sustain demand for oil and other industrial raw materials at relatively high prices. A significant increase in official development assistance (ODA) to Africa, driven largely by debt relief and emergency assistance, increasing flows of foreign direct investment, and improving macroeconomic stability have all contributed to this positive economic outlook. In addition, increased oil and mineral production in Southern and Central Africa and some improvements in the security situation are likely to boost growth in 2008.

Inflation in net oil-importing countries (excluding Zimbabwe), however, accelerated to 6.7 per cent in 2007, up from 6.3 per cent in 2006 and 5.5 per cent in 2005, mainly due to increasing oil and food prices. Current account balances have deteriorated in many countries, with smaller surpluses among large exporters of oil and metal ores, while many countries were adversely affected by higher import bills despite some improvement in the prices of agricultural export products, cocoa, coffee, and cotton in particular. The windfall gains from commodity prices have strengthened public finances, notably in net oil-exporting countries. These gains will need to be managed carefully, with a sizeable proportion used for investment in infrastructure and human resource development to diversify the sources of economic growth which will be needed once the current commodity boom has run its course.

Net oil-importing countries face a different set of challenges. While prospects for GDP growth are quite promising in 2008 and 2009, inflation is rising, mainly due to a more complete pass-through to consumers of international oil price increases combined with increases in the international prices of grains and vegetable oils. Containing inflation to single-digit levels may well dampen growth. Moreover, the GDP growth forecasts in this edition of the AEO are associated with increases in current-account deficits that result from sustained

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higher oil prices combined with a weakening of non-oil commodity prices. Thus, another assumption underpinning the forecasts is that the additional funds required to finance the deficits will be forthcoming.

Another major uncertainty is the extent and severity of the current slowdown in the United States which is now spreading to OECD and other countries. It appears to be worse than when the assumptions for the calculations upon which the forecasts in this report were fixed in early January. On the one hand, the slowdown itself is contributing to an unwinding of the large imbalances in the global economy that have been of concern for several years. On the other hand, should the imbalances unwind in a disorderly fashion, with sharp sudden movements in exchange rates accelerating the decline in world output now underway, a sharp fall in the demand for African exports cannot be excluded.

Aid levels have increased in recent years and Africa has benefited more than other regions. However, much of it has been in the form of debt relief or humanitarian assistance. 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. Our assessment of progress on the Millennium Development Goals (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.

The need to promote good governance is as important as ever. The AU/NEPAD African Peer Review Mechanism has begun to provide a candid assessment of African countries and, thus, to foster progress in governance. Ghana, Kenya, Rwanda, Algeria, and South Africa have already completed such a review. The *Outlook* notes that progress towards democracy has stalled recently. Fortunately, conflicts in some countries have started to subside. Despite progress in macroeconomic management and the regulatory environment, more needs to be done to ensure an environment conducive to private-sector development especially in further reducing corruption.

International Environment

Growth in the World Economy

World GDP grew at 3.7 per cent in 2007, down slightly from 3.9 per cent in 2006, with growth in OECD countries substantially slower than growth elsewhere. GDP growth in OECD countries slowed to 2.7 per cent in 2007, down from 3.1 per cent in 2006. The slowdown was more pronounced in the United States than elsewhere due to the fallout from the sub-prime housing loan crisis. By and large, the OECD countries weathered relatively well a series of shocks in the form of financial market turmoil, declines in housing markets, and higher fuel and food prices. Prospects are for further slowing of GDP growth in the OECD area to 2.3 and 2.4 per cent in 2008 and 2009, respectively, but growth is expected to strengthen progressively throughout 2009. In the United States, weakness in housing investment in 2007 was partially offset by a substantial improvement in net exports, and private consumption remained buoyant until December. Economic growth in the euro zone also slowed, although less than in the United States, as residential investment remained roughly flat in 2007, but continued demand from emerging market economies continued to support strong export growth. In Japan growth also slowed somewhat as both the investment and consumption components of domestic demand weakened, the latter due to protracted low growth in real wages.

In the United States, Japan, and the euro zone output growth, even at this slower pace, continued to exceed potential growth[1] in 2007. The progressive elimination of the output gap is expected to lead to an increase in the growth of private fixed capital formation, but not until the latter part of 2009. The stance of monetary policy has remained broadly accommodative in response to the turmoil in financial markets, but

1. This is the growth rate that would be achieved if all factors of production were fully employed and historical rates of total factor productivity improvement sustained.

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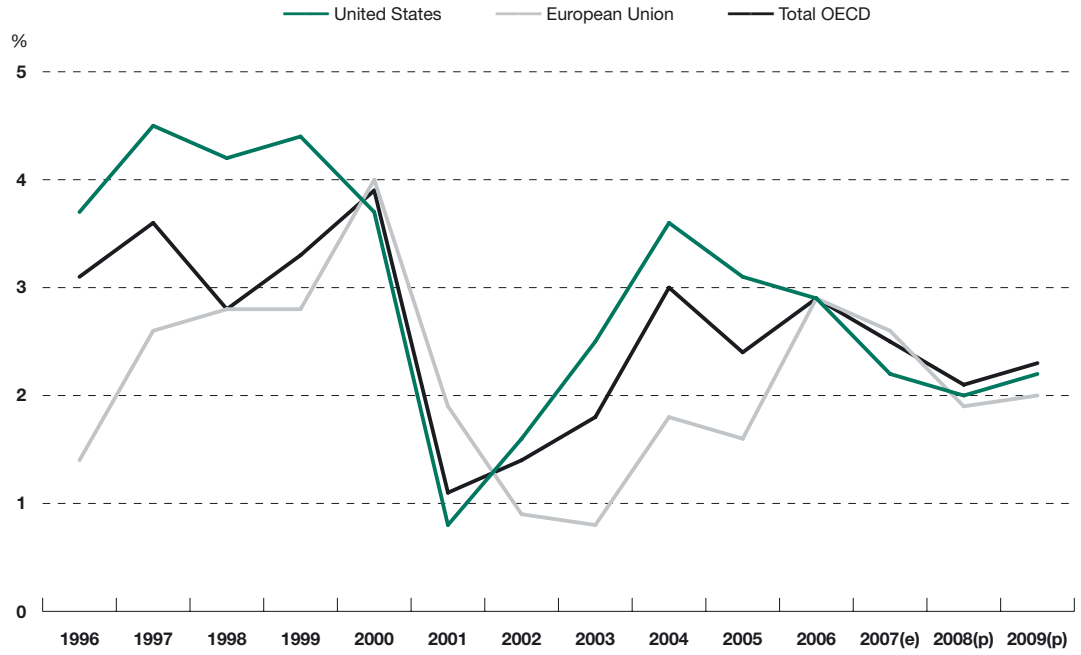
became especially aggressive in the United States in early 2008 as the financial turmoil worsened. Monetary policy is expected to revert towards neutral once growth momentum is restored. Despite the increase in fuel and food prices, core inflation appears to remain stable at about 2 per cent. Inflation as measured by the GDP deflator continued to register a somewhat higher rate of 2.3 per cent in 2007, the same as in 2005 and 2006, and the OECD-wide private consumption deflator reached 2.5 per cent in the fourth quarter of 2007.

Outside the OECD area growth has continued to be strong, especially in Asia, with China exhibiting GDP growth of 11.4 per cent, and India around 8.8 per cent. Brazil and Russia also registered acceleration of their GDP growth in 2007 to 4.8 per cent and 7.3 per cent, respectively. In all 4 countries growth is expected to moderate in 2008 and 2009 as world demand for their exports slows.

International and Regional Trade

World trade grew at 7 per cent in 2007, down from 9.4 per cent in 2006, and is expected to exhibit growth of about 8 per cent in 2008 and 2009. In view of the slower growth in demand expected in those years, this implies an increase in the ratios of imports to GDP in

Figure 1 - Growth in OECD Countries



Source: OECD (2007), *OECD Economic Outlook*, December.

StatLink http://dx.doi.org/10.1787/315542551370

OECD countries from about 21 per cent in 2006 and 2007 to about 22.5 per cent by 2009, continuing the trend of the past two decades.

Growth in the OECD and several large emerging economies in 2007 has helped underpin demand for African exports, which exhibited real growth of 4.6 and 7.9 per cent in 2006 and 2007, respectively. It has also helped to sustain rising prices for oil and many other primary commodities which constitute the bulk of exports for most African countries. Growth in import demand in OECD countries and in Asia is expected to continue to be buoyant in 2008 and 2009 although considerably weaker than in 2006 and 2007. Further export growth is expected to receive a boost from the Economic Partnership Agreements (EPAs) between African countries and the EU, interim agreements having been signed by most countries (See Box 1).

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Box 1 - **Economic Partnership Agreements (EPAs) between EU and African Countries**

Negotiations on an Economic Partnership Agreement (EPA) between the European Union and the African, Caribbean and Pacific (ACP) countries were launched in Brussels on 27 September 2002. The Cotonou Agreement signed on 23 June 2000 provides the legal basis for the negotiations, which were expected to end in December 2007 with the EPA coming into effect on 1 January 2008. The secretariats of four regional economic communities (RECs) in Africa have been spearheading the negotiations: the Common Market for Eastern and Southern Africa (COMESA), (16 countries); the Southern African Development Community (SADC) (7 countries); the Economic Community of West African States (ECOWAS) (16 countries); and the Economic and Monetary Community of Central Africa (CEMAC) (6 countries). The trade component of the EPAs takes the format of a Free Trade Agreement (FTA) and is expected to abide by article XXIV of the General Agreement on Tariffs and Trade (GATT) in order to be WTO-compatible. Thus the EPAs aim to liberalise "substantially all trade" (which has been interpreted by some to mean at least 90 per cent of the intra-FTA member countries trade), and this has to be done within a reasonable period of time (interpreted again by some to be 10 years or so). The EPAs provide a framework for reciprocity, differentiation, deeper regional integration, and co-ordination of trade and aid. Its ultimate objective is to contribute to the development of a trade regime that promotes sustainable development and the integration of ACP countries into the global economy.

By November 2007, the 5 member countries of the East African Community (EAC) (Kenya, Uganda, Tanzania, Burundi and Rwanda) – most of them members of COMESA - signed an interim EPA with the EU, of 12 months duration. With the exception of South Africa, which has already signed an FTA with the EU, the countries negotiating through the SADC Secretariat also signed an interim EPA with the EU in December 2007. In the case of the EAC, for example, this framework agreement will, over a transition period of 25 years, abolish tariffs on 81 per cent of current EU exports in industrial and agricultural products entering the EAC markets. In return EAC enjoys duty and quota-free access to the EU for most exports of goods from 1 January 2008.

Despite these developments a comprehensive review of the EPA negotiations indicated prior to the 31 December 2007 deadline that there has been only limited progress with reference to the agreed roadmap for negotiations and that significant areas of difference remained (UNECA 2008). Unresolved negotiation issues include product coverage, transition periods, rules of origin, sensitive products and preference erosion in the area of market access and agriculture. There is no agreement yet between EU and African groupings on the scope of negotiations on services, treatment of investment, competition and government procurement. Differences also remain over the scope of development provisions, additionality of resources, and the legally binding nature of EU commitments. The linkage between the EPAs and RECs in the context of Africa's integration agenda also remains unresolved and alternatives for countries not covered by EPA are yet to be established.

Overall the possible impact of the EPAs on Africa's trade and regional integration and development is a contentious factor that has tended to slow the negotiations. While EPAs were supposed to be compatible with WTO rules, the ACP countries argued that the WTO rules to which EPAs were expected to comply are not conducive to their development objectives. Accordingly, the submissions by ACP countries to the WTO Negotiating Group on Rules were meant to help support the development content of the EPAs. Lack of clarity in the relationship between EPAs and the RECs raises concerns regarding the compatibility of the EPAs with Africa's regional market development and integration agenda.

While the trade aspects of EPA and the Cotonou Preferences are similar in terms of potential market access for LDCs, there is concern regarding the erosion of the preference margins currently enjoyed by African non-LDCs.

The need for extension of the deadline for conclusion of the EPAs was accepted by the negotiating parties at the end of 2007. This has facilitated the signing of interim EPAs with the EU. These interim agreements will give time for more comprehensive agreements to be concluded by the various negotiating groups. The extent to which the different EPAs would influence the continent's overall development and integration depend on the commitment of the negotiating groups to the common Africa's position on key cross-cutting issues. These issues include: separate EPA resources and delivery mechanisms in favour of regional funds; market access and rules of origin; other trade-related issues such as competition, government procurement and investment; and other development issues such as pan-African co-ordination regarding agriculture and services, and an agreed interpretation of the WTO compatibility of regional agreements.

Source: *UNECA and AU (United Nations Economic Commission for Africa and African Union). 2008.* "Africa and the Monterrey Consensus: Tracking Performance and Progress." *Economic Report on Africa 2008. Addis Ababa.*

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Important regional integration measures in 2007

Regional integration is a key component of African development strategies. Since the early 1960s, African countries have formed various Regional Economic Communities (RECs) to promote regional economic and political integration. In 1991, African political leaders signed the Abuja Treaty, establishing the African Economic Community (AEC) that came into effect in 1994. In its 9th Ordinary Session held in Ghana in July 2007, the African Union adopted the "Accra Declaration", which calls for accelerating Africa's economic and political integration through rationalization of the RECs and the formation of a Union Government for Africa. Currently eight RECs constitute the pillars of the AEC, many of which have overlapping memberships[2].

The African Union Commission proposed in October 2007 the revision of article 6 of the Abuja Treaty and the definition of a minimum programme of integration to accelerate the integration process and the rationalisation of the RECs. Among other recommendations, the AU proposed the streamlining of the RECs, resolution of the problem of overlapping memberships, harmonisation of Customs Union policies at continental level and ratification and effective implementation of protocols.

Trends in Intra-African trade[3]

Despite substantial recent increases in Africa's global trade, intra-African trade remains limited (although much cross-border trade is unrecorded, leading to an underestimate of its actual size). For example, due to continued high commodity prices and strong world growth, the value of African exports grew by 21 per cent, reaching USD 360.9 billion (3.0 per cent of world exports) in 2006. Intra-African trade accounted for less than 10 per cent of the continent's total exports in the same year compared with over 73 per cent and 51 per cent for the EU and Asia, respectively. More alarmingly, between 1996 and 2005, African exports to the world have grown faster than trade within the continent. The Central African Economic and Monetary Community (CEMAC) and the Arab Maghreb Union (AMU) appear to be the least integrated RECs, where exports to the rest of the world are also growing much faster than within the region. The Economic Community of West African States (ECOWAS), the Southern African Development Community (SADC) and the Common Market for Eastern and Southern Africa (COMESA) are somewhat more integrated and show less difference between growth of total exports and intra-regional trade. The West African Economic and Monetary Union (UEMOA), the customs and monetary union of eight West African States, is faring better both in terms of integration and growth in intra-regional trade.

Intra-African trade continues to be hampered by tariff and non-tariff barriers, weak physical infrastructure, especially road and energy, and by lack of economic diversification. Addressing these challenges would require the removal of all tariffs and non-tariff barriers, as well as free mobility of factors of production and harmonisation of trade and macroeconomic policies. This would help promote investment and economic diversification as well as international competitiveness in Africa. As a first step towards the African common market, the RECs could establish free trade areas (FTAs) between and among themselves and overlapping FTAs, and existing customs unions could agree to apply the same trade instruments and to adopt a common external tariff. Since trade is a major source of revenue for most African countries, there is a need for compensation and equalisation schemes to address the loss of revenue and imbalances in the potential gains from trade. African countries also need to put in place institutions that promote regional infrastructure, regional payment

2. Community of Sahel-Saharan States (CEN-SAD), Common Market for Eastern and Southern Africa (COMESA), East African Community (EAC), Economic Community of Central African States (ECCAS/CEEAC), Economic Community of West African States (ECOWAS), Intergovernmental Authority on Development (IGAD), Southern African Development Community (SADC), Arab Maghreb Union (AMU/UMA).

3. UNECA (2008) "Towards Monetary and Financial Integration in Africa," *Assessing Regional Integration in Africa (ARIA III)* (forthcoming). Addis Ababa.

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mechanisms and capital-market development and further improve intra-African telecommunication services in terms of access and cost.

Exchange Rates

The size of global imbalances has decreased somewhat with the current account deficit of the United States falling from a peak of 6.5 per cent of GDP in 2006 to 5.5 per cent in 2007. Concerns over the sustainability of the flows needed to finance what still remains a large deficit have thus eased somewhat. In part, the improvement reflects the heightened competitiveness of US exports *vis-à-vis* the euro zone and Japan as the dollar weakened between 2002 and 2004, and, after stabilising during 2005, weakened further in 2006 and 2007. Thus, in January 2008, one euro purchased 55 per cent more dollars than in January 2001. The counterparts to the sizeable current account deficit of the United States are principally in East Asia and in oil-exporting economies. Surpluses in these areas are projected to continue growing over the next two years. Exchange-rate adjustments have so far been orderly and expectations are that this situation will continue.

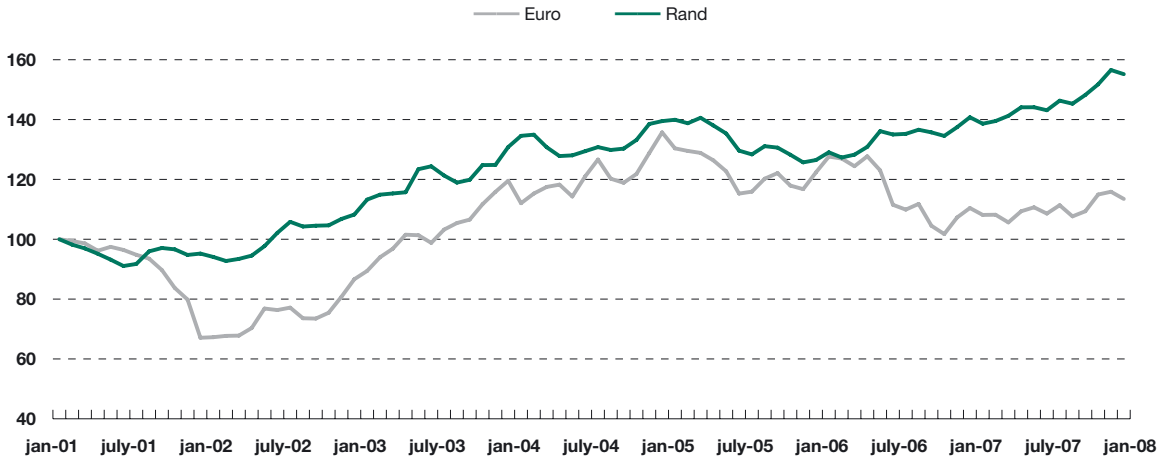
The weakening of the US dollar against the euro during 2007 led to a further adjustment of the effective exchange rate of the West African Economic and Monetary Union (WAEMU) and of the Central African Economic and Monetary Community (CEMAC), the two groups comprising the Franc zone. However, the South African rand and those countries whose currencies are pegged to it were approximately stable *vis-à-vis* the US dollar in 2007 after having weakened in 2006. They thus continued to depreciate against the euro, strengthening the competitiveness of their non-traditional exports.

Raw Material Prices

Commodity prices continued to exhibit considerable strength throughout 2007 as the world economic expansion continued, although at a slower pace. However, the increases have been much greater for oil and metals than for most tropical beverages. A sharp rise in food prices occurred in 2007, driven by increases in the prices of fats and oils (50 per cent), and grains (22 per cent). The increased use of bio-fuels has played an important role in driving up grain prices. In 2006, bio-fuels accounted for between 5 and 10 per cent of the global production of bio-fuel feed-stocks, such as maize in the United States, sugar cane in Brazil, and vegetable oils, mainly rape seed, in the European Union.

The sustained rise in commodity prices has improved the export earnings of most African countries.

Figure 2 - **USD per Euro and per Rand** (base 100 in January 2001)



Source: www.x-rates.com.

StatLink http://dx.doi.org/10.1787/315570032522

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However, increases in fuel and food prices have hurt most oil importers. Countries that have benefited the most have generally been exporters of petroleum and minerals. For many other countries, gains from higher-priced commodities have been roughly equivalent to losses from higher priced fuel and food.

Oil

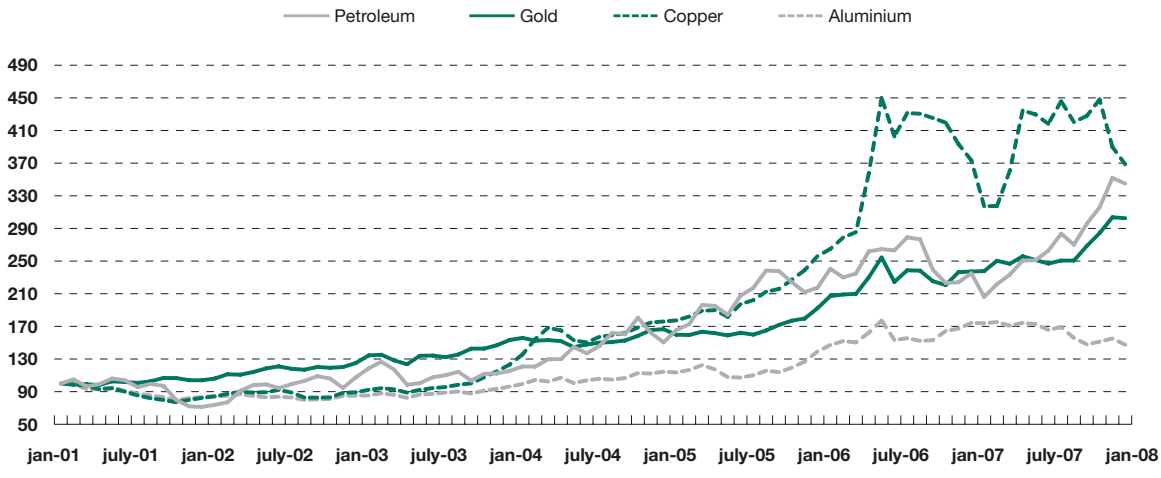
Crude oil prices have continued to trend upward and to exhibit high volatility. A surge in demand in 2004 was followed by a series of supply disruptions in 2005. Higher prices led to a slowdown in the growth of demand which, combined with an easing of supply, exerted some downward pressure on prices in 2006. Nonetheless, prices in that year remained higher on average than in 2005. In 2007, they resumed their upward march, and OPEC reduced output to support these higher prices. The average crude oil prices (Brent) increased from USD/barrel 54.4 in 2005 and USD/barrel 65.4 in 2006 to USD/72.7 in 2007. The assumption of this report (based on the technical assumption of the *OECD Economic Outlook 82)* is that it will average USD/barrel 90 per year in both 2008 and 2009. These high oil prices add to the downward pressure on demand whose weakness is slowing economic growth.

Metals

Metal prices increased by an average 13.9 per cent in 2007 to reach levels which averaged 145 per cent higher than average prices in 2000, in large part because of high demand by emerging Asian economies, especially China. However, the average price in December was 9 per cent lower than the average price for the year as a whole as metals prices reached a peak and began to decline. The average price in 2008 is expected to be 5 per cent lower than in 2007 and to fall by a further 10 per cent in 2009.

The price of gold has escalated since mid-2001, sustained by liquid financial markets, low interest rates and the heightened uncertainty in equity markets. Although the price of gold appears to have peaked, it is not expected to decline much in 2008 and 2009. This has benefited South Africa, the largest producer of gold in the world, as well as other African gold producers, such as Ghana and Mali although the price increases have not matched those of fuel imports. Prices of other metals also rose substantially in 2006 and 2007. Copper prices rose by 7 per cent following an 83 per cent increase in 2006 as sustained demand continued to outpace supply. However, with the softening of the global economy, prices peaked in the second half of 2007

Figure 3 - **Prices of Oil and Metals** (base 100 in January 2001)



Source: World Bank.

StatLink http://dx.doi.org/10.1787/315655655041

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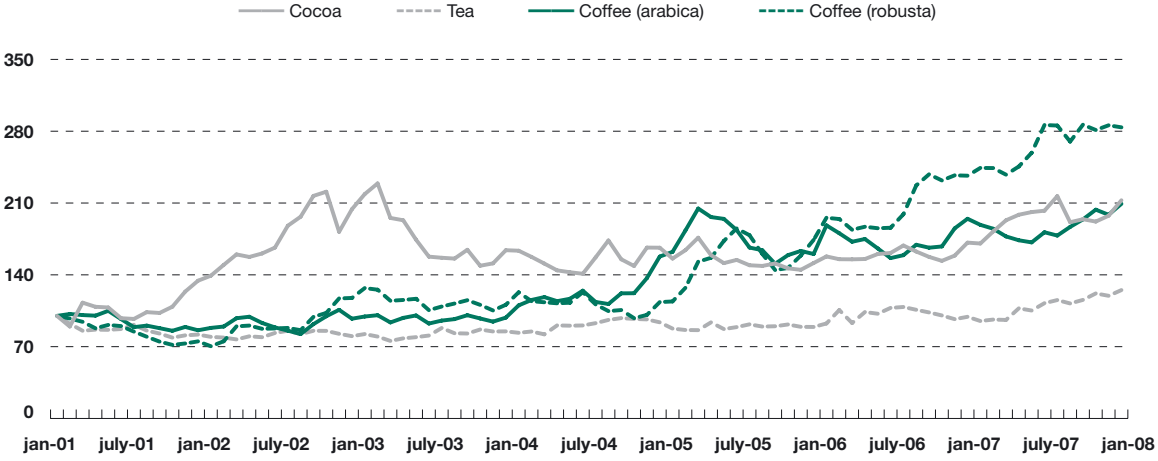
and are expected to fall by about 9 per cent in 2008 and a further 15 per cent in 2009. Prices of aluminium have increased at a slower rhythm than other metals, but in 2006 the increase was substantial (35 per cent) on the strength of demand from China. However, they increased by only about 3 per cent in 2007 and are expected to fall back by a cumulative 9 per cent in 2008 and 2009. Zambia (for copper) and Mozambique, Ghana, Cameroon and Guinea have benefited the most from these increases.

Agricultural Products

Prices of tropical commodities have been volatile and have had a mixed performance (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, then fell sharply as a significant supply response occurred, and fluctuated around a narrow range during the period 2004 – 2006, but moved up in 2007 in response to strong demand.

The prices of coffee, exported by many African countries, rose substantially in 2002; they held fairly steady (though they 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. They fluctuated around these higher levels throughout 2006, with the Robusta variety moving sharply upwards in

Figure 4 - **Prices of Tropical Beverages** (base 100 in January 2001)



Source: World Bank.

StatLink http://dx.doi.org/10.1787/315673173758

the second half of the year and continuing to rise in 2007 (by 28 per cent) mainly because of a production shortfall in Viet Nam. Little change in their current levels is expected in 2008 and 2009 because changes in the fundamentals for coffee are expected to leave the market in equilibrium, with growth in production likely to slightly exceed growth in consumption.

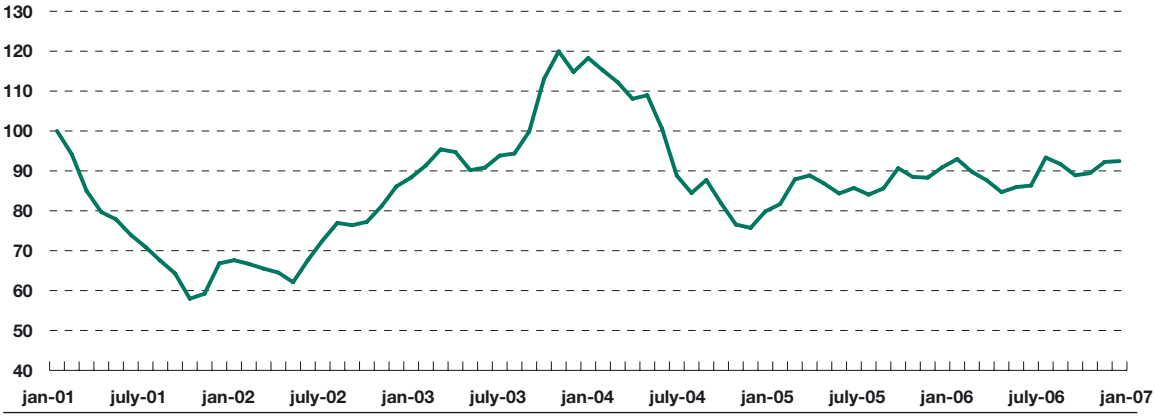
Tea prices increased by 8.7 per cent in 2007 compared to 2006, but are still below their 2000 levels, and are expected to remain at about the same levels in 2008 and 2009. The outlook is not favourable, given the declining trend in consumption growth and the continued growth in output.

Cotton prices rose by slightly more than 10 per cent in 2007 following an increase of about 4 per cent in 2006. For 2007 as a whole, cotton prices were about the same as the average in 2003 and 2004. A further increase of about 7.5 per cent is expected for 2008 after which the price is expected to stabilise (Figure 5). This recovery of prices is particularly welcome in countries like Mali, Benin, and Burkina Faso which had experienced substantially lowered export earnings during

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the past two years. The cotton price 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.

Figure 5 - **Price of Cotton** (base 100 in January 2001)



Source: World Bank.

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While the recent boom in commodity prices has been good for exporters, food-price inflation has become a problem for many food-importing developing countries in Africa and elsewhere. Food prices have risen nearly 75 per cent from the low levels of 2000. Partly, this is a result of the increased use of food crops for bio fuels, but also of higher fertiliser prices, and low stocks in the face of buoyant demand. In some cases, drought has played a temporary role. The World Bank[4] has estimated that price increases for vegetable oils and grains since 2004 have inflicted a terms of trade loss equivalent to 0.5 per cent of GDP for low-income countries on average, but as much as 1 per cent for 29 countries. These high prices are expected to persist in 2008 and 2009 with the expected continued growth in bio fuels production.

Official Development Assistance (ODA)

Official Development Assistance has been growing steadily since the beginning of the decade, with net ODA disbursements reaching USD104 billion in 2005. This represents 0.31 per cent of the combined gross national income of members of the OECD's Development Assistance Committee (DAC), down from 0.33 per cent in 2006, which was the highest ratio since 1992.

Debt relief accounted for USD 20 billion in 2006 compared to USD 25 billion in 2005. Without debt relief, real ODA fell by 0.8 per cent between 2005 and 2006.[5] These amounts were highly concentrated by recipient country, and delivered in a form which does not provide new transfers to the recipient. Humanitarian aid was slightly lower than in 2005, and much of it continued to be concentrated in Iraq and Afghanistan.

If all the commitments made through 2006 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 will rise by almost USD 28 billion in real terms between 2006 and 2010,

4. World Bank, *Global Economic Prospects 2008.*

5. OECD (2008), DAC, *2007 Development Co-operation Report*, Paris.

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to nearly USD 132 billion (at 2006 prices and exchange rates). Yet the expected increase of ODA is less impressive when measured as a share of gross national income (GNI). The estimated figure for 2010 (0.35 per cent of total DAC GNI) would only marginally exceed the average level of 1980-92 (0.33 per cent), and would still fall short of the estimated financing required for countries to attain the MDGs by 2015.[6]

In addition, according to a partial survey of DAC members carried out in 2006, aid commitments to 2008 appear to fall well short of the trend increases required by many DAC members to reach their 2010 targets. The sharp rise of ODA in 2005 and the sustained high level in 2006 is likely to be short-term in nature, since future debt deals are unlikely to match the scale of relief granted in those two years.

This issue is particularly worrying in the case of Africa, to which donors have promised to double ODA between 2004 and 2010. Debt relief to many African countries is now complete, and total debt relief is likely to fall sharply from 2007. To date, debt reduction packages have been approved for 32 countries, 26 of them in Africa, providing USD 46 billion (net present value terms as of the date of reaching the decision point) in debt-service relief over time[7]. Other forms of aid will therefore need to rise very fast. The DAC Secretariat has calculated that an annual growth in ODA (other than debt relief grants and humanitarian aid) from 2006-10 of 12 per cent would be required to reach the levels donors committed to attain by 2010, assuming that debt relief and humanitarian aid in 2010 are at their historical levels.

According to the DAC Development Co-operation Report, the decisions to increase funding to three key multilateral organisations - the International Development Association (IDA), the African Development Fund (AfDF) and the Global Fund to fight AIDS, Tuberculosis and Malaria (GFATM) – taken towards the end of 2007, gives some confidence that ODA will indeed be scaled up significantly over the next three years. All these decisions involve three-year funding commitments, with increases of donor pledges amounting to 36 per cent for IDA in SDR terms, 52 per cent for AfDF in Fund Units of Account, and 38 per cent for GFATM in dollar terms. In addition, the European Commission has advised that it expects its disbursements to rise by 26 per cent between 2006 and 2010.

Flows from charitable and philanthropic foundations have also continued to increase, from USD 8.8 billion in 2002 to over USD 14.6 billion in 2006. They seem likely to continue to rise, especially in the areas of humanitarian aid and research into vaccines and tropical diseases (for example, the Gates Foundation alone is likely to be disbursing USD 3 billion of grants annually in a couple of years' time.

Although aid from DAC members will continue to account for close to 90 per cent of total ODA, non-DAC members are also helping to increase total aid volumes. Net disbursements by OECD countries not yet members of the DAC increased significantly from an estimated USD 0.4 billion in 2002 to some USD 1.9 billion in 2006. 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 USD1 billion in that year. Other non-DAC OECD member countries such as Turkey, Mexico and several European countries also 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 flows from Middle East and other OPEC countries are also expected to increase, mainly in the form of loans for project finance. China is also becoming an important donor. China's aid to Africa in the form of grants, interest-free loans, preferential loans, co-operative and joint venture funds for aid projects, science and technology co-operation, and medical assistance has been estimated at USD 625

6. OECD (2008), DAC, *2007 Development Co-operation Report*, Paris.

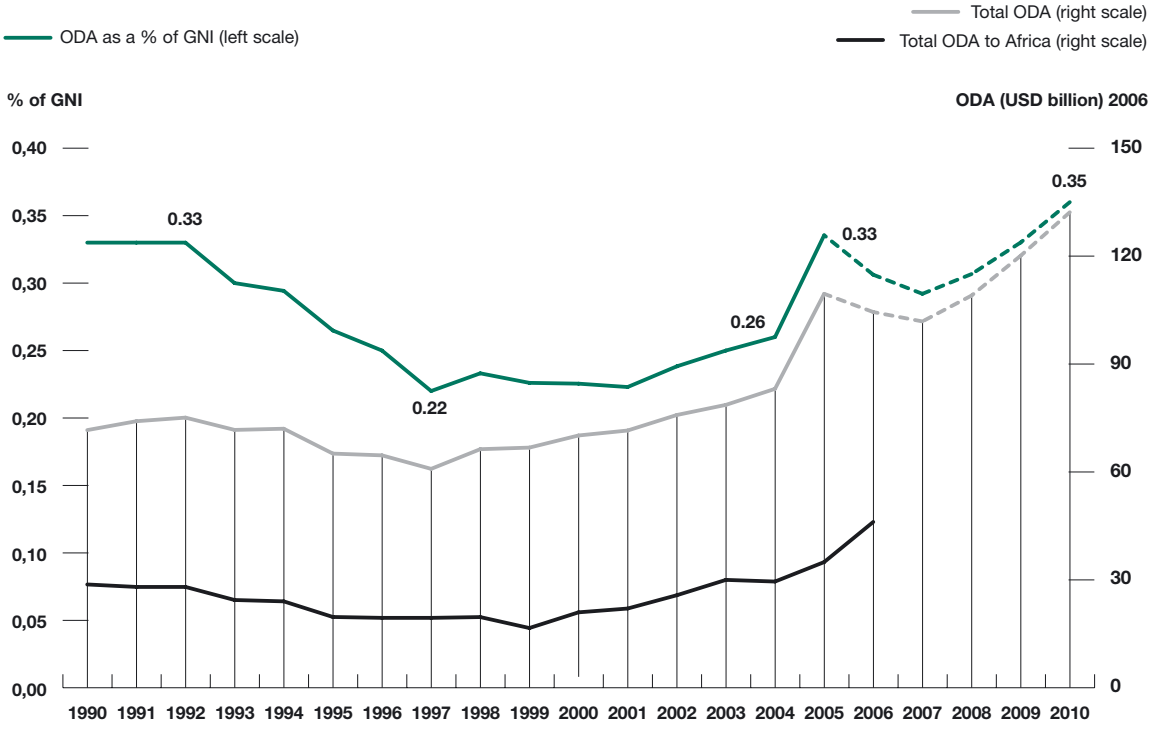
7. IMF Fact Sheet December 2007.

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million. Other financial flows from China to Africa are mainly in the form of commercial flows, but neither the sizes nor the terms of these loans are currently being reported.

While non-DAC and non-traditional donors are augmenting the resources available to help developing countries to reach all the MDGs, this recent trend poses new challenges for harmonisation and alignment with recipient-country priorities. Non-DAC donors are a heterogeneous group; the degree to which non-DAC donors apply DAC approaches and norms in the provision of aid varies from country to country. In addition, the limited data on non-DAC ODA makes it difficult accurately to assess aid volume and prospects from these sources.

Figure 6 - **DAC Members' ODA: 1990-2005 and Simulations to 2006 and 2010, based on Commitments at Monterrey and Since**



Source: OECD/DAC statistics (2007)

StatLink http://dx.doi.org/10.1787/315701288257

Growth of Aid to Africa

Africa's share of total ODA, which had fallen to 36 per cent by 1999, recovered to 41 per cent in 2006[8]. This rise was driven largely by debt relief and emergency assistance, which reached 23 per cent and 10 per cent of total ODA, respectively, in 2006, more than tripling their shares since 2000. Emergency aid from DAC countries, the World Food Program, the European Commission and UNHCR has been channelled to relief and reconstruction in areas affected by drought, especially in Southern and Western Africa, and in fragile states, notably in Sudan. As a result of these developments, total ODA to Africa increased to USD 43.4 billion in 2006, up from USD 35.2 billion in 2005 (Figure 7).

8. Based on region-allocable ODA only.

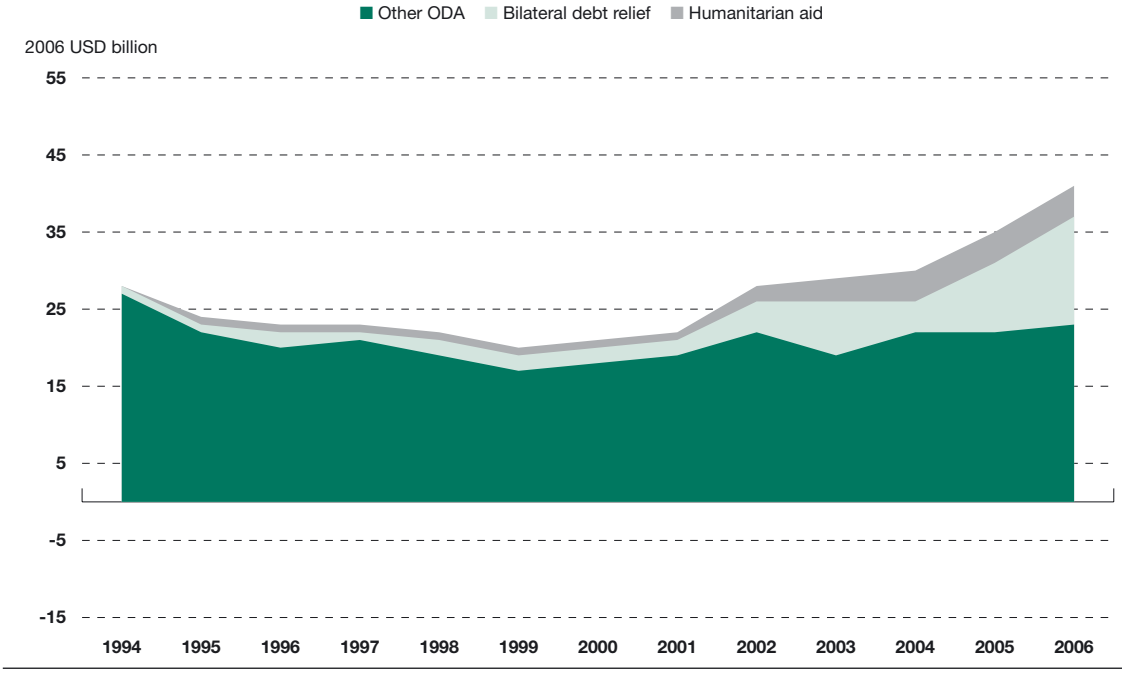
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Much of the recent increase in ODA to Africa was accounted for by debt forgiveness and emergency aid, with loans and grants for programmes and projects remaining almost unchanged in 2005 (see figure 7). The social sectors and governance accounted for about 30 per cent of ODA in 2005 while aid for economic infrastructure and production sectors was about 17 per cent, compared to 36 per cent and 18 per cent respectively in 2004. Programme aid accounted for about 9 per cent of total ODA compared to 12 per cent in 2004. It remains to be seen whether the absolute amount of this core development aid will rise once the temporary surge in debt relief and emergency aid has passed.

The European Commission, France, the United States, and the United Kingdom are the leading donors in Africa, accounting for 47 per cent of total aid in the region, followed by Germany, Japan and the Netherlands.

Donors have continued to focus on a small number of countries which have historically benefited from large aid flows: Egypt and Morocco accounted for 70 per cent of flows to North Africa, while Cameroun, Democratic Republic of Congo, Ethiopia, Ghana, Mozambique, Nigeria, Sudan, Tanzania, Uganda, and Zambia accounted for half of total ODA to sub-Saharan countries in 2006.

Figure 7 - **Net Official Development Assistance to Africa** (all donors, constant 2006 USD billion)



Source: OECD/DAC statistics (2007)

StatLink http://dx.doi.org/10.1787/315771767583

Nigeria was the top recipient of ODA in 2006, receiving about 26 per cent of total aid to Africa (about USD 11 billion out of total net ODA receipts to Africa of USD 43 billion). About 85 per cent of aid to Nigeria was accounted for by debt relief. The other largest African recipients included several among the 19 which have achieved their Heavily Indebted Poor Countries initiative (HIPC)[9] completion point or are in the process of doing so. In 2005, net debt relief grants accounted for more than 50 per cent of total aid in Nigeria and the Republic of Congo, about 40 per cent in Cameroon, and about 30 per cent in Madagascar.

9. 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.

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In 2006, it accounted for more than 50 per cent of total aid in Cameroon, Nigeria and the Republic of Congo, and about 40 per cent in the Democratic Republic of Congo. However, for a number of countries, in particular post-conflict countries, net ODA receipts represented more than 25 per cent of GNI in 2006 (Burundi, Democratic Republic of the Congo, Guinea-Bissau, Liberia, Malawi, Mozambique, Rwanda, Sierra Leone).

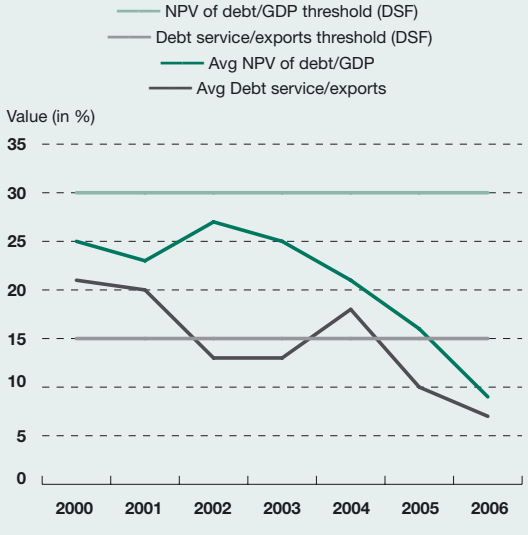
The challenge of the HIPC initiative, and of the Multilateral Debt Relief Initiative (MDRI), is to ensure that the resources that are freed from debt repayment are channelled to expenditures on health, education and other social services. Although most of the HIPC countries have increased their spending in social sectors, difficulties remain to ensure that money is redirected to social priorities in fragile states. For example, in Rwanda and Ethiopia, large new loans are being contracted to meet pressing reconstruction needs while old debt is simultaneously being retired. Other countries face challenges to meet the criteria for reaching the HIPC decision point due to uneven policy records or poor governance resulting from civil conflict.

Box 2 - **Debt Sustainability**

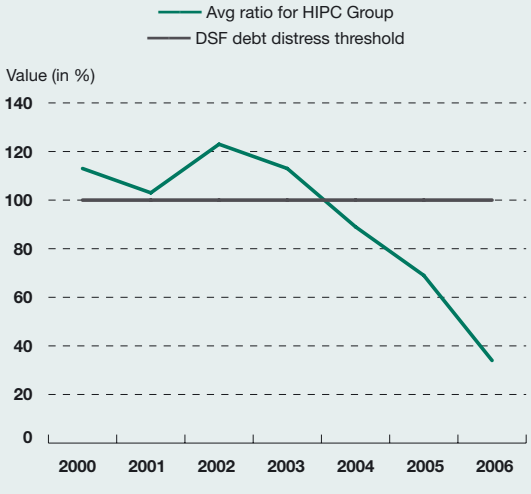
In recent years a number of emerging creditors, in particular China, have increased their aid and lending to Africa's Low-Income Countries (LICs). This has fed worries that new official lenders may be undoing years of international efforts to rein in over-indebtedness in Africa, to reduce the continent's exposure to foreign-currency denominated debt and to encourage good governance by making loans conditional on political and economic reforms. These worries are reflected in the *G8 Action Plan for Good Financial Governance in Africa*, which attempts to include emerging lenders in the DSF framework — the *Joint Bank-Fund Debt Sustainability Framework*. Empirical evidence does not support these heightened concerns.

An empirical analysis of debt dynamics published at the OECD Development Centre[10] distinguishes three country groups: African HIPC (Highly Indebted Poor Countries), HIPC-China (High China Presence), and Resource-rich IDA-only. All groups display marked trends of lower debt ratios - in net present value terms (NPV) - in most cases below DSF debt-distress levels for even the lowest governance groups. Evidence on links between growth and lending may even suggest that African HIPC may currently be under-leveraged. Generally, there is very little evidence of *"imprudent lending"* to debt relief beneficiaries in the figures up to 2006. Two qualifications are in order: firstly, those countries grouped as HIPC-China (Ethiopia, Mozambique, and Zambia) did experience a deterioration of their grant elements recently; and secondly, new lending by some countries appears to be under-reported, perhaps as a result of disincentives built into the DSF.

Avg. NPV Debt/Export Ratio



Avg. NPV Debt/GDP and Avg. Debt Service/Exports



Source: World Bank, GDF (2007) (average per cent grant elements per year, per country); IMF, WEO (2007) (GDP, exports, debt stocks, debt service).

10. Reisen, H. and S. Ndoye (2008), "Prudent versus Imprudent Lending to Africa: from Debt Relief to Emerging Lenders", OECD Development Centre *Working Paper* No. 268, February.

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Box 2 - **Debt Sustainability** *(cont.)*

Broadly speaking, the recent impact of the Asian giants has been to lower debt ratios, to a minor extent through debt relief, but to a much greater extent by stimulating exports and growth. This holds in particular for those countries towards which their lending is mostly directed: the resource-rich countries, rather than the debt-relief beneficiaries. Debt relief explains roughly only half of the observed drop in external debt ratios in countries that have benefitted from debt relief. Reisen and Ndoye decompose changes in external debt ratios for the period 2000 to 2006. The importance of GDP growth and inflation-adjusted local-currency appreciation against the dollar is clearly visible, as together they account for half of the reduction in debt/GDP ratios (at net present value). This finding confirms earlier debt-ratio studies. The currency appreciation effect is consistent with changes in the economic fundamentals, especially the anticipated and actual improvements in the net foreign assets position stemming from assistance under the enhanced HIPC Initiative. With the debt overhang eliminated in African HIPC, we currently witness the magic of a virtuous circle where debt relief stimulates investment and growth, thus keeping debt sustainable despite the new borrowing that debt relief is meant to induce.

Finally, even after debt relief under the HIPC and MDRI initiatives is fully implemented, 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 creditworthiness 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. In this context, there has been concern that lending from important non-DAC countries, such as China, may be a source of future debt service problems and, thus, might be characterised as "imprudent lending". These fears seem, however, to be overstated (See Box 2)

Progress in making aid more effective

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 international effort on aid effectiveness has been gaining momentum since 2005 when over 100 partner countries and donors endorsed the Paris Declaration on Aid Effectiveness. The participants renewed pledges made in the Rome Declaration on Harmonisation of 2003 to reduce the transaction costs associated with in aid, encourage more harmonised, joint efforts among bilateral and multilateral donors, and enhance aid effectiveness through results-based approaches. It is particularly noteworthy that all G-20 countries signalled their support for the Paris Declaration at the G-20 meeting in Melbourne in November 2006.

The aid effectiveness agenda stresses ownership by recipient countries, untying of aid, 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 including by increasing the efficiency of technical co-operation expenditure, and greater mutual accountability for those results. A set of indicators has been established to measure progress in this regard.

Some progress has been made on untying. DAC members other than the United States have reported an increase in the proportion of financial aid which is untied from 42.5 per cent in 2002 to 53 per cent in 2006. The United States while not reporting fully comparable data provides aid from its Millennium Challenge Corporation (MCC) on an untied basis. Moreover a number of DAC members (Australia, Belgium, Denmark, Finland, Ireland, Norway, Sweden, Switzerland, and the United Kingdom) have fully or almost fully untied their bilateral aid programmes. The European Community has adopted two regulations under which all aid to the LDCs is to be untied. Progress has also been made in the proportion of aid to the government sector which is recorded in national budgets.

According to the 2006 Baseline Survey on Monitoring the Paris Declaration, about 60 recipient and donor countries have undertaken actions in support of the Paris agenda. Substantial progress has been made in a number of African countries including Burkina Faso, Ethiopia, Ghana, Mozambique and Tanzania in terms of harmonisation actions (joint analytical work,

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Box 3 - **Broadening Ownership for Development**

The 2002 Monterrey Consensus and 2005 Paris Declaration on Aid Effectiveness agree that African countries must own their development policies if their financial inflows are to reduce poverty or stimulate growth. Unfortunately, donors and developing-country governments alike are struggling to put the principle into practice without much success. This may lie in the fact that the principle lacks a clear and actionable definition in the intergovernmental discourse.

Financing Development 2008: Whose Ownership? argues that ownership is the most poorly defined of the Paris Declaration's five principles, and that the measurement of its implementation remains controversial. Whether or not a country owns its development policies is determined mainly by the World Bank and is linked directly to a country's adoption of a Poverty Reduction Strategy Paper, a document requiring the Bank's approval. Given the active role donors still appear to play in designing these Papers, their dominance in the production of development knowledge and reluctance to explore alternatives to policy conditionality, the term "ownership" has thus become for its critics a euphemism for developing countries' adoption of externally conceived policies.

A further criticism of the interpretation of ownership by the Paris Declaration is that it centres on government, despite the recognition that actors outside government have crucial roles to play in implementing and monitoring development programmes. While the participation of these actors in the policy process is improving, a number of actors, particularly parliaments and the media, remain sidelined. The Paris Declaration does contain commitments related to participation, but moving forward by setting measurable targets for participation may prove difficult. First, governments are currently not open to revising the Declaration. Second, externally imposed democratic processes may be regarded as an illegitimate interference by donors in national affairs.

Policy makers seeking to put ownership into practice could do so by:

- Attacking the barriers to local knowledge production, so that developing countries can explore and choose among alternative policy frameworks using their domestic resources;
- Committing to legal frameworks that promote wide societal participation in policy design, debate, implementation and monitoring;
- Establishing more diverse and participatory monitoring mechanisms for ownership; and
- Reviewing conditionality and adapting donors' human-resource policies.

The Accra High-Level Forum (HLF-3) in September 2008 will be the first such meeting hosted by a developing country, and one can hope that it will take up ownership as a central theme. Even if the Declaration itself remains untouched, the principal output planned for the Forum, the Accra Action Agenda (AAA) could provide a vehicle for broadening and deepening the interpretation of ownership.

Source: OECD Development Centre.

joint programming and assistance strategies, programme-based approaches, pooling of financing among donors and use of country systems when feasible) which have helped reduce transaction costs.

Nevertheless, the survey suggests that greater efforts are needed regarding *i)* deepening ownership on the part of partner countries, *ii)* making better use of partners' national budgets by donors, *iii)* partner countries taking the lead in determining priorites for capacity development, *iv)* aggressively reducing transaction costs by further harmonisation, *v)* promoting management for results, and *vi)* addressing mutual accountability commitments[11].

Against the prospect of scaling up of aid, progress in the Paris agenda and especially more co-ordination among aid delivery channels (bilateral funds, multilateral funds, global funds, and private funds) will be all the more crucial. In particular, global funds need to support country-led strategies and priorities and avoid undermining the capacity of national authorities for coherent planning, financing and service delivery.

11. OECD (2008), DAC, 2007 *Development Co-operation Report*, Paris.

Box 4 - Putting Aid for Trade at Work for Africa

In October 2006 the WTO General Council endorsed the recommendations of the Aid for Trade Task Force (WT/AFT/1). This marked a milestone in the current international debate on Aid for Trade. The recommendations made a number of proposals to make Aid for Trade more relevant and effective. Among others, one important recommendation was to establish a monitoring and evaluation function in the WTO; the focal point of this recommendation was an annual Aid-for-Trade review in the General Council, which was held in late November 2007. Its objective was to take stock of Aid for Trade activities to identify the ways forward and to improve monitoring and evaluation.

In the lead up to this event, the Committee on Trade and Development (CTD) of the WTO had been tasked with carrying out periodic reviews of Aid for Trade. It was recognised that "[t]he challenge was not to invent a new mechanism, but rather to get the many existing mechanisms to work together more effectively" (WT/GC/M/106, p.31). A WTO background note also stated: "Improved monitoring and evaluation was essential for building confidence that increased Aid for Trade would be delivered and used effectively – and for enhancing the credibility of donors' commitments. Greater transparency was needed to provide incentives for donors and recipients to work together more effectively to advance the Aid-for-Trade agenda" (WT/AFT/W/26, p.4).

Monitoring and evaluation in the WTO have been set up at three levels: *i)* a global review of aid-for-trade flows based on data compiled by the DAC/CRS aid activity database; *ii)* evaluations of national, regional and multilateral donors' aid-for-trade activities on the basis of donor self-assessments; and *iii)* in-country assessments by aid recipients. To assist this WTO process, a joint OECD/WTO global report entitled *Aid for Trade at a Glance 2007* was produced.

Meanwhile, the WTO/CTD set up a timetable for its periodic reviews, including three regional reviews for Latin America and the Caribbean, Asia and the Pacific and Africa, respectively, during the months of September and October, 2007. The Africa Regional Aid for Trade Review was co-hosted by the WTO, UNECA and AfDB and the Tanzanian Government in Dar es Salaam in early October 2007. It brought together over 450 participants including 34 ministers of finance and trade, key donors, international agencies and the private sector. Discussions by participants made it clear that African countries would need access to the modern "trade infrastructure":

- transport corridors and information systems to connect exporters to world markets;
- modern customs facilities to move products rapidly and efficiently across borders;
- test laboratories to ensure that exports meet international standards;
- financial "safety nets" to ease concerns about economic adjustment; and
- the expertise and institutions needed to manage a complex global trading system. (WT/COMTD/AFT/M/5, p.10).

There was also general consensus among participants that regional approaches were particularly important in the African context; the challenge was how effectively multilateral, regional and bilateral trade opening initiatives could be linked with concrete trade capacity-building strategies for Africa, by using ongoing Aid for Trade initiatives as a catalyst.

Though the Africa Regional Aid for Trade Review was an important political event to raise the awareness of both donor and recipient countries, more collective effort must be made to put Aid for Trade at work for Africa. Under the joint initiative of UNECA, AfDB and the WTO, the next Regional Review was to be held in the autumn of 2008.

Source: OECD Development Centre.

The principles of the Paris Declaration have been put at the heart of the Aid for Trade Agenda, aimed at helping developing countries benefit from WTO agreements and expand their trade. The WTO tasks force issued its recommendations in 2006, calling for donors active in the provision of aid for trade to abide by the principles enshrined in the declaration. The recommendations of the WTO Task Force were endorsed by the WTO General Council in October 2006. This was followed up by a series of regional workshops, including one on Africa in October 2007 which is to be followed by another in 2008 (See Box 4).

Foreign Direct Investment

Foreign direct investment (FDI) inflows to Africa have been rising strongly since 2002, reaching USD 36 billion over 2006, a 20 per cent increase on 2005 and

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twice the level of 2004[12]. USD 23 billion was directed to North Africa and USD 12 billion to Sub-Saharan Africa.

Surging prices for raw materials, particularly oil, fuelled a boom in extraction-related investment. Strong mergers and acquisitions (M&A) activity in banking and telecoms industries as well as government efforts to liberalise markets and privatise state enterprises also contributed to 2006's record figures.

The primary sector remained the main focus of foreign investment, although foreign interest in transport, storage and communications investments also increased. Service-sector investment rose in North Africa, but remained negligible in Sub-Saharan Africa. Manufacturing investment overall remains weak and disinvestments continued in textile industries subsequently to the demise of the Multi-Fibre Arrangement in 2005.

FDI increased in 33 countries, and declined in 21. Top FDI destinations for 2006 were: Egypt (USD 10 billion) Nigeria (USD 5.4 billion) and Sudan (USD 3.5 billion), followed by Tunisia, Morocco and Algeria. Over that year, FDI to Tunisia quadrupled, tripled to Ghana, and nearly doubled to Egypt.

Natural resource endowment and perceived political risk largely accounted for differences in investment levels. North Africa was the most attractive African investment destination for 2006, and its most diversified, with strong investments in agriculture, communications, construction, manufacturing and tourism. 80 per cent of inflows to Egypt were in non-energy activities. Privatisations also boosted FDI to the sub-region (for example contributing to the quadrupling of inflows to Tunisia). Nigeria attracted 80 per cent of total investment to West Africa, mainly in oil-related investment. Central and East Africa saw increases in extractive industry investment, including in non-traditional oil producing countries such as Ethiopia. Privatisations in Kenya also attracted foreign investment.

In Southern Africa, Angola and South Africa became net capital exporters in 2006. South Africa registered negative net FDI inflows of USD 323 million, due to the sale of a large foreign equity stake in a domestic gold-mining company to a local firm (nonetheless, the stock of FDI at work in the country remains the highest of the continent by far at USD 77 billion, a quarter of total FDI stock in Africa). Nonetheless, a number of important foreign-led inward FDI deals also took place in South Africa (Vodafone took a stake in South African telecom firm Vodacom for USD 2.9 billion; the Dubai sovereign wealth fund Istithmar acquired the Victoria & Albert Waterfront real estate development for USD 1 billion). In Angola, national oil company Sonangol's takeover of major foreign-owned oil projects also resulted in net negative FDI inflows of USD 1.1 billion for 2006.

Low correlations with trends in markets elsewhere, and historically high global liquidity pushed up global interest in African assets in 2006. Nonetheless, many African countries took active steps to stimulate foreign involvement which also had a positive impact. There is room for further improvement in this regard, and peer review mechanisms can play useful role (See Box 5). Over the year, 40 African countries introduced new measures promoting inward FDI. Foreign participation in the telecoms industry was allowed in Botswana, Burkina Faso, Burundi, Cape Verde, Ghana and Namibia. Important reforms of the banking sector took place in Congo, Egypt, and Nigeria. Morocco legalised foreign ownership of large tracts of land. Several countries introduced eased registration and taxation constraints on new businesses and established special investment zones.

FDI outflows surged in 2006 to USD 8 billion, four times the level of 2005, stemming from cross-border acquisitions by African TNCs. South African TNCs were the main source of investment, accounting for 80 per cent of total African outflows. Morocco, Liberia and Nigeria accounted for a further 12 per cent. Though African FDI outflows remained centred on extraction

12. Source: UNCTAD (2007*a*) *World Investment Report,* Geneva and UNCTAD; (2007*b*) *Global Investment Prospects Assessment* 2007-2009, Geneva.

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Box 5 - The NEPAD-OECD Africa Investment Initiative

Peer review methods can lead to sustained improvements in the policies and regulations conducive to mobilising beneficial investment. This was one of the themes addressed at the NEPAD-OECD Africa Investment Initiative, Lusaka roundtable in November 2007.

One day of the Lusaka roundtable compared country experiences on challenges relating to the investment climate content of the African Peer Review Mechanism (APRM) process. In countries like Ghana, Rwanda and Kenya, which are advanced in the APRM process there have already been positive and specific follow-up measures taken to improve investment conditions and support private sector development.

The roundtable also examined the issue of strengthening the investment climate content of the APRM. Peer review of a country's policies for investment can create a culture of competition that has proven to be very useful in encouraging reforms. In recognition of this, the APRM process has itself decided to review the self-assessment country questionnaire.

This review of the APRM questionnaire would include deepening the questions on corporate and economic governance, which will bring out issues around investment climate reform. The Lusaka roundtable advanced reflection on how this review could be usefully informed by elements in the Policy Framework for Investment: a multilaterraly backed approach and tool for improving investment conditions.

Source: NEPAD-OECD Africa Investment Initiative website (www.oecd.org/daf/investment/africa)

(South Africa's AngloGold Ashanti engaged in large projects in Brazil, Australia and Russia), African TNCs also engaged in telecommunications and retail-sector investments.

High commodity prices, particularly oil, are expected to encourage investment in extractive industry in the near future. However, in response to the global subprime slowdown and with prospects for declining non-oil raw material prices, disinvestment is a looming prospect, echoed by an UNCTAD survey[13] finding that only 20 per cent of investors plan to increase investment in Africa between 2007-2009 (against 80 per cent for Asia). Prospects remain strongest for North Africa, both in terms of quantity and diversity. Investment outflows by Egypt, Morocco, Nigeria and South Africa are likely to remain strong as those countries' TNCs continue to develop.

The commodity price boom has also raised concerns of negative effects on FDI, high commodity exports and prices leading to real exchange rate appreciation potentially affecting export competitiveness and FDI attractiveness. Furthermore, although strong absolute increases in emerging world investment made 2006 a record year, Africa's share of global FDI flows registered a significant decline to 2.7 per cent of global FDI in 2006, down from 3.1 per cent in 2005.

Asian TNC involvement in Africa surged in 2006, totalling USD 9 billion out of the USD 18 billion in cross-border M&A purchases on the continent, overtaking developed economies as first source of M&A investment in Africa for the first time. Of the 442 greenfield investments undertaken in Africa in 2006, 258 were from developed-world TNCs, and 175 from developing world TNCs (134 from Asia, and the remainder from Africa). Singapore, India and Malaysia were the top Asian sources of FDI for 2006.

The composition of non-FDI capital flows shows persistent variations between country groupings: ODA and bank lending predominate in Low Income Countries (LIC); equity flows are largely restricted to South Africa; bond financing is making inroads into middle-income countries. South Africa is also developing into a source of external financing for other African countries.

13. UNCTAD (2007b), *Global Investment Prospects Assessment* 2007-2009

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Box 6 - **Private Equity in Africa**

Mirroring a sharp increase in emerging markets private equity fundraising worldwide, 2006 broke records in Sub-Saharan Africa private equity, with funds raised reaching USD 2.3 billion (up 198 per cent on 2005), North Africa & Middle East registering an increase of 54 per cent. Over 2003-2006, Sub-Saharan Africa accounted for 8 per cent of total private equity funds raised in emerging markets.

New funds, while still small and few by international standards, are rapidly increasing in both size and reach: Pamodzi, a South African private equity firm, launched the continent's largest, USD 1.3 billion, pan-African fund in 2007. Foreign financial institutions are also entering this market: Citigroup launched a USD 100 million fund early that same year.

Private equity investment remains highly concentrated, with South Africa receiving 81 per cent of total funds for SSA, followed by Nigeria, accounting for a further 10 per cent, mirroring the highly concentrated nature of African investment in general.

South Africa hosts the lion's share of private equity activity on the continent, with total funds under management amounting to 1.7 per cent of GDP, a figure comparable to developed markets (Europe: 1.5 per cent, the United Kingdom: 3.7 per cent, North America: 2.8 per cent)[14]. In terms of investment activity, South Africa ranks 17th in international private equity investment (2005 figures). Funds raised in 2006 saw a massive 409 per cent increase, reaching 11.2 billion Rand (USD 1.6 billion). The United States was still the major source funds raised in 2006, accounting for 50 per cent of total funds raised (Europe 9 per cent). South African capital accounted for a quarter of funds raised, up 4 per cent from 2005, maintaining a trend of growing local sourcing of funds.

For the first time, a third of funds raised in South Africa were sourced through foreign pension and endowment funds, translating institutional investors' growing appetite for, and confidence in, African assets. Government and aid agencies contributing a further fifth of funds. Development finance institutions have been historically important backers of private equity on the continent. Representative of institutions of this type is the British CDC (formerly Colonial Development Corporation), with USD 845 million commited in Africa since 2004 through twelve African fund managers.

Whereas 2006 saw a strong increase in extractive-industry investments, the trend in the rest of the continent is rather diversified, with top activity sectors for African private equity in 2005 being transport, consumer-related investments and telecommunications/IT. Private equity in Africa thus stands out as a potentially dynamic counterpoint to foreign direct investment's historically strong focus on extraction.

Source: "Africa: A New Frontier for Emerging Markets?", by Javier Santiso, *Policy Insights* No. 55, OECD Development Centre, December 2007; www.oecd.org/dev/insightsEMPEA for pan-African data; SAVCA for South African data; Thompson financial.

Although Africa is increasingly hailed as an exciting financial frontier, local equity markets remain small, and local currency debt markets are often too illiquid to exert a significant growth impact. Perhaps only private equity, out of the public eye, may handle risk better than most (See Box 6). The number of functioning stock markets has risen from five in 1989 to sixteen in 2007. However, small size, low liquidity/turnover and high perceived risk of most African economies has limited their effectiveness as sources of domestic capital. In effect, the majority of African exchanges list only a handful of companies and are highly illiquid. There was for example no trading on the Maputo Stock exchange for the whole of 2004. Excluding South Africa's Johannesburg Stock exchange (JSE, with 401 listed companies in 2006), the average number of domestic companies listed per exchange was only 43 in 2006[15].

Although the African allocation of global emerging market (GEM) equity funds has remained stable, the funds themselves have doubled in size since 2005, effectively doubling foreign inflows into African equity, and exerting a significant impact on African stock markets.

The story of African equity therefore remains very much the story of South Africa: the Johannesburg

14. Funds under management at 12/2006 for South Africa, 12/2005 for Europe/US.

15. World Bank, *World Development Indicators*. 2007.

Stock Exchange (JSE), valued at USD 711 billion in December 2006[16], is the 4th emerging market stock exchange in world, and accounts for roughly 90 per cent of the combined market capitalisation of the entire African continent. Egypt (with 603 listed companies and a market capitalisation of USD 93 billion, 2006) Nigeria (202 listed companies, market capitalisation of USD 32 billion, 2006) and a few star performers (such as Ghana, whose 144 per cent return in US dollar terms in 2004 led it to be named "*world's best performing stock market*") have performed strongly while other exchanges languished in illiquidity.

Regionalisation has been considered a possible way around to African exchanges' size and liquidity issues: since 2000, all countries in the Southern African Development Community (SADC) have harmonised listings to the Johannesburg Stock Exchange.

Following HIPC and MDRI-related debt relief, local-currency denominated debt has been promoted as a valuable help for countries looking to improve interest rate benchmarks, stimulate investor interest and develop their financial markets. In 2006, over half of Sub-Saharan countries had issued local-currency debt, which has proven very attractive to foreign investors.

International institutions have had an active hand in fostering these African local currency debt markets. Such initiatives serve to increase long-term and domestic savings rates, stop capital flight and give a domestic channel for national savings to be invested. They also raise experience and skills in debt issuance and management. In December 2006, the International Finance Corporation (IFC) issued so-called *Kola Bonds*, denominated in West African francs, to develop West African currency markets, and the African Development Bank has launched international bond issues in a number of African currencies, notably in Nigerian Naira, Botswanan Pula, Tanzanian Shillings and Ghanaian Cedi.

Macroeconomic Performances in Africa

Economic Growth

Africa as a whole exhibited real GDP growth of 5.7 per cent in 2007 – well above the long-term trend for the fifth consecutive year – and GDP per capita grew by about 3.7 per cent. The main factors supporting this growth performance were strong external demand for commodity exports, especially oil and non-oil minerals,

Table 1 - **Average Growth Rates of African Regions** (annual percentage change)

Region	1999-2005	2006	2007(e)	2008(p)	2009(p)
North Africa	4.2	5.6	5.3	6.2	6.2
West Africa	4.4	5.0	3.5	5.6	5.7
Central Africa	5.3	3.4	4.1	5.1	4.4
East Africa	5.2	7.5	8.0	7.3	7.9
Southern Africa	4.2	6.7	7.0	5.3	5.0
Total Africa	**4.4**	**5.9**	**5.7**	**5.9**	**5.9**
Memorandum Items:					
Net Oil exporters	*4.7*	*6.2*	*6.4*	*6.8*	*6.2*
Net Oil importers	*4.1*	*5.5*	*5.0*	*4.9*	*5.5*
SANE * Countries	4.2	5.3	5.0	5.4	5.7
Other Countries	4.7	6.6	6.7	6.5	6.1

* South Africa, Algeria, Nigeria, Egypt
Note: Due to lack of data, these aggregates do not include Somalia
Source: Various domestic authorities; IMF World Economic Outlook and authors' estimates (e) and projections (p).

StatLink http://dx.doi.org/10.1787/320433387751

16. Johannesburg Stock Exchange annual report 2006.

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increased investment in these sectors, and good growing conditions for agriculture in most countries. The continuation of sound macroeconomic policies in most of the countries in the continent has also increased business confidence leading to a pickup in private investment generally.

Growth also appears set to accelerate slightly, to 5.9 per cent in both 2008 and 2009, notwithstanding the recent softening of commodity prices most of which are expected to weaken further in the course of 2008 and 2009. However, this continent-wide average masks considerable differences between net 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 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 2008 and in 2009, it will be to contain inflationary pressures as a result of the recent increases in the international prices of food and fuel, and to finance or contain the expected increases in their current account deficits.

As in the previous two years, GDP growth was particularly strong in net oil-exporting countries, at 6.4 per cent in 2007, up slightly from 6.2 per cent in 2006 largely due to the increase in oil prices and, in some countries, increases in production as well. However, the growth differential between these and net oil-importing countries remains large with average GDP growth in the latter of 5 per cent in 2007 (5.5 per cent in 2006).

This generally strong GDP growth performance is expected to strengthen somewhat in 2008, when the average real GDP growth rate for the continent as a whole is expected to be 5.9 per cent, with net oil-exporting and net oil-importing countries exhibiting real GDP growth of 6.8 and 4.9 per cent, respectively – a growth differential of nearly 2 per cent. The projections for 2009 are for slightly lower growth for the net oil exporters (6.2 per cent) and somewhat higher growth for the net oil-importers (5.5 per cent).

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 stabilise at USD 90 per barrel in 2008 and 2009; that growing conditions in agriculture will be favourable in 2008 and 2009; that oil output will increase in 2008 with greater stability in the Niger Delta region; that no new regional conflicts having significant macroeconomic impacts emerge; and that the worsening current-account balances forecast for many of the net oil-importing countries will be fully financed. In this respect the implementation of debt relief agreements for a number of the HIPC countries that began in 2006 will continue to be particularly helpful.

North Africa

Real GDP growth in North African countries averaged 5.3 per cent in 2007, somewhat lower than the 5.6 per cent registered in 2006. It is expected to remain high at.6.2 per cent, in both 2008 and 2009. The growth rates recorded in 2007 reflected a mixed performance. Exceptionally high growth rates were recorded for Egypt (7.1 per cent) and Libya (6.8 per cent) and Tunisia (6.3 per cent). However, in Algeria, Mauritania, and Morocco growth in GDP ranged between 2.0 and 3.2 per cent due to a shortfall in gas production in Algeria, and poor growing conditions in the other two countries. The 2008 and 2009 growth rates in most North African countries are projected to be higher than in 2007, sustained by high prices for oil and gas, and strong growth in tourism.

West Africa

Economic growth in the countries of West Africa was 3.5 per cent in 2007, substantially less than in 2006; it is projected to accelerate to 5.6 per cent in 2008 and to remain high, at 5.7 per cent in 2009. 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 a slow recovery from the recent political

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turmoil in Côte d'Ivoire – the largest economy within WAEMU. Growth also remained slow in Senegal, due mainly to weak growth in the output of cereals and groundnuts, as well as industrial output, especially phosphates and fertiliser. The major positive development in the WAEMU was the sustained growth in agricultural production in several of them. In addition to buoyant agricultural output, Mali benefited from high gold prices and Niger from uranium prices, with the result that GDP growth in these two countries remained in the 4 to 5 per cent range in 2006 and 2007 after a year of exceptionally strong growth in 2005.

Within the eight non-WAEMU members (Cape Verde, The Gambia, Ghana, Guinea, Liberia, Nigeria, Sierra Leone and São Tomé and Principe), Nigeria – by far the largest economy in West Africa – exhibited GDP growth of only 3.2 per cent in 2007 down from 5.6 per cent in 2006 due to disruptions of oil production in the Niger Delta. Projections for 2008 indicate an acceleration of Nigeria's growth rate to 6.2 per cent, mainly due to the recent increase in oil prices, but also to increased production. Cape Verde's growth performance remained strong in 2007 (6.6 per cent) following exceptionally strong growth in 2006 (10.8 per cent). Liberia exhibited especially strong growth of about 8 per cent for the second year in a row due to post-conflict spending on infrastructure and recovery of agricultural production, while Sierra Leone's and Ghana's performance continued to be relatively strong in 2007 (7.4 per cent and 6.0 per cent, respectively) with particularly good performance in cocoa production and processing.

Central Africa

Average GDP growth in the seven countries of Central Africa was 4.1 per cent in 2007, up from 3.4 per cent in 2006. Projections indicate an increase in real growth to 5.1 per cent in 2008, but only 4.4 per cent in 2009. The slow growth in 2007 was due mainly to an end of the rapid expansion of oil production in Chad and a decline in cotton production, and to a drop in oil production in the Republic of Congo. Growth, however, accelerated in Equatorial Guinea due to high oil prices and expanded output; and Gabon picked up to 5.5 per cent after several years of growth averaging only 2 per cent per year. Growth is projected to strengthen to 6.6 per cent in 2008 (compared to 6.2 per cent in 2007) in the Democratic Republic of Congo due mainly to donor-supported reconstruction efforts. The projections for Cameroon and Republic of Congo show some strengthening of growth for 2008 and 2009.

East Africa

Economic growth in East Africa averaged 8 per cent in 2007, and is projected to remain high at 7.3 and 7.9 per cent in 2008 and 2009, respectively. In 2007, Ethiopia, Sudan, Tanzania, and Uganda continued to be the fastest growing countries within East Africa, growing at 8.2 per cent, 11.2 per cent, 6.6 per cent and 6 per cent, respectively. All four countries are also projected to broadly maintain or increase these high growth rates in 2008 and 2009, exhibiting broad-based growth, but led in some cases (Uganda) by the agricultural sector or oil (Sudan). However, these forecasts are subject to considerable uncertainties due to the unstable political situation in some countries. Burundi, The Comoros, Djibouti and Seychelles, which have recently been exhibiting slow growth, are expected to experience an acceleration of GDP growth in 2008 and 2009, reaching about 5.3 per cent on average in this period. Kenya, which exhibited strong growth of 6.6 per cent in 2007, is projected to slow sharply – to 4 per cent or less – due to the negative impact of the recent violence on tourism and agricultural production.

Southern Africa

Economic growth in Southern Africa was 7 per cent in 2007, about the same as in 2006, reflecting rapidly increasing output from new oil fields in Angola and the coming on stream of a large number of mega-projects in the mining sector in Mozambique. In South Africa, growth – at 4.9 per cent – was broad-based and mainly driven by domestic demand. In Botswana and Malawi growth remained high at 6 per cent and 6.8 per cent, respectively, and remained buoyant in Zambia (5.8 per cent) due to the strong performance of the minerals

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sector, but it slowed in Namibia, and remained low in Swaziland. In 2007, growth accelerated in Madagascar and Mauritius to 6.3 per cent and 5.6 per cent, respectively as these countries successfully restructured their textile industries in response to the challenges posed by the increased competition from Chinese, Indian and Bangladeshi textile producers and the end of the Multi-Fibre Agreement. In Zimbabwe, economic activity continued to decline in 2007, contracting by about 6 per cent. In 2008 and 2009, Botswana is expected to grow by slightly more than 5 per cent per year, and Malawi by about 5 per cent per year. The projections for South Africa indicate that GDP growth will slow to 4 per cent in both 2008 and 2009 due to insufficient growth of electricity production. Angola's growth rate is projected to slow considerably from 19.8 per cent in 2007 to 11.5 per cent in 2008 and 5 per cent in 2009 (largely due to a slowing in the rate of increase of oil production as the steadily increasing output from new offshore oil fields is partially offset by declining output in mature oil fields. Growth is expected to remain strong or increase in Madagascar and Mauritius, but to remain slow in Swaziland and in Namibia. As a result of these mixed trends, the average growth rate for Southern Africa is projected to average about 5.2 per cent in 2008 and 2009 down from 7 per cent in 2007.

Inflation

Following a historically low inflation rate of 5.9 per cent in 2006 (excluding Zimbabwe), inflation in Africa increased to 7.1 per cent in 2007, largely due to the impact of increasing energy prices and higher international prices for food. This continent-wide average again masks important differences between net oil-exporters and net oil-importers. The latter (excluding Zimbabwe) experienced an upward surge of inflation from 6 per cent in the 1999-2005 period to 6.7 per cent in 2007, which is expected to decline slowly in 2008 and 2009. Although low worldwide inflation still benefited countries with pegged exchange rates (such as CFA franc countries), this was far less the case in 2006 and 2007 than in earlier years as the inflation differential between some CFA countries and the Euro region increased considerably. However, there were only 3 countries (Guinea, São Tomé and Principe and Zimbabwe) that experienced inflation rates at or above 20 per cent in 2006, and the number remained the same in 2007 (Eritrea, Guinea and Zimbabwe). The forecasts assume that monetary authorities will not need to tighten monetary policy significantly since oil prices are assumed to remain at USD 90 per barrel.

Table 2 - **Weighted Mean CPI Inflation of African Regions** (annual percentage change)

Region	1999-2005	2006	2007(e)	2008(p)	2009(p)
North Africa	2.9	3.6	6.9	5.7	4.9
West Africa	10.1	7.2	6.2	6.0	5.4
Central Africa	14.9	6.3	3.2	4.1	4.0
East Africa	6.5	9.7	9.9	8.5	7.2
Southern Africa	16.0	8.9	11.5	11.1	9.1
Total Africa	**8.6**	**6.5**	**8.2**	**7.5**	**6.3**
Memorandum Items:					
Net Oil exporters	*10.2*	*5.4*	*7.5*	*6.6*	*5.8*
Net Oil importers	*7.0*	*7.8*	*9.1*	*8.5*	*6.9*
Net Oil importers (ex. Zimbabwe)	*6.0*	*6.3*	*6.7*	*6.4*	*5.2*
SANE * Countries	6.5	4.8	7.4	6.6	5.5
Other Countries	11.6	8.8	9.3	8.5	7.4
Southern Africa (ex. Zimbabwe)	14.4	6.4	7.5	7.5	6.1
Total Africa (ex. Zimbabwe)	**8.2**	**5.9**	**7.1**	**6.5**	**5.5**

* South Africa, Algeria, Nigeria, Egypt.
Note: Owing to lack of data, these aggregates do not include Somalia.
Source: Various domestic authorities; IMF *World Economic Outlook* and authors' estimates (e) and projections (p).

StatLink http://dx.doi.org/10.1787/320460710484

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North Africa

Inflation in North Africa accelerated to 6.9 per cent in 2007 following a reduction to 3.6 per cent in 2006 as inflation surged to 10.9 per cent in Egypt, to 7.6 per cent in Mauritania and to 7 per cent in Libya. However, inflation decreased in Tunisia (from 4.5 per cent in 2006 to 3.1 per cent in 2007) and remained low in Morocco. The average rate of inflation in North Africa is projected to decline somewhat in both 2008 and 2009.

West Africa

The average rate of inflation in West Africa was 6.2 per cent in 2007, down from 7.2 in 2006. 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 declined from 34.7 per cent in 2006 to 23.4 per cent in 2007. The rate of inflation in Nigeria also declined from 8.2 per cent in 2006 to 6.7 per cent in 2007. In Ghana inflation declined from 10.9 per cent in 2006 to 9.4 per cent in 2007, in São Tomé and Principe inflation declined from 23.6 per cent in 2006 to 16.6 per cent in 2007, in Sierra Leone inflation declined from 10.9 per cent in 2006 to 9.4 per cent in 2007 and in Cape Verde inflation declined from 6 per cent in 2006 to 4.5 per cent in 2007. In The Gambia inflation increased from 2 per cent in 2006 to 5 per cent in 2007. Inflation in Liberia increased from 7.2 per cent in 2006 to 8 per cent in 2007. Projections for 2008 and 2009 are gradual declines in the region as a whole.

Central Africa

The average rate of inflation in Central Africa declined from 6.3 per cent in 2006 to 3.2 per cent in 2007 largely due to low inflation in two countries: Cameroon (1.7 per cent), Central Africa Republic (3.1 per cent) and a decline in price levels in Chad (4.2 per cent) as weather conditions normalised allowing for a large increase in food production. Inflation remained high in the DRC (9.5 per cent), but was down from 13.2 per cent in 2006. The projections for 2008 and 2009 indicate that inflation in Central Africa will remain moderate at about 4 per cent per year, with most countries below that rate, moving closer to the convergence target of 3 per cent accepted by the countries belonging to the Bank of Central African States (BEAC) area (Cameroon, the Central African Republic, the Republic of Congo, Equatorial Guinea, and Gabon). Only in the DRC is little progress expected with inflation expected to remain at about 10 per cent in both years.

East Africa

Inflation increased in 5 countries in East Africa in 2007 but was stable or declined in 6 of them. As a result, the average rate of inflation in East Africa exhibited little change between 2006 and 2007, remaining high at 9.9 per cent. Inflation accelerated in Ethiopia from 12.3 per cent in 2006 to 17.1 per cent in 2007 as rapid growth resulted in upward pressure on prices, combined with high prices for imported food and fuel. In Burundi inflation also accelerated, from 2.8 per cent in 2006 to 7.1 per cent in 2007. On the other hand, Kenya managed to reduce its inflation rate from 14.5 per cent in 2006 to 9.8 per cent in 2007 and in Uganda, inflation decreased from 7.3 per cent in 2005/06 to 6.4 per cent in 2006/07 with the continuation of favourable growing conditions The outlook in East Africa for 2008 and 2009 is for gradual reductions in inflation rates in most countries. However, it is expected to increase in Kenya, and to remain high in Eritrea. As a result of these mixed trends, the average rate of inflation in East Africa is expected gradually to fall to 8.5 per cent and 7.2 per cent in 2008 and 2009, respectively.

Southern Africa

Southern Africa's experience was mixed in 2007, with 5 countries experiencing higher inflation rates and 7 countries experiencing stable or lower inflation rates. In Namibia, South Africa, Swaziland, and Zambia,

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

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the increase in the inflation rate ranged from 1.6 to 1.9 percentage points. In Zimbabwe which is the grip of hyperinflation, inflation accelerated from 1 017 per cent in 2006 to 6 724 per cent in 2007. Inflation remained above 10 per cent in Angola and Zambia as well, but in Botswana and Mozambique inflation was reduced substantially between 2006 and 2007, from 11.6 per cent to 7.1 per cent and from 13.2 per cent to 7.9 per cent, respectively. For the region as a whole (excluding Zimbabwe), inflation increased from 6.4 per cent in 2006 to 7.5 per cent in 2007. In all countries where inflation has been high (except Angola and Zimbabwe) it is expected to return to single-digit levels in 2008, and to remain close to 5 per cent in Lesotho, Mozambique, South Africa and Swaziland. For the region as a whole (excluding Zimbabwe), inflation is expected to remain at about the same level in 2008 and decline to 6.1 per cent in 2009.

Public Finances

In 2007 the overall fiscal balance (including grants) of the group of net oil-exporting countries exhibited a surplus equivalent to 6.7 per cent of GDP due mainly to higher oil prices but also to increases in production, with the conspicuous exception of Nigeria. The group of net oil-importing countries exhibited an overall deficit equivalent to 1.2 per cent of GDP in 2007 compared with a small surplus in 2006. The low deficit of the net 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 2008 show a further increase in the fiscal surplus for the group of net oil-exporting countries (reaching 9.1 per cent of GDP) and then declining somewhat in 2009; on the other hand, the average deficit of the group of net oil-importing countries is expected to continue to worsen in both 2008 and 2009. The large amount of debt relief received by a number of countries in 2005 and 2006 masks somewhat the extent of fiscal consolidation in the net oil importers. Excluding grants, the combined deficits of the net oil importers gradually declined from 4.5 per cent of GDP in 2003 to a low of 2.5 per cent in both 2006 and 2007. This progress is expected to be partially reversed in 2008 and 2009 with an increase in the combined deficit to 3.2 per cent of GDP.

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

Region	1999-2005	2006	2007(e)	2008(p)	2009(p)
North Africa	-0.6	6.3	4.7	7.1	7.4
West Africa	-0.1	5.9	2.6	4.7	3.8
Central Africa	1.9	9.2	8.9	9.3	9.2
East Africa	-2.2	-4.1	-3.2	-3.2	-3.5
Southern Africa	-2.2	2.8	1.9	2.1	0.9
Total Africa	**-1.1**	**4.2**	**2.8**	**4.0**	**3.4**
Memorandum Items:					
Net Oil exporters	*1.0*	*7.9*	*6.7*	*9.1*	*8.2*
Net Oil importers	*-2.9*	*0.5*	*-1.2*	*-1.6*	*-1.8*
SANE * Countries	-1.0	2.6	2.4	4.1	3.9
Other Countries	-1.2	6.1	3.3	4.0	2.8

* South Africa, Algeria, Nigeria, Egypt
Note: : Due to lack of data, these aggregates do not include Somalia.
Source: Various domestic authorities; IMF World Economic Outlook and authors' estimates (e) and projections (p).

StatLink http://dx.doi.org/10.1787/320461585846

North Africa

In North Africa the average fiscal balance exhibited a surplus equivalent to 4.7 per cent of GDP in 2007, down from 6.3 per cent in 2006.The largest oil-exporting countries in the region, Algeria and Libya, exhibited little change in their large surpluses. In Egypt the deficit was reduced substantially from

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9.2 per cent of GDP in 2006 to 5.7 per cent in 2007. Morocco and Tunisia, on the other hand, experienced little change in their fiscal deficits in 2007 compared with 2006. In 2008 and 2009, nearly every country is projected to improve its fiscal balance except for Algeria whose fiscal surplus is expected to decrease somewhat.

West Africa

In 2007, fiscal balances deteriorated in 5 countries in West Africa. However, Côte d'Ivoire, The Gambia, Guinea, São Tomé and Principe, Senegal and Sierra Leone all registered reductions in their deficits. Only 4 countries registered deficits of 4 per cent of GDP or more (Burkina Faso, Ghana, Guinea-Bissau, Senegal). The projections for 2008 and 2009 are for stable or deteriorating fiscal balances in most countries. In the case of Nigeria, however, the large fiscal surplus is expected to increase in both 2008 and 2009.

Central Africa

In 2007 all seven countries in Central Africa registered surpluses but these were lower for the most part than in 2006. The DRC, however, moved from a small deficit in 2006 to a surplus in 2007, and Gabon's surplus increased slightly. Projections for 2008 and 2009 show little change in Central Africa's average fiscal surplus as a per cent of GDP.

East Africa

Fiscal balances improved in East Africa in 2007, with the combined fiscal deficit decreasing from 4.1 per cent of GDP in 2006 to 3.2 per cent in 2007. Improvements were seen in 9 countries with particularly sizeable reductions in deficits of about 2 per cent of GDP in Burundi and Ethiopia. Deficits worsened slightly in Eritrea and Uganda. Despite the improvements, deficits remained higher than their longer term averages of about 2 per cent of GDP. In 2008 and 2009 fiscal deficits are expected to remain about the same or to worsen. However, the deficits in Kenya, Seychelles, and Uganda are expected to worsen more than the average.

Southern Africa

The average fiscal balance of the countries in Southern Africa exhibited little change in 2007 with improved budget balances in Namibia, and South Africa offset by reduced surpluses in Angola, Botswana and Lesotho and by higher deficits in Madagascar, Malawi, Mozambique, Swaziland, Zambia, and Zimbabwe. The projections for 2008 and 2009 show little change for the region as a whole. However, the fiscal deficits of Mozambique and Swaziland are expected to worsen, while the fiscal surplus of Angola is expected to be reduced substantially by 2009.

Balance of Payments

In 2007, Africa's average current account balance exhibited a surplus equivalent to 2.9 per cent of GDP. This overall figure, however, masks large differences among countries. On the one hand, net oil-exporting countries recorded a current account surplus of 10 per cent in 2007 (down from 14 per cent in 2006); on the other hand, the group of net oil-importing countries experienced a significant average current account deficit of 4.3 per cent of GDP in 2007 (up from 3.6 per cent in 2006) compared with an average of 2 per cent in the period 1999-2005. Among the net oil importers, only 10 countries out of 38 improved their current account balances significantly (Benin, Central African Republic, Comoros, Kenya, Niger, Rwanda, São Tomé and Principe, Senegal, Tunisia, and Zimbabwe.). The surplus in the current account balances of net oil-exporting countries is projected to increase slightly in 2008 and moderate in 2008. Meanwhile the average current account deficits of the net oil-importing countries in 2008 and 2009 are expected to continue to worsen as export prices soften while import prices of fuel and food are expected to remain high.

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-2007, 19 African countries had reached their completion points and 7

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Table 4 - **Average Ratio of Current Account Balance to GDP**

Region	1999-2005	2006	2007(e)	2008(p)	2009(p)
North Africa	5.8	15.2	12.2	13.4	12.3
West Africa	-2.5	6.0	0.5	3.1	3.7
Central Africa	-2.5	2.5	2.3	5.1	5.1
East Africa	-4.9	-9.4	-7.6	-7.7	-6.5
Southern Africa	-1.5	-0.6	-1.8	-1.8	-2.6
Total Africa	**0.7**	**5.3**	**2.9**	**3.8**	**3.1**
Memorandum Items:					
Net Oil exporters	*3.7*	*14.0*	*10.0*	*12.3*	*11.8*
Net Oil importers	*-2.0*	*-3.6*	*-4.3*	*-5.5*	*-6.1*
SANE * Countries	1.7	4.8	2.5	4.0	3.5
Other Countries	-0.4	5.9	3.4	3.7	2.7

* South Africa, Algeria, Nigeria, Egypt
Note: Due to lack of data, these aggregates do not include Somalia.
Source: Various domestic authorities; IMF *World Economic Outlook* and authors' estimates (e) and projections (p).

StatLink http://dx.doi.org/10.1787/320463771244

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 current account balances in 2007. While Algeria and Libya continue to exhibit large current account surpluses of 22 per cent and 45 per cent of GDP, respectively in 2007, Egypt and Morocco registered small surpluses which are expected to decline by 2009, and Tunisia's small deficit declined slightly. After reducing its current account deficit from 47 per cent of GDP in 2005 to 1.3 per cent in 2006, Mauritania's deficit expanded to 6.8 per cent in 2007. As a result of the above, North Africa's current account surplus fell from 15.2 per cent in 2006 to 12.2 per cent in 2007. Little change is expected in 2008 and 2009.

West Africa

In 2007, 11 countries out of 16 in West Africa registered current account deficits ranging from about 5 to 13 per cent of GDP. The deficits of three other countries were even higher, ranging from 20 to 41 per cent. Surpluses were registered only in Côte d'Ivoire and Nigeria. The combined current account balance in West Africa is dominated by Nigeria where the current account surplus was 4.2 per cent of GDP in 2007 down from about 12 per cent in 2006. Little change is expected in 2008 or 2009 for most of the deficit countries. However, Côte d'Ivoire is expected to move into deficit and the surplus in Nigeria is expected to increase to about 9 per cent of GDP.

Central Africa

In 2007, the average current account balance in Central Africa registered a a surplus equivalent to 2.3 per cent of GDP, largely due to further large increases in the nominal value of oil exports, especially in the Republic of Congo and Gabon. Two countries (Chad and DRC) registered deteriorations in their current account balances, and Cameroon registered a small surplus.The deficit of Equatorial Guinea remained small, with large surpluses expected in 2008 and 2009 due to higher oil prices. In 2008 and 2009 the current account surpluses of most net oil-exporting countries in Central Africa are expected to remain high.

East Africa

In 2007 the average current account deficit in East Africa fell slightly to 7.6 per cent of GDP (down from 9.4 per cent in 2006) compared with an average of 4.9 per cent for the period 1999-2005. This was largely due to small reductions in Kenya and Rwanda, and a large reduction in Sudan (from 14.7 per cent of GDP

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in 2006 to 10.7 per cent in 2007) which were partially offset by increased deficits in Burundi (from 12 to 14.2 per cent of GDP), Djibouti (from 8.9 per cent to 14.5 per cent) and in Seychelles (from 23.2 per cent to 30.4 per cent) and by smaller increases in other countries. Prospects are for current account deficits of similar levels in 2008 and for a slightly lower combined deficit of 6.5 per cent in 2009.

Southern Africa

Among the countries in Southern Africa, Angola experienced a decrease in its current account surplus from 23.3 of GDP in 2006 to 14.9 per cent in 2007 as a result of rising imports, increases in oil production and prices and of diamond production notwithstanding.

Botswana registered a large current account surplus of 18.1 per cent in 2007 slightly lower than in 2006 and Namibia also registered a large current account surplus of 13.7 per cent of GDP in 2007, slightly lower than the 16.6 per cent registered in 2006. In both cases due to the strong demand for mineral exports in international markets. Mozambique registered a current account deficit of 7.6 per cent in 2007 following a surplus in 2006 a number of mega-projects resulted in a strong increase in capital goods imports. Current account balances in Lesotho, South Africa, and Zambia worsened slightly in 2007, but the deficit fell in Zimbabwe. South Africa's current account balance is projected to worsen in 2008 and 2009, while Angola's current account surplus is projected to remain stable in 2008 and then to decrease substantially in 2009 with a slowdown in the growth of oil exports.

Data Issues

This report can only be as good as the data and models that underpin the analysis of recent developments and prospects for the near future. Unfortunately, the data on many African countries is often incomplete and not up to date. For some key variables, such as inflation, data is collected only in large urban agglomerations and does not reflect the situation in rural areas. Fortunately, efforts have been underway to improve this situation and have begun to produce results (See Box 7).

Box 7 - Making Progress in the Development of African Statistics

The Millennium declaration, debt-alleviation initiatives and national poverty-reduction policies all require, for their development and implementation, more diversified, up-to-date and better quality statistics for Africa.

This has led to reinforcing current initiatives in the development of public statistics for Africa and to launching a number of new ones. Results so far are noticeable, but it is still difficult to assess them for lack of a sufficient perspective and for not having fully organised to do so.

Current initiatives. Nearly all the African countries have committed to drawing up a National Strategy for the Development of Statistics (NSDS), a participatory approach supported by all the sub-regional, regional and international organisations, and adopted by all the African institutions and countries included in the regional strategic reference framework for the development of statistics.

Forums such as the Forums on Africa Statistics Development (FASDEV) and the Bamako Conference, as well as a number of working teams that have been set up for this task are now facilitating information sharing on the development and funding of national statistics, and greater dialogue amongst statistic-development actors.

Africa's regional institutions – the African Development Bank (AfDB), the African Union Commission (AUC), the Economic Commission for Africa (ECA) and the African Capacity Building Foundation (ACBF) – were reorganised to be able to offer the countries better assistance, and amongst other actions, they set up a number of co-ordination and programming mechanisms for their activities. Harmonisation of African statistics is the explicit subject of discussions in the statistics meetings of all the regional and sub-regional institutions. The need for continent-wide harmonisation is now being felt. The draft of an African Charter on Statistics is in the process of being adopted by the heads of the member states of the African Union.

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Box 7 - **Making Progress in the Development of African Statistics** *(cont.)*

Organising a yearly symposium on the development of African statistics is remarkable in more than one way. First of all, it is an initiative taken by the countries themselves. One of them, South Africa, pays for most of it. The events are organised jointly with a different host country every year, the ECA and the United Nations system. The first three meetings focused on calling each of the countries to run a population census in the course of 2005-14.

The international institutions and bilateral donors, associated with the beneficiary countries within the Partnership in Statistics for Development in the 21st Century (PARIS21), stepped up their technical and financial support and their plea in favour of the development of country statistics. This development is both to be completely integrated into poverty-reduction strategies and programmes, and to be part of a NSDS.

Some visible progress. The countries and institutions, African and non-African alike, are putting a lot of energy into improving the relevance of the data produced by and for the countries, into strengthening national statistical capacities as well as scheduling production in the medium run, into improving data comparability on a time and space basis, and into reinforcing co-ordination of activities amongst the regional partners, and between the latter and their extra-continental partners.

Although not yet properly assessed, there are already some observable results: policy makers have a better grasp of the stakes involved; co-ordination and scheduling of activities has improved; an overhaul of national legislation has made it possible to reorganise the statistics systems and make them more efficient; financial resources earmarked for statistics are on the rise; and the improvements in household surveys and population censuses include better programming, greater frequency and a much higher match with demand. Progress has so far been far too limited, however, in the areas of enterprise or institution surveys, SNA93 (System of National Accounts 1993) implementation (regular but slow), statistics circulation (more systematic but often difficult to access) and greater qualified human resources (still limited). Many other results will need more time to materialise.

Source: OECD Development Co-Operation Directorate.

The Millennium Development Goals: Progress Report

This year represents the midway point between the adoption of MDGs in 2000 and the 2015 target year for achieving them. Still, the projected MDG shortfalls are most severe in Sub-Saharan Africa. It is the only region in the world where the number of poor has risen over the last decade. However, according to W. Easterly (2007)[18], the statement that Africa will miss all the Millennium Development Goals (MDGs) paints an unfairly bleak portrait of Africa. The author argues that the MDGs are poorly and arbitrarily designed and that the relative performance of African countries looks worse because of the particular way in which the MDGs targets are set. For example, if the target was to double the number of people "with" access to clean water and not to halve the number of people "without" access, Africa would have made much more progress. In addition, some factors provide a degree of optimism for the future such as improved economic policies, rise of commodity prices, high economic growth that may be sustained, reduction of civil conflicts, stronger domestic investment and better governance. Large progress towards achieving the MDGs has proved to be possible when strong government leadership and good policies are combined with adequate financial and technical support.

The table *Main Progress Towards Achieving the MDGs* exhibits only the countries which have already achieved or are on track to achieve the considered target. The satisfactory performance ratio is the percentage of countries that has achieved or is on track to achieve the target out of the 53 African countries. Blanks also correspond to missing data, especially in post-conflict or conflict countries where official data are not available.

18. Easterly, William (2007) "How the Millennium Development Goals are Unfair to Africa", Global Economy and Development, *Working Paper 14,* November 2007.

Goal 1 - Reducing extreme poverty and hunger by half

Monetary poverty

In Sub-Saharan Africa, while the proportion of people whose income is less than one US dollar a day has declined from 46.8 per cent to 41.1 per cent between 1990 and 2004, reaching this target by 2015 requires that the current pace is nearly doubled. The high growth rate of population of 2.3 per cent annually does not help reduce the number of extreme poor. In contrast, in Northern Africa, the average decline from 2.6 per cent in 1990 to 1.4 per cent in 2004 indicates that these countries are likely to meet the target. The recent International Comparison Program-Africa, of the African Development Bank, has made available new estimates of purchasing power parities based on 2005 prices. It may change the estimated percentages of the population living in poverty within Africa.

Hunger

The proportion of people who suffer from hunger has declined slowly in Africa. Compared to last year's report, Burkina Faso is now on track but Cameroon, Egypt and Lesotho are no longer on track since the prevalence of undernourishment as a percentage of the population has slightly increased. Three Sub-Saharan countries have achieved the target of 50 per cent reduction (Djibouti, Gabon and Ghana) by 2002/04. The satisfactory performance ratio indicates that 34 per cent of the African countries are likely to meet the target.

Goal 2 - Achieving universal primary education

Primary school enrolment

Many African countries have made significant progress over the last years in reducing the number of children out of school but there is still a long way to go. The challenge is increasing with the number of school-age children. In 2007, there were 348 million children under the age of 14 in Sub-Saharan Africa and the number is expected to reach 403 million by 2015. Although 13 countries are on track to reach the target of 100 per cent for the net primary enrolment ratio, none of them has already achieved it. While many countries register a ratio exceeding 90 per cent (Algeria, Cape Verde, Egypt, Madagascar, Malawi, Mauritius, São Tomé & Principe, Tanzania, Tunisia and Zambia), Burkina Faso, Congo, Djibouti and Eritrea had a net primary enrolment ratio inferior to 50 per cent in 2005.

Completion rates

Unfortunately, progress in completion rates has not been important enough to ensure that pupils reach grade five and become literate, especially in rural areas. Only seven African countries are on track to provide a complete course of primary schooling to the children. On the contrary, many countries record a very low performance (Benin, Chad, Madagascar, Malawi, Mauritania, Mozambique and Uganda).

Goal 3 - Eliminating gender disparity

Progress towards eliminating gender disparity in all levels of education has been important in Africa. Lesotho and Namibia have already achieved the target for both primary and secondary levels. However, although 60.4 per cent of African countries exhibit a satisfactory performance in primary education, only 34 per cent are likely to achieve the target in secondary education. On the political front, the share of women in parliaments has increased from 7 per cent in 1990 to 17 per cent in 2007 in Sub-Saharan Africa and from 3 per cent to 8 per cent in Northern Africa. Rwanda is still leading the way with 49 per cent of parliamentary seats occupied by women, followed by Mozambique (35 per cent), South Africa (33 per cent) and Burundi (31 per cent). For the first time, in Gambia and in Swaziland, women were presiding officers in parliament. In the labour market, progress in women's participation in paid, non agricultural sector employment has been almost inexistent in Africa.

Goal 4 – Reducing child mortality

Urgent, accelerated progress has to be made to reduce by two-thirds under-five mortality rates.

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HIV/AIDS, malaria, lack of basic health services and conflicts are the main reasons for slipping back and the very slow average progress. From 1990 to 2005, under-five mortality was reduced by only 11 per cent in Sub-Saharan Africa (60 per cent in Northern Africa). Although this is a very bad performance towards achieving the target, some countries have adopted appropriate policies (see Box 8). Even if not all of them are on track, they have proved that substantial improvements are possible. Egypt has already achieved the target and Algeria, Cape Verde, Comoros, Eritrea, Libya, Malawi, Morocco and Tunisia are likely to reach it. Recent surveys showed that improvements were mainly found in rich households, in urban areas, and where mothers have some education. In 2005, only 64 per cent of children aged 12-23 months had received at least one dose of measles vaccine (95 per cent in Northern Africa).

Box 8 - **Combating Under-five Mortality**

According to *Save the Children*, three African countries should be highlighted as recording admirable progress in saving the lives of children under 5. Based on UNICEF data, despite their very low GDP per capita in 2006 (USD 280, USD 170 and USD 350, respectively), Madagascar, Malawi and Tanzania registered respectively, 32, 46, and 27 per cent declines in under-five mortality between 1990 and 2006. Governments played a main role in these great performances. The reduction of under-five mortality was achieved through health-sector reforms and community-based programmes. In Malawi and Tanzania, important progress was observed in the increase of skilled healthcare workers and better care during pregnancy such as malaria prevention, nutrition counseling, nutritional supplements, and syphilis treatment. To combat malnutrition, children from 5 to 59 months received at least one annual vitamin A supplement. In Madagascar, the principal concern was to prevent malnutrition through breastfeeding.

The case of Egypt reinforces the fact that political will is the key to success. Egypt is the only African country which had already achieved goal 4 in 2006 because the government launched a major initiative in 1992 called "healthy mother, healthy child" to improve health conditions in poverty areas. The effort focused on improving care for pregnant women, and providing skilled assistance during childbirth and access to family planning information and services.

The most common causes of children's death are pneumonia, diarrhoea, malaria, shortage of vaccination and malnutrition. Preventing deaths of children could therefore be achieved by investing in low-cost solutions such as encouraging breastfeeding, vaccination, oral dehydration therapy, antibiotics and insecticide-treated mosquito nets. *Save the Children* indicates the possibility of reducing significantly under-five mortality rates through five key measures: *i)* training more physicians and nurses to provide safe delivery and assistance, *ii)* encouraging exclusive breastfeeding for the first six months of a baby's life, *iii)* making available vaccination against measles, *iv)* promoting oral rehydration therapy to prevent children from dying of diarrhoea and *v)* training health workers to recognise signs of pneumonia and make sure that children receive antibiotics.

Source: Authors based on Save the Children (2007) *State of the World's Mothers Index: Save the Lives of Children under 5*, available at: http://www.savethechildren.org.au/australia/publications/annual_reports.html

Goal 5 – Improving maternal health

The satisfactory performance ratio for reducing the maternal mortality ratio by three-quarters by 2015 is 28.3 per cent. Only one African country (Mauritius) has achieved the target while 14 other countries are on track to achieve it. The shortage of health care, attendance at delivery and skilled health personnel contribute to high maternal mortality. In Cameroon, Central African Republic, Djibouti, Kenya, Liberia, Malawi, Niger, Tanzania and Zimbabwe, maternal mortality rates increased by over 30 per cent between 1990 and 2000. In Africa, the main causes of maternal deaths over the period 1997-2002 were the following: haemorrhage (34 per cent); sepsis and infections, including HIV (16 per cent); hypertensive disorders (9 per cent); abortion (4 per cent); anaemia (4 per cent) and obstructed labour (4 per cent). Absolute levels are still above 1 000 deaths per 100 000 live births in 17 African countries. In addition, the adolescent birth rate remains high. In 2005, only 45 per cent of deliveries were attended by skilled health care

Table 5 - **Main 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**	**Combat diseases**	**Ensure environmental sustainability**	
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 (%)	
104	Algeria		On track	On track	On track	Achieved	On track				**5 of 9**
162	Angola	On track							On track		**2 of 9**
163	Benin	On track	On track		On track						**3 of 9**
124	Botswana				On track	Achieved		On track		On track	**4 of 9**
176	Burkina Faso	On track								On track	**2 of 9**
167	Burundi									On track	**1 of 9**
144	Cameroon									On track	**1 of 9**
102	Cape Verde				On track	Achieved	On track				**3 of 9**
171	Cent. Afr. Rep.									On track	**1 of 9**
170	Chad	On track								On track	**2 of 9**
134	Comoros						On track	On track	Achieved		**3 of 9**
139	Congo	On track			On track			On track			**3 of 9**
166	Congo, DRC										**0 of 9**
168	Côte d'Ivoire	On track								On track	**2 of 9**
149	Djibouti	Achieved									**1 of 9**
112	Egypt		On track	On track	On track	On track	Achieved	On track	On track	Achieved	**8 of 9**
127	Equat. Guinea				On track						**1 of 9**
157	Eritrea						On track	On track		On track	**3 of 9**
169	Ethiopia				On track			On track			**2 of 9**
119	Gabon	Achieved			On track						**2 of 9**
155	Gambia				Achieved			On track			**2 of 9**
135	Ghana	Achieved			On track					On track	**3 of 9**
160	Guinea	On track			On track			On track			**3 of 9**
175	Guinea- Bissau										**0 of 9**
148	Kenya				On track	On track				On track	**3 of 9**
138	Lesotho				Achieved	Achieved					**2 of 9**
999	Liberia										**0 of 9**

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56	Libya		On track		On track	Achieved	On track	On track	Achieved		**6 of 9**
143	Madagascar		On track		On track	On track					**3 of 9**
164	Malawi	On track	On track		Achieved	On track	On track			Achieved	**6 of 9**
173	Mali			On track							**1 of 9**
137	Mauritania	On track			Achieved	On track					**3 of 9**
65	Mauritius		On track	On track	Achieved	On track		Achieved		Achieved	**6 of 9**
126	Morocco		On track		On track		On track	On track	On track		**5 of 9**
172	Mozambique	On track	On track					On track			**3 of 9**
125	Namibia	On track		On track	Achieved	Achieved				Achieved	**5 of 9**
174	Niger										**0 of 9**
158	Nigeria	On track									**1 of 9**
161	Rwanda				Achieved					On track	**2 of 9**
123	São Tomé and Principe	On track	On track		On track	Achieved					**4 of 9**
156	Senegal				On track			On track		On track	**3 of 9**
50	Seychelles	On track	On track	On track	Achieved	On track			Achieved		**6 of 9**
177	Sierra Leone										**0 of 9**
999	Somalia							On track	Achieved		**2 of 9**
121	South Africa				On track	Achieved				On track	**3 of 9**
147	Sudan					On track					**1 of 9**
141	Swaziland				On track	On track		On track			**3 of 9**
159	Tanzania		On track		On track					On track	**3 of 9**
152	Togo	On track									**1 of 9**
91	Tunisia		On track	On track	On track	Achieved	On track		On track	Achieved	**7 of 9**
154	Uganda				Achieved					On track	**2 of 9**
165	Zambia				On track						**1 of 9**
151	Zimbabwe				On track						**1 of 9**
	Achieved	**3**	**0**	**0**	**9**	**9**	**1**	**1**	**4**	**5**	
	On track	**15**	**13**	**7**	**23**	**9**	**8**	**14**	**4**	**15**	
	Satisfactory Performance Ratio	**34.0%**	**24.5%**	**13.2%**	**60.4%**	**34.0%**	**17.0%**	**28.3%**	**15.1%**	**37.7%**	

Sources: Author's calculations based on data from UNDP (2006) Human Development Report, New York: Oxford University Press and World Bank (on line) World Development Indicators, Washington, DC.

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personnel in Sub-Saharan Africa compared to 42 per cent in 1990. Within the same country, regional and urban / rural disparities can be huge.

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

The performances towards halving the spread of tuberculosis are weak, since only 15.1 per cent of African countries are on track. The target has been achieved in Comoros, Libya, Seychelles and Somalia.

In contrast, 13 countries are slipping back, mainly because of new tuberculosis cases associated with HIV. For example, in Kenya, tuberculosis prevalence has increased from 108 cases per 100 000 people in 1990 to 619 cases in 2004. There is no improvement in HIV incidence in Africa. In 2005, in Southern Africa, 914 000 people died because of the virus, which represented 47 per cent of all HIV/AIDS deaths in Africa. As a result, around 12 million children were AIDS orphans in Africa and constitute an enormous social problem. In Sub-Saharan Africa, women aged 15 years and older living with HIV/AIDS represented 59 per cent of adults living with HIV/AIDS in 2006 compared to 23 per cent in Northern Africa. In Sub-Saharan Africa, 28 per cent of the population living with HIV in need of treatment received antiretroviral therapy in 2006. Concerning malaria, important interventions have been expanded in recent years such as free insecticide-treated net distribution

Goal 7 – Ensuring environmental sustainability

African countries have made slow progress in achieving the target of halving the proportion of the population without sustainable access to improved water. In 2004, five countries have achieved the target and 15 countries were on track. However, differences between urban and rural areas imply that only Egypt, Malawi, Mauritius and Tunisia have achieved the target in both areas. Malawi registered the best progress by increasing the proportion of population with access to safe water from 40 per cent in 1990 to 73 per cent in 2004. Nevertheless, the coverage of the population with access to improved sanitation remained low. Only Northern Africa is on track to halve the proportion of people without basic sanitation by 2015. On another front, there is slight progress in decreasing the number of people who are living in sub-standard housing, which worsens the lack of adequate sanitation and safe water. Deforestation continues in Sub-Saharan Africa. The proportion of land area covered by forests has decreased from 29 per cent in 1990 to 26 per cent in 2005. In addition to the loss of biodiversity, this has reduced the storage of carbon dioxide, a key factor in climate change.

Goal 8 – Developing a global partnership for development

For African countries to achieve the first seven goals, donor countries should provide more effective aid, more sustainable debt relief and fairer trade rules. In 2006, ODA (Official Development Assistance) to Africa reached USD 43.4 billion of which USD 39.9 billion were for Sub-Saharan Africa. Nigeria was the largest recipient of bilateral ODA from DAC donors, followed by Sudan, Cameroon and Democratic Republic of Congo. However, most of this aid was debt relief. For example, Nigeria received about USD 12.4 billion of debt relief. Without debt forgiveness, aid increased by 13 per cent in Africa and by only 2 per cent in Sub-Saharan Africa between 2005 and 2006. It is far from the pledge that G8 countries made in Gleneagles in July 2005 to double aid to Africa by 2010. On the trade front, issues such as import and export procedures, customs, payment systems, insurance, and other financial requirements affect cross-border movements and Africa competitiveness. However, the Doha trade negotiations are at a standstill. However, there has been progress on negotiating Economic Partnership Agreements between most African countries and the European Union (See Box 1 above).

Governance and Political Issues

Progress towards stability and democracy is waning in the continent. In several fragile states normalisation is slowly continuing, while more and more countries are legitimising their governments through universal

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elections. Despite this generally positive trend, democratic institutions remain fragile and often unrepresentative of the entire population, even after elections. Freedom of the press, the rule of law and government transparency remain weak and corruption is widespread at all levels of political and economic governance, despite the generalised commitment to the contrary. The year 2007 highlighted that, besides some serious setbacks, rising tensions can be brought about by the democratisation process itself, when the political debate between government and opposition becomes tense, and when people make use of their civil rights to voice their discontent through demonstrations, strikes and massive abstention during elections. Are we witnessing progress towards democracy or a deterioration of the social and political climate? Probably both. However, what continues to distinguish the continent is the very high level of violence often associated with demonstrations of social dissent.

Conflicts and Political Troubles

After several years of steady gains for political and social stability, the African Economic Outlook index for political troubles and hardening showed reversals in 2007. Despite the progressive stabilisation characterising the majority of the countries, the general situation deteriorated with respect to 2006 mainly due to the continuation or sharp worsening of long-term conflicts or social unrest (like in Chad, DRC, Uganda and Ethiopia), or to a resurgence of troubles in countries that used to enjoy a good level of stability in the recent past (like Algeria, Niger or Kenya).

Overall, most of the countries continue to enjoy growing stability, including post-conflict countries such as Angola, Mozambique and Liberia, and the situation in the continent is incontestably better than it used to be a decade ago. After 5 years of civil war, the situation in Côte d'Ivoire stabilised somewhat, after the signature of the Ouagadougou agreement of March 2007. Guillaume Soro, head of the former rebellion, has become Prime Minister and is leading a national union government until elections, scheduled for the last quarter of 2008.

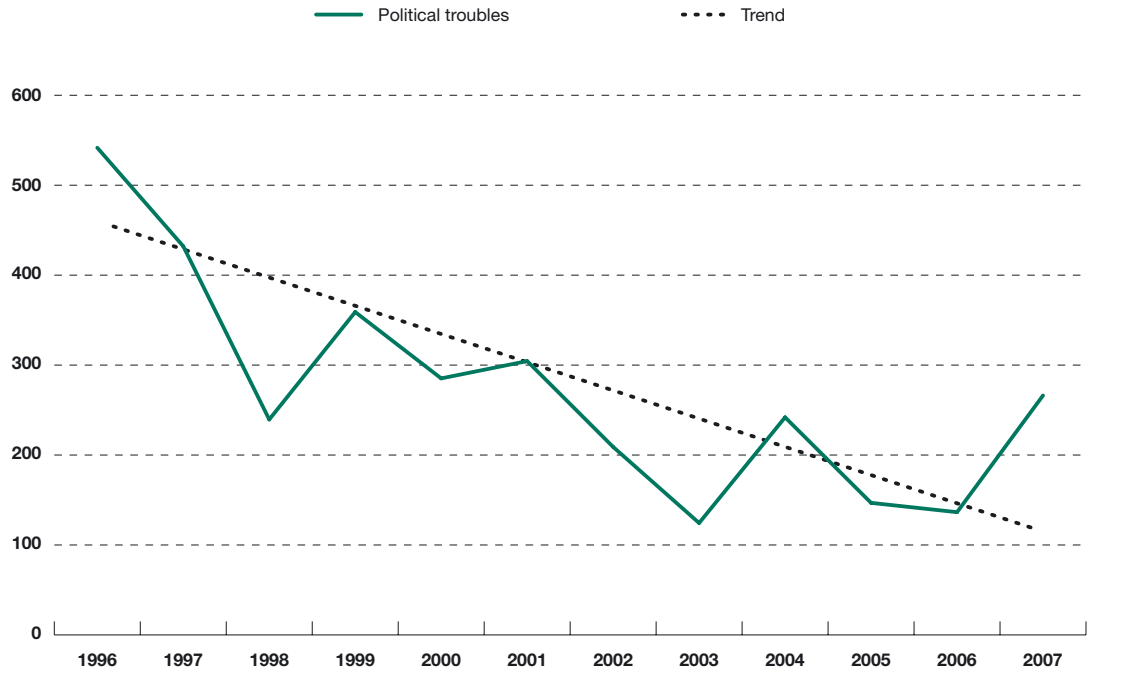
However, the aggregate index rose in 2007 due to increasing instability and hardening in a few countries, generally the ones characterised by traditionally high instability. In Chad, since 2006 the situation has become tense and clashes between several groups of rebels and the national army have increased in number and in intensity. At the beginning of 2008 rebels entered the capital N'Jamena before being repelled by the national army. The south of Sudan remains plagued by the Darfour war, with the 2005 Comprehensive Peace Agreement (CPA) on the brink of collapse. In Uganda and in DRC war episodes are still recorded in the north of the country for Uganda, and at the border of Rwanda and Uganda for the DRC.

Ethnic clashes remain a great cause of concern, especially where weapons coming from war zones or ex-conflict zones are becoming widespread, as in eastern Africa, including Ethiopia or Kenya, and the Great lakes region, with weapons coming from neighbouring Somalia. In Kenya the level of political violence and crime had risen considerably since 2005 and literally exploded in 2007, mostly attributed to ethnic clashes and exacerbated by adverse climatic conditions. Highly contested presidential elections finally erupted in civil war outbursts at the beginning of 2008.

Poverty, rising inequality and lack of redistribution of wealth are at the origins of the resurgence of rebellion movements or terrorists' attacks. In the Niger Delta, attacks on oil plants, including kidnappings of foreign workers, dramatically increased in 2006 and further in 2007, also entailing a significant loss in oil production. Rebels demand that the local population, whose living conditions are extremely poor, should benefit more from the wealth generated by the oil industry of the region. Common to Mali and Niger, the Touareg rebellion intensified while, after the remarkable stability enjoyed in 2006, Algeria suffered from a renewal of terrorist attacks, as did Morocco. More generally, the widespread availability of weapons, coming from war zones or ex-conflict zones is at the origin of increasing violence and crime in major towns in several countries, especially where inequality and unemployment are very high.

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Figure 8 - **Political Troubles in Africa 1996-2007**



Note: The index is 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.

StatLink http://dx.doi.org/10.1787/315774801308

Poor living conditions and insufficient basic services also fuelled unrest in South Africa, where the index rose sharply, due to demonstrations and strikes caused by the widespread perception that the post-apartheid government is not doing enough for poverty reduction, redistribution and service delivery improvement.

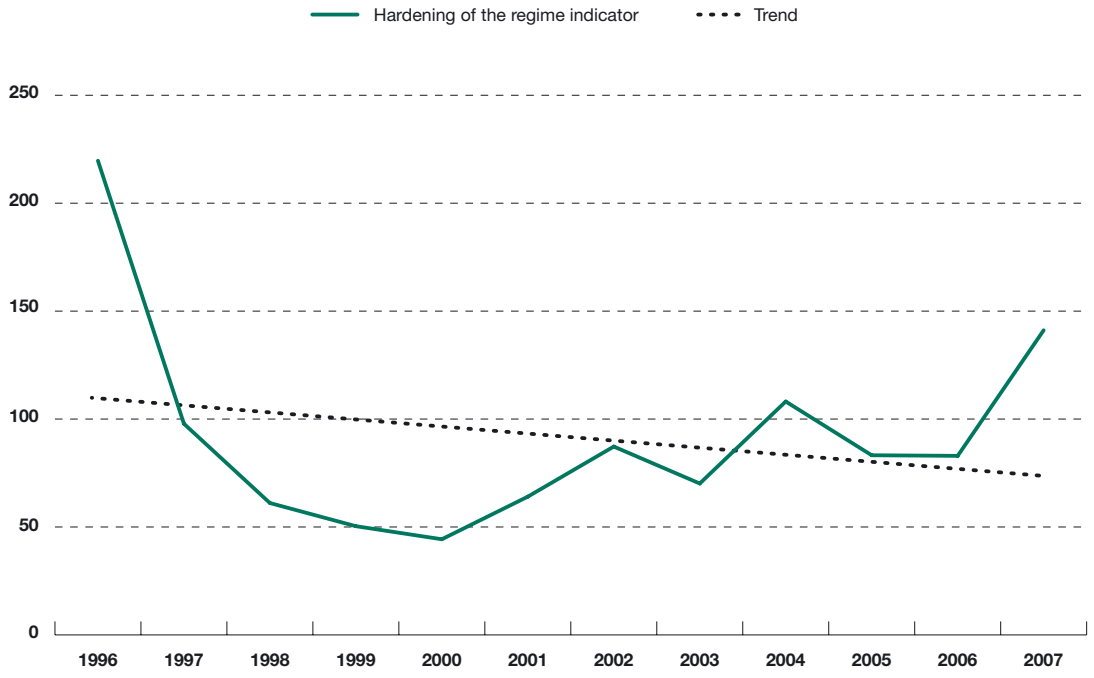
Finally, the major change compared to 2006 is that instability slightly rose even in traditionally stable countries. Rising dissatisfaction amongst the population due to the increasing cost of living, especially for food and fuel, was at the root of several demonstrations in Senegal, Zambia and, more recently, in Burkina Faso and Cameroon. These are expected to remain isolated if government strategies to absorb prices shocks in the immediate future are successful in meeting people's needs and if they succeed in developing a constructive dialogue with the different components of society.

The Political Stance

Since 2002, it is possible to observe a moderate rising trend in the index, mainly due to the crises in Côte d'Ivoire and Zimbabwe, but also to the progressive increase in the number of electoral consultations that are often accompanied by a certain hardening of the political stance. In 2007, the few countries experiencing serious hardening include Zimbabwe, whose economy dramatically deteriorated in 2007 and where repression became harsher. Nigeria, Niger and, to a lesser extent, Mali hardened their stance to respond to increasing rebel upsurges. Egypt implemented firm actions to combat the *Muslim Brotherhood,* illegal but tolerated since 2002. In DRC the peace process was halted by increasing clashes been rebels and the army in the Northeast of the country, at the border with Rwanda and Uganda. Opposition leader Jean-Pierre Bemba went into exile after losses to Presidential forces and prosecution for maintaining a militia. In Uganda

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Figure 9 - **Political Hardening in Africa 1996-2007**



Note: The index is 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 23.

StatLink http://dx.doi.org/10.1787/315783774084

fighting resumed between the rebels in the north and the army, despite the peace agreement signed in 2006. Negotiations have not made significant progress since August of that year.

The political freedom index (PFI) from Freedom House confirms the 2007 trend in Sub-Saharan Africa towards more setbacks than gains during the year for civil and political rights. The PFI is based on measures of several components of political freedom such as: free and fair elections; honest tabulation of ballots; the extent to which citizens are free to organise in different political parties or other political groupings of their choice; whether there is a significant vote for the opposition and a realistic possibility of coming to power through elections; self-determination, and freedom from any kind of domination; reasonable self-determination for cultural, ethnic, religious and other minority groups; and the extent to which political power is decentralised.

Peace and Security

According to the Heidelberg Institute for International Conflict Research[19], the number of conflicts[20] in Africa decreased from 80 in 2006 to 78

19 Heidelberg Institute for International Conflict Research (2007), *Conflict Barometer* 2007.

20 According to *Conflict Barometer* a conflict is "the clashing of interests (positional differences) over national values of some duration and magnitude between at least two parties (organised groups, states, groups of states, organisations) that are determined to pursue their interests and win their cases. A conflict is considered to be a severe crisis if violent force is repeatedly used in an organised way. A war is a type of violent conflict in which violent force is used with a certain continuity in an organised and systematic way. The conflict parties exercise extensive measures, depending on the situation. The extent of destruction is massive and of long duration".

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Table 6 - **Freedom in Africa, countries subscores**[21]

Country	Political rights	Civil liberties	Status	2006
Algeria	6	5	Not Free	=
Angola	6	5	Not Free	=
Benin	2	2	Free	=
Burkina Faso	5	3	Partly Free	=
Burundi	3	5	Partly Free	=
Cameroon	6	6	Not Free	=
Cape Verde	1	1	Free	=
Central African Rep.	5	4	Partly Free	=
Chad	6	5	Not Free	=
Comoros	3 (impr. 1 pt)	4	Partly Free	improved
Congo (Rep))	6 (worse 1 pt)	5	Not Free	worsened
Congo (Dem Rep)	5 (impr.1 pt)	6	Not Free	improved
Côte d'Ivoire	6	6	Not Free	=
Djibouti	5	5	Partly Free	=
Egypt	7 (worse 1pt)	6 (worse 1pt)	Not Free	worsened
Equatorial Guinea	7	6	Not Free	=
Eritrea	7	6	Not Free	=
Ethiopia	5	5	Partly Free	=
Gabon	6	4	Partly Free	=
Gambia	4 (impr. 1pt)	4	Partly Free	improved
Ghana	1	2	Free	=
Guinea	6	5	Not Free	=
Guinea-Bissau	4 (worse 1pt)	4	Partly Free	worsened
Kenya	3	3	Partly Free	=
Lesotho	2	3	Free	=
Liberia	3 (impr. 1pt)	4	Partly Free	improved
Libya	7	7	Not Free	=
Madagascar	3	3	Partly Free	=
Malawi	4	3(impr.1pt)	Partly Free	improved
Mali	2	2	Free	=
Mauritania	5 (impr. 1 pt)	4	Partly Free	improved
Mauritius	1	2(worse1pt)	Free	worsened
Morocco	5	4	Partly Free	=
Mozambique	3	4	Partly Free	=
Namibia	2	2	Free	=
Niger	3	3	Partly Free	=
Nigeria	4	4	Partly Free	=
Rwanda	6	5	Not Free	=
Senegal	2	3	Free	=
Sierra Leone	4	3	Partly Free	=
Somalia	7 (worse 1pt)	7	Not Free	worsened
South Africa	2 (worse 1pt)	2	Free	worsened
Sudan	7	6 (impr.1pt)	Not Free	improved
Swaziland	7	5	Not Free	=
Tanzania	4	3	Partly Free	=
Togo	6	5	Not Free	=
Tunisia	6	5	Not Free	=
Uganda	5	4	Partly Free	=
Zambia	4	4	Partly Free	=
Zimbabwe	7	6	Not Free	=

Source: Political freedom Index, Freedom House (www.freedomhouse.org)

StatLink http://dx.doi.org/10.1787/320534737750

21. In parenthesis : changes from 2006 index. Impr: improved; worse: worsened; =: unchanged. The smaller the index, the higher the level of freedom.

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in 2007, as four conflicts had ended in 2006 and only two new ones emerged in 2007 [22]. In Somalia clashes between the Transitional Federal Government (TFG) and Ethiopian troops, on the one hand, and groups loyal to the United Islamic Courts (UIC), on the other, have continued unabated, resulting in hundreds of thousands of new refugees. During the same period, the number of highly-violent conflicts declined significantly from 15 to nine[23]. Notwithstanding such progress, the continent still ranks second in the world, after the Middle East, in terms of the number of violent conflicts.

Out of 17 UN-led peace operations, eight are in Africa and account for almost half – approximately USD 3.3 billion - of the UN's total peacekeeping budget of USD 6.8 billion. In August 2007, the United Nations Secretary-General proposed a phased drawdown of the United Nations Mission in Liberia (UNMIL); a process that will be guided by clear benchmarks, so as not to undermine the country's fragile peace. In September, the UN Security Council approved the establishment of a joint UN-EU multidimensional presence in Chad and the Central African Republic, primarily to protect refugees from neighbouring Sudan and internally displaced Chadians. In Côte D'Ivoire, where modest progress was registered, the Security Council endorsed the recommendations of the Secretary-General on the need to align the role of UNOCI with the new phase of the peace process, as defined by the Ouagadougou Political Agreement.

The year 2007 saw the launch of a number of new regional initiatives under AU auspices. In Somalia, the AU started a peacekeeping mission intended to guarantee stability and pave the way to the withdrawal of Ethiopian troops. In Darfur, a hybrid UN-AU mission took over from the African Union Mission in Sudan on 31 December 2007. Furthermore, AU observers are deployed along the border between DRC and Rwanda – with observers from the UN and the two parties — as well as in Southern Sudan. AU Liaison Officers, based in Asmara and Addis Ababa, contribute to the monitoring of the Temporary Security Zone between the two countries.

In order to mobilise further resources, on top of the replenishment of the African Peace Facility, the AU is currently working with the EU to explore options for establishing complementary funding arrangements. Efforts to operationalise the African Peace and Security Architecture (APSA), launched in Durban in 2002, are on-going: the members of the Panel of the Wise have been elected, the Continental Early Warning System (CEWS) is currently under implementation, the African Stand-by Force (ASF), relying on both military and civilian personnel, has finalised the overall set of workshops. Currently, work is underway to develop the capacities of the AU through the ASF to provide rapid reaction in situations requiring immediate action.

Electoral processes

More than 54 million Africans participated in the 19 presidential and parliamentary elections held in 18 African countries in 2007. At 32.9 per cent, the turnout rate was rather low, partly because in the two largest countries that went to the polls last year, Nigeria and Egypt, only 13.4 per cent and 31.2 per cent of the registered voters cast their ballots. Algeria also experienced massive abstention. Two incumbent heads of state were re-elected by wide margins in West Africa – Amadou Toumani Touré in Mali (71.2 per cent) and Abdoulaye Wade in Senegal (55.9 per cent). New presidents were elected after two rounds of elections in Mauritania (Sidi Ould Cheikh Abdallahi with 52.9 per cent) and Sierra Leone (Ernest Bai Koroma with 54.6 per cent). On the other hand, full and accurate final results are not yet available for Nigeria at the time of writing, although Umaru Musa Yar'Adua received roughly four times as many votes as the second-ranked candidate. The April polls were branded "not credible" by European Union observers because of the

22 Severe crises ended in Guinea-Bissau, Ethiopia, Senegal and Eastern and South Sudan, but emerged in Kenya and in Ethiopia (between the Ogaden National Liberation Front (ONLF) and the Ethiopian Government).

23 Among the higly violent conflicts which turned into latent conflicts there are the clashes between the Ituri militia and government forces, and with the Mayi-Mayi and the violent strife between the Guji and Borena groups in Ethiopia. For the full list, please see the 2007 Conflict Barometer at http://www.hiik.de/konfliktbarometer/index.html.en

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Table 7 - **Elections in Africa, 2007-08**

	2007	2008
Algeria	Parliamentary (17 May)	
Angola		Parliamentary (5 Sept)
Benin	Parliamentary (31 Mar)	
Botswana		
Burkina Faso	Parliamentary (6 May)	
Burundi		
Cameroon	Parliamentary (22 Jul and 30 Sept)	
Cape Verde		
Central African Rep.		
Chad		
Congo	Parliamentary (24 Jun and 5 Aug)	
Congo, Dem. Rep.	Senate (19 Jan)	
Côte d'Ivoire		Presidential and Parliamentary (Oct)
Djibouti		National Assembly 8 Feb
Egypt	Parliamentary (11 and 18 June)	
Ethiopia	Presidential (9 Oct)	
Gabon	Partial parliamentary and senatorial (10 Jun and 1 Jul)	
Gambia	Parliamentary (25 Jan)	
Ghana		Presidential (Dec)
Guinea		Presidential (Dec)
Guinea-Bissau		
Kenya	Presidential (27 Dec)	
Lesotho	Parliamentary (17 Feb and 9 Mar)	
Liberia		
Madagascar	Referendum (4 Apr) and Parliamentary (23 Sept)	
Mali	Presidential (29 Apr and 13 May) and Parliamentary (1 and 22 Jul)	
Mauritania	Parliamentary (21 January and 4 February) and Presidential (11 Mar)	
Mauritius		
Morocco	Parliamentary (7 Sept)	
Mozambique		
Nigeria	Presidential and Parliamentary (21 and 26 Apr)	
Rwanda		
São Tomé and Principe		
Senegal	Presidential (25 Feb), Assembly (3 June) and Senate (19 Aug)	
Seychelles	Parliamentary (10 and 12 May)	
Sierra Leone	Presidential and parliamentary (11 Aug)	
South Africa		
Tanzania		
Togo	Parliamentary (14 October)	
Tunisia		
Uganda		
Zambia		
Zimbabwe		Presidential and Parliamentary (29 Mar)

Source: www.electionguide.org and http://africanelections.tripod.com/

StatLink http://dx.doi.org/10.1787/320554708701

level of cheating and violence. In February 2008, Nigerian judges dismissed a case calling for a rerun on the grounds of mass fraud. A referendum in Madagascar to introduce emergency powers for the President, adopt English as the third official language, and redefine the country's administrative divisions, was approved by a 75.3 per cent majority (although voter turnout was only 43.7 per cent). Civil society harshly criticised the Egyptian government for seriously threatening civil rights with the referendum held to modify the

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Constitution in the framework of the fight against terrorism.

In Kenya, the 27 December presidential election was contested and sparked dramatic political violence. Mediation between the government and the opposition was led by former UN Secretary General Kofi Annan. The bans on political rallies and live media broadcasts were lifted in February 2008, allowing leaders to hold peace rallies and securing a tentative return to calm. However, a return to pre-election normalcy requires full settlement of the dispute. Major elections in 2008 are to be held in Angola (for Parliament), in Ghana, Guinea and Zimbabwe for President, and possibly in Côte d'Ivoire.

Corruption

According to Transparency International data, out of 52 African countries for which the 2007 CPI perception index is available, only Botswana and South Africa are listed in the world's top quartile scoring above five, 10 countries are in the second, 20 are in the third, and 20 in the lowest. Corruption and lack of transparency remain a serious challenge across the entire continent where 36 countries score below three. Making comparisons from one year to another remains problematic. However, the 2007 CPI results show that Africa is producing encouraging results in the fight against corruption. Across the continent, several countries recorded significant improvement, including Namibia, Seychelles, South Africa and Swaziland. Three out of those four nations have ratified the United Nations Convention against Corruption. On the other hand, conditions have deteriorated in a few countries (Burkina Faso, Egypt, Mauritius, and Mauritania). No significant changes have been observed for countries at the bottom of the list.

In 2007, Angola signed the African Union Convention on Preventing and Combating Corruption, bringing the number of African countries having signed to 41 out of 53 since 2003. In addition, thanks to the 6 new ratifications, including Ethiopia, Ghana, Kenya, Liberia, Senegal and Zambia the convention can now enter into force.

This general progress towards good governance is also reflected in the African Peer Review Mechanism (APRM) process, launched in July 2002 in the framework of the NEPAD. More and more African countries are seizing the opportunity to show their commitment to improving economic and political governance. To date, 28 countries have acceded to the APRM process, of those, 14 have yet to launch the APRM. The remaining 14 have established their national structures and are at various stages of implementation. The review report for South Africa was published in 2007 and Nigeria is expected to complete the assessment process in 2008, which covers the areas of democratic and political governance, economic governance and management, corporate governance and socio-economic development.

In October 2007, an expert working session was held in South Africa in preparation for the Algiers workshop on streamlining and fast-tracking the APRM process. The workshop undertook a detailed review of the experience recorded since the launch of the APRM, relying on the cases the five countries already reviewed - Ghana, Rwanda, Kenya, Algeria and South Africa - and the other countries that are in an advanced stage in the process – Nigeria, Uganda and Benin. Proposals emerged to streamline and fast track the process by the end of 2008.

The review recognised that a certain number of problems were common to almost all peer reviewed countries, including difficulties in managing diversity, unemployment, corruption, poverty and inequality, capacity constraints and poor service delivery, skill shortage, poor access to land for large shares of population. The latter issue is often contentious and politically sensitive.

The membership in the Extractive Industries Transparency Initiative (EITI) of 16 African countries makes a real difference in terms of economic and political governance. For example Gabon has lifted suspensions on 22 NGOs after the government was confronted with the fact that the ban was incompatible with Gabon's membership of the EITI, which champions dialogue between governments, industry, and civil society.

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Table 8 - Corruption Perception Indexes (CPI) for African Countries, 2006 and 2007

Country	Global Rank 2007	CPI 2007	Global Rank 2006	CPI 2006
Botswana	38	5.4	37	5.6
South Africa	43	5.1	51	4.6
Cape Verde	49	4.9	n/a	n/a
Mauritius	53	4.7	42	5.1
Namibia	57	4.5	55	4.1
Seychelles	57	4.5	63	3.6
Tunisia	61	4.2	51	4.6
Ghana	69	3.7	70	3.3
Senegal	71	3.6	70	3.3
Morocco	72	3.5	79	3.2
Gabon	84	3.3	90	3.0
Swaziland	84	3.3	121	2.5
Lesotho	84	3.3	79	3.2
Madagascar	94	3.2	84	3.1
Tanzania	94	3.2	93	2.9
Algeria	99	3.0	84	3.1
Burkina Faso	105	2.9	79	3.2
Egypt	105	2.9	70	3.3
Eritrea	111	2.8	93	2.9
Rwanda	111	2.8	121	2.5
Mozambique	111	2.8	99	2.8
Uganda	111	2.8	105	2.7
Mali	118	2.7	99	2.8
Malawi	118	2.7	105	2.7
Benin	118	2.7	121	2.5
Zambia	123	2.6	111	2.6
Mauritania	123	2.6	84	3.1
Niger	123	2.6	138	2.3
Burundi	131	2.5	130	2.4
Ethiopia	138	2.4	130	2.4
Cameroon	138	2.4	138	2.3
Gambia	143	2.3	121	2.5
Togo	143	2.3	130	2.4
Angola	147	2.2	142	2.2
Nigeria	147	2.2	142	2.2
Sierra Leone	150	2.1	142	2.2
Zimbabwe	150	2.1	130	2.4
Côte d'Ivoire	150	2.1	151	2.1
Congo, Rep	150	2.1	142	2.2
Kenya	150	2.1	142	2.2
Central African Republic	162	2.0	130	2.4
Equatorial Guinea	168	1.9	151	2.1
Guinea	168	1.9	160	1.9
Congo, Dem Rep	168	1.9	156	2.0
Sudan	172	1.8	156	2.0
Chad	172	1.8	156	2.0
Libya	n/a	n/a	105	2.7

Source: Transparency International.

StatLink http://dx.doi.org/10.1787/320572784450

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Table 9 - African Index of Economic Freedom for 2000-07

World rank	Country	2008 Score	2007 Score	2006 Score	2005 Score	2004 Score	2003 Score	2002 Score	2001 Score
18	Mauritius	72.3	69.2	67.5	67.2	64.3	64.4	67.7	66.4
36	Botswana	68.6	68.5	69.2	69.6	69.9	68.6	66.2	66.8
52	Tunisia	59.3	59.6	56.8	54.8	58.4	58.1	60.2	60.8
57	South Africa	63.2	63.4	63.5	62.7	66.3	67.1	64.0	63.8
65	Madagascar	62.4	61.1	61.1	63.2	60.9	62.8	56.8	53.9
72	Namibia	61.0	63.2	60.3	61.0	62.4	67.3	65.1	64.8
82	Kenya	59.6	59.9	60.0	58.2	57.7	58.6	58.2	57.6
84	Togo	48.8	49.7	47.3	48.1	47.0	46.8	45.2	45.3
85	Egypt	59.2	55.1	53.9	56.4	55.5	55.3	54.1	51.5
88	Cape Verde	58.4	57.1	59.2	58.3	58.1	56.1	57.6	56.3
91	Senegal	58.2	58.1	56.2	57.9	58.9	58.1	58.6	58.7
94	Ghana	56.7	57.3	55.3	56.3	59.1	58.2	57.2	58.0
95	Gambia. The	56.6	57.4	57.1	56.3	55.3	56.3	57.7	56.6
96	Mozambique	56.6	55.9	53.1	56.0	57.2	58.6	57.7	59.2
98	Morocco	56.4	57.2	52.3	52.6	56.7	57.8	59.0	63.9
99	Uganda	64.4	63.7	64.5	63.5	64.1	60.1	61.0	60.4
102	Algeria	55.7	55.0	55.3	52.7	58.1	57.7	61.0	57.3
103	Burkina Faso	55.6	55.1	55.8	56.5	58.0	58.9	58.8	56.7
104	Mali	55.5	54.7	54.1	57.3	56.6	58.6	61.1	60.1
105	Nigeria	55.5	56.0	48.4	48.2	49.2	49.5	50.9	49.6
109	Mauritania	55.0	53.6	55.6	59.1	61.8	59.0	52.5	48.5
110	Benin	55.0	55.0	53.9	52.2	54.6	54.9	57.3	60.1
111	Côte d'Ivoire	54.9	56.0	57.2	57.6	57.8	56.7	57.3	54.8
116	Rwanda	54.1	52.4	52.8	51.6	53.3	47.8	50.4	45.4
117	Cameroon	54.0	55.4	54.3	52.7	52.3	52.7	52.8	53.3
120	Malawi	53.8	54.0	56.5	54.7	53.6	53.2	56.9	56.2
122	Gabon	53.6	54.2	55.5	54.2	57.1	58.7	58.0	55.0
124	Ethiopia	53.2	54.4	51.7	51.9	54.5	48.8	49.8	48.9
127	Guinea	52.8	54.5	52.9	57.4	56.1	54.6	52.9	58.4
128	Niger	52.7	53.1	52.4	54.0	54.6	54.2	48.2	48.9
129	Equat.Guinea	52.5	54.1	52.4	54.2	53.3	53.1	46.4	47.9
131	Djibouti	52.3	53.5	54.3	56.4	55.6	55.7	57.8	58.3
132	Lesotho	51.9	53.1	54.6	54.1	50.3	52.0	48.9	50.6
139	Sierra Leone	48.9	47.6	45.8	45.4	43.6	42.2	-	-
140	Tanzania	56.4	56.8	58.5	56.3	60.1	56.9	58.3	54.9
141	Cent. Afr. Rep.	48.2	50.3	53.9	56.2	57.5	60.0	59.8	-
142	Chad	47.7	50.0	49.8	52.0	53.1	52.6	49.2	46.4
143	Angola	47.1	45.2	43.9	-	-	-	-	-
145	Burundi	46.3	47.1	48.7	-	-	-	-	-
146	Congo. Rep.	45.2	44.4	43.7	46.1	45.9	47.7	45.3	44.3
147	Guinea Bissau	45.1	46.8	47.2	46.7	42.6	43.1	42.3	42.5
154	Libya	38.7	37.0	33.2	32.8	31.5	34.6	35.4	34.0
154	Zimbabwe	29.8	31.9	33.4	35.1	34.4	36.7	36.7	38.8
155	Zambia	56.4	57.2	57.6	55.6	54.9	55.3	59.6	59.5
-	Swaziland	-	60.6	61.8	59.9	58.6	59.6	60.9	63.6
Sub-Saharan Africa		**54.4**	**54.8**	**54.5**	**55.3**	**55.4**	**55.3**	**55.3**	**54.9**
North Africa		**54.0**	**52.9**	**51.2**	**51.4**	**53.7**	**53.7**	**53.7**	**52.7**

Source: The Heritage Foundation/The Wall Street Journal, 2008 Index of Economic Freedom. http://www.heritage.org/Index/.

StatLink http://dx.doi.org/10.1787/320585744721

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Economic Governance

The business environment improved in 2007, although on average Africa is still the lowest ranked region with respect to the ease of doing business. The top performers, Mauritius and South Africa, are well within the range of OECD countries (see table 9). However, 9 out of the 10 worst performers are also African countries.

What is encouraging is that out of the 10 top reformers world-wide three are African, with Egypt coming out on top, reforming in half of the areas covered, namely starting a business, dealing with licenses, registering property, access to credit, and trading across borders. The other two are Ghana and Kenya. Except for Algeria and Zimbabwe all African countries made at least one positive reform,[24] with more reforms made in southern Africa and relatively fewer in West and Central Africa.

Countries with a favourable business environment not only have a faster growing private sector but also have more women entrepreneurs. For example in Uganda the increase in first-time business owners was 33 per cent higher for women than men after simplifications of procedures for business start-up.

Developing Technical and Vocational Skills in Africa

The Rationale for Technical and Vocational Skills Development

African countries are working towards improving the quality and skills levels of their labour forces. The increasing recognition that higher technical and vocational skills are crucial in enhancing competitiveness and contributing to social inclusion, decent employment, and poverty reduction has been a strong incentive for reform. The term technical and vocational skills development (TVSD) refers to the acquisition of knowledge, practical competencies, knowhow and attitudes necessary to perform a certain trade or occupation in the labour market. For the scope of this report, TVSD corresponds to the broad UNESCO and ILO definition of technical and vocational education and training (TVET) (see Box 9). Competencies can be acquired either through structured training in public or private TVET schools and centres, or through practical experience on the job in enterprises (work-place training in the formal sector and informal apprenticeship), or both (the so-called "dual" training, involving a combination of work-place and institution-based training).

It is generally recognised (and is key to the ILO Decent Work Agenda) that the development of relevant skills is an important instrument for improving productivity and working conditions, and the promotion of decent work in the informal economy, which represents the major employer in Africa. Education and skills can open doors to economically and socially rewarding jobs and can help the development of small informal-sector businesses, allow the re-insertion of displaced workers and migrants, and support the transition from school to work for school drop-outs and graduates. Ultimately, developing job-related competencies among the poor, the youth and the vulnerable is recognised as crucial to progress in reducing poverty. The development of job-related skills is, therefore, not only part of the countries' human-resource strategies but also of their economic-growth and poverty-reduction strategies. The inclusion of a skills-development component in country poverty reduction strategy papers (PRSPs) and national development plans is, thus, becoming more common. South Africa, for example, has put the development of skills at the centre of the new Country Development Strategy (Accelerated and Shared Growth Initiative-AsgiSA), which aims at halving poverty and unemployment by 2014.

Generally, investing in knowledge and skills is seen by many governments as the cornerstone of developing an employable and globally competitive work force. A skilled and knowledgeable work force improves the investment climate and is a major determinant of

24. Libya is not included in the ranking.

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Box 9 - **Definitions**

The definition of technical and vocational skills development used here corresponds to the inclusive and broad definition of technical and vocational education and training used in the UNESCO and ILO Recommendations on TVET for the Twenty-first Century: "as a comprehensive term referring to those aspects of the educational process involving, in addition to general education, the study of technologies and related sciences, and the acquisition of practical skills, attitudes, understanding and knowledge relating to occupations in various sectors of economic and social life." TVET refers, therefore, to range of learning experiences that are relevant for the world of work and which may occur in a variety of learning contexts, including educational institutions and work places. TVET encompasses formal learning (provided in educational institutions or by public/private providers, as well as on the job) and non-formal learning (learning within or outside the work place, usually outside educational institutions, such as traditional apprenticeship), aiming to ensure that all members of the community have access to the pathways of life-long learning. TVET includes both initial vocational training undertaken by young people prior to entering the labour market and continuing vocational training undertaken by adults whilst in work or during periods in which they are economically inactive. The Recommendations understand technical and vocational education as: "(a) an integral part of general education; (b) a means of preparing for occupational fields and for effective participation in the world of work; (c) an aspect of lifelong learning and a preparation for responsible citizenship; (d) an instrument for promoting environmentally sound sustainable development; (e) a method of facilitating poverty alleviation."

In the same vein the report's definition of TVSD is in line with the definition of skills development by King and Palmer, 2006. "Skill Development is not equated with formal technical, vocational and agricultural education and training alone, but is used more generally to refer also to the productive capacities acquired through all levels of education and training occurring in formal, non-formal and on-the-job settings, which enable individuals in all areas of the economy to become fully and productively engaged in livelihoods and to have the opportunity to adapt these capacities to meet the changing demands and opportunities of the economy and labour market."

Many African countries and donor agencies use different terminologies to talk about the same concept. "technical and vocational skills development" or just "skills development" is increasingly used by many donor agencies as the preferred term for what used to be called VET or TVET. Some consider that "skills development" is a much broader concept than TVET that sometimes is seen as referring to formal and informal sources for skills acquisition, excluding informal learning on the job. In general African country-level policy makers and employers continue to use the TVET definition to define training in formal, non-formal and on-the-job settings. For the scope of this year's *AEO*, we will use the terms TVSD and TVET interchangeably, when the latter is intended according to the broad UNESCO/ILO definition, irrespective of where the skills are acquired.

Source: UNESCO (2002), *Technical and Vocational Education and Training for the Twenty-first Century. UNESCO and ILO Recommendations.* http://unesdoc.unesco.org ; King, K. and Palmer, R. (2006) *Skills Development and Poverty Reduction: the State of the Art, Post-basic Education and Training, Working Paper no. 7*, Centre of African Studies, University of Edinburgh.

productivity growth and international competitiveness. Human-resource development strategies in African countries aim to pursue the development of skills at all levels of the spectrum (low, intermediate, and high levels), but each country needs to emphasise the mix of skills that best corresponds to its stage of economic development and the needs of the local labour market. A country like South Africa and most of the North African countries need to undertake multi-pronged approaches to skills development that can increase productivity in the formal sector – some of which is highly capital-intensive – while, at the same time, expanding employment opportunities for the low-skilled.

However, the impact of technical and vocational training on the "employability"[25] of the labour force depends not only on the quality of the skills acquired, but on the dynamism of the economic environment in which they can be applied. The returns to increasing investments in skills development tend to be high in rapidly growing economies, and can be low or non-

25. The term "employability" relates to portable competencies and qualifications that enhance an individual's capacity to make use of the education and training opportunities available in order to secure and retain decent work, to progress within the enterprise and between jobs, and to cope with changing technology and labour market conditions. Source: ILO recommendations 195, 2005.

existent in situations characterised by weak growth and poor governance. Among the most critical supporting factors of better skills utilisation will be the macro-economic reforms necessary to promote growth, and thus expand the opportunities for business development and employment. Strategies to promote national growth should emphasise skills development for the sectors with the most promising employment prospects if they are to have a maximum impact.

Important reforms to promote vocational and technical skills have been initiated both in the formal and informal sectors in a number of countries reflecting a more integrated approach to education, training and employment. A renewed emphasis on skills development has also been echoed by the African Development Bank (AfDB) 2007 High Level Panel which has recommended skills development as a critical pillar of the Bank's support to African countries in the 21st Century (See Box 10).

Country reviews in this edition of the *African Economic Outlook* show that technical and vocational systems in Africa remain influenced by multiple constraints that limit their expansion and impact. Many programmes are not adapted to the needs of the economy and the responsibility for training is fragmented among different agencies. Experiments and TVSD reforms in Africa generally remain small-scale. The challenge is now to scale-up on the basis of successful pilot programmes. TVSD reform strategies with sustainable financing are rare, the stakeholders are not always prepared to play their role and suffer from limited capacity. In addition, the number of enterprises capable of offering work-place training opportunities is limited, while many training institutions have poor delivery capacity and commonly lack funding. In turn, training programmes do not produce skilled graduates because training is of poor quality and the equipment obsolete. Many youths cannot access formal TVET, and

Box 10 - AfDB High Level Panel Recommendation on Skills Development

"We recommend that the Bank focus on vocational training, higher education, and science and technology. Well targeted vocational training will better align worker skills with the demands of the job market. A key goal would be to increase the percentage of secondary students receiving vocational and technical training in Africa, currently the lowest in the world. Higher education, particularly in science and technology, will help Africa close the knowledge and technology gap and adapt and use modern equipment and processes, allowing Africa to link into global supply chains. Studies suggest that increasing higher education completion rates can boost growth and productivity considerably through technology adaptation, entrepreneurship, and higher income and savings.

The Bank has already developed some experience and capacity in these areas. A preliminary analysis of the Bank's education portfolio indicates that while lending has been fairly scattered, technical and vocational training and skills development have been the largest areas of concentration, accounting for roughly 37 per cent of education lending, with an additional 10 per cent going to higher education. It is clear, though, that the Bank will have to build internal capacity and expertise to play a meaningful role in these more specialised areas of the education sector.

To maximise synergies with the other areas of focus, we recommend that the Bank should give priority to:

- **National and regional centres of excellence**. The creation of centres of excellence should be supported to promote the harmonisation of training programmes, to provide platforms for scientific and technological research and exchanges with non-African institutions, and to establish networks to link students and researchers.
- **Infrastructure for education**. There is relatively little donor support for educational facilities. As part of its infrastructure effort, the Bank should finance the building, upgrading, and rehabilitating of select education institutions, including research laboratories.
- **Links to the private sector**. Private investments in Africa are often constrained by the lack of local skilled and semiskilled labour. Foreign investors may resort to expatriate labour, increasing costs and limiting the potential development benefits from technology transfers and job generation. The Bank should link its work in the private sector with education and training programmes that support the use of local labour and develop linkages that can add value in country—for example, in agriculture and agribusiness, in extractive industries, and in tourism.

Source: African Development Bank.

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few countries have training policies which emphasise skills development in the informal sector other obstacles include the low prestige of formal TVET in the eyes of the general public and parents who consider it to be an option suitable only for pupils who perform poorly in general education.

This edition of the *African Economic Outlook* provides a snapshot of technical and vocational skills development in 34 African countries, exploring challenges and bottlenecks, highlighting good practices, and identifying priorities for further research. This review also explores specific socio-economic issues, such as increasing youth unemployment, devising appropriate TVSD strategies in fragile states, and managing the effects of migration on a country's stock of skilled workers.

1 - Brief History of the Evolution of Technical and Vocational Skills in National and International Agendas

Over the last 40 years, the importance attached to technical and vocational skills in national and international development agendas has varied. During the 1960s and 1970s, TVSD became popular with many African countries as a way to ease the problem of unemployment among school leavers. However, in the 1980s, budgetary pressures resulted in many countries reducing the share of government budgets for public education, including formal TVET. Rate of return studies, which showed that returns to general education were higher than to vocational education, also undermined much external support for vocational education and training.[26] TVSD has been gaining momentum since the mid 2000s (see Box 11).[27] This upsurge in interest was greatly influenced by evidence of TVSD's key, transformative role in East Asia and its continuing importance in the OECD countries.[28] During the 1990s, the international policy debate on education was mainly focused on basic education. Although skills training, apprenticeships, and formal TVET programmes were seen as components of the expanded vision of basic education at the World Conference on Education for All (WCEFA) in Jomtien in 1990, they have not featured substantially as a core element of the global agenda of education since that time. Given the important delays faced by the continent, and of sub-Saharan Africa in particular, in terms of primary enrolment rates, many donor agencies focused on the Jomtien challenge of delivering universal access to, and completion of, primary education as their priority, which has led to a shift of resources both within national budgets and donor support towards expanding primary education, too often without regard for quality, at the expense of secondary and tertiary education, including TVSD. This tendency was re-enforced by the International Development Targets in 1996, with one target being universal primary education (UPE). This target was in turn incorporated in the Millennium Development Goals (MDG2) in 2000.

The expansion of primary education during the 1990s has put enormous pressures on the still small secondary school and formal TVET systems of many African countries by increasing the supply of candidates. In the mid 2000s, recognising that universal primary education entails the need for coherent pathways to further education and to skills for employment and self-employment, an international consensus was reached on the need for a holistic, integrated, inter-sectoral approach to education, including TVSD. This new vision has driven several TVSD system reforms which are currently taking place in Africa and led to a reappraisal of donors' support strategies. The principles of a holistic approach to technical skills developments were accepted by the Commission for Africa, the Millennium Project, incorporated in new World Bank policies on secondary,

26. "Philip Foster in his "Vocational School Fallacy" (Foster 1965) pointed out that it was a fallacy to assume that introducing vocational subjects into a school curriculum could have some impact on orientating the aspirations of youth towards manual work. Rather, the labour market acted as the largest determinant of youth aspirations towards work". *DFID Practice Paper, Technical and Vocational Skills Development*, 2007.

27. King, K. and R. Palmer, *NORRAG News 38*, January 2007, www.norrag.org

28. Atchoarena, D., "Reviewing technical and vocational education and training" in *Norrag News 38*, 2007, 2007.

higher and general education, and on skill development, and reflected in the World Development Report 2007 on Youth. TVSD has been mainstreamed into the agendas of both the ILO and UNESCO.

The ILO is primarily concerned with technical and vocational education and training in relation to employment creation and welfare of workers. UNESCO is primarily concerned with technical and vocational education as part of the education of human beings equipped to live in a society dependent upon technological development. In its Plan of Action for the Second Decade of Education (2006–2015), the AU recognises the importance of TVET as a means of empowering individuals to take control of their lives and recommends therefore the integration of vocational training into the general education system. However, the integration of TVSD strategies into comprehensive employment policies remains a challenge in most African countries.

Box 11 - Main Events in the Building of an International Consensus and African Responses to TVSD Challenges since the 1990s

1990 – World Conference on Education for All (WCEFA, 5–9 March), Jomtien (Thailand)
1991 – World Bank report on Vocational and Technical Education and Training
1996 – OECD's Development Assistance Committee (DAC) document, Shaping the 21st century: The contribution of development co-operation (OECD DAC, 1996)
1996 – Establishment of the Working Group for International Co-operation in Vocational and Technical Skills Development
1998 – International Forum, International Organisation of the Francophonie, Bamako
1999 – Second International Congress on Technical and Vocational Education, Seoul
2000 – World Conference on Education: Promotion of the Six Dakar Goals on EFA, Dakar (Senegal)
2000 – UN Millennium Declaration (September)2000 – ILO Conclusions concerning Human Resources Training and Development
2001 – UNESCO Revised Recommendation concerning Technical and Vocational Education
2004 – AU Extraordinary Summit on Employment and Poverty Alleviation in Africa
2004 – World Bank report on skills development in Sub-Saharan Africa
2005 – The Commission for Africa report
2005 – ILO Recommendation concerning Human Resources Development: Education, Training and Lifelong Learning
2006 – World Bank World Development Report
2007 – Development and the Next Generation
2007 – Meeting of the Bureau of the Conference of Ministers of Education of the African Union: revitalizing TVET
2007 – First Group of Experts on Skills Development (GEFOP) meeting (November), Paris (France)
2008 – Association for the Development of Education in Africa ADEA Biennale (May), Maputo (Mozambique)

Taking Stock of Technical and Vocational Skills Development

1 - Delivery Modalities

A review of TVSD systems in African countries reveals that there is a wide range of modalities and actors through which technical and vocational skills are delivered. Table 10 summarises the strengths and weaknesses of different modalities of TVSD: formal TVET in public vocational training centres and schools; non-governmental institutions; the informal/unregistered sector (i.e. traditional apprenticeship); and enterprise-based training. These modalities are not necessarily mutually exclusive. Many students combine several of them in pursuing their pathways to work. Most countries have a primarily school-based model, where education is provided in specific schools or colleges with workshops for the practical training. In general, students enter the vocational education track at the end of primary school, corresponding to 6 – 8 years of education as in countries like Burkina Faso and Kenya, or at the end of lower secondary school, which corresponds to 9 – 12 years of what is called basic education in, e.g. Ghana, Mali, Nigeria, and Swaziland. The duration of school-based technical and vocational education is between three and six years, depending on the country and the model. Some countries, e.g. Ghana,

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Table 10 - **TVSD Modalities**

Mode	Strengths	Weaknesses
Public training centres	Have a capacity to deliver courses in capital- intensive trades Follow-up national policies and may address priority skills needs enabling to support national economic and social development	Often inflexible and irresponsive to market demand routinely deliver the same courses without regard to demand Tend to deliver courses with outdated curricula Tend to oversupply graduates in the limited range of occupations and saturate labour markets Commonly under-funded with serious impact felt on quality and access Overly centralized training systems leave to institutions little freedom for flexibility and initiative Unable to offer broad access to training because of limited seating capacity and financial constraints
Non-governmental organisations (NGOs)	Important providers of training in many African countries Commonly provide training for vulnerable groups free of charge or for low fees High proportion of women in training Better managed and more responsive to the labour market needs and graduate employability	Show large variation of quality Tend to focus on the training requiring low capital investments
Private training providers	Fastest growing segment of training provision Able to absorb the growing demand for technical education and skills training flexibly	The range of programmes and quality of delivery vary and may be rather low High tuitions fees tend to exclude the poorest segments of the population More operationally flexible and less responsive to the market demand for skills
Traditional apprenticeship	Major training avenue in the informal economy Based on on- the- job instruction and show high relevance to actual job requirements Offer training opportunities to the poorest segments of the population Self-financed and self-regulated In general, very effective	Training is often of poor quality Requires long periods for acquiring a trade Skills acquired are often limited to the demands of the informal economy and may be unsuitable to the needs of modern industry
Enterprise-based training	Self-financed and self-regulated Based on actual tasks performed by workers Closely linked to existing production technology	Training is selective - in particular in large firms where it targets highly skilled positions and workers with highest level of education Small firms are less likely to train their workers[29]

Sources: OECD Development Centre adapted from African Development Bank, "New Trends in Skills Development", December 2007, Paris and ILO Skills and Employability Department, Geneva.

StatLink http://dx.doi.org/10.1787/320602570474

Senegal, and Swaziland, in an attempt to expose young people to pre-employment skills have incorporated basic vocational skills into the lower secondary school curricula.

Oversight responsibility for TVSD is in general shared between the ministries responsible for education or technical education and labour or employment, although some specialised vocational training

29. Atchoarena D., *op. cit.*.

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programmes (in agriculture, health, transport, etc.) fall under the supervision of the sector ministries. [30]

Some countries adopt an enterprise-based model through apprenticeships. Education and training alternate between theoretical education in a school context and practical training in an enterprise (which account for about 50-70 per cent of the pupils' time). In other countries, the delivery systems combine school-based vocational education and apprenticeship. The first one or two years of upper secondary vocational education are full-time and school based. This period is followed by apprenticeship for another two years of practical occupation-related company-based training. This model is an attempt to combine advantages of the school-based model (to give the broad-based knowledge and skills) and of the enterprise-based model (to provide skills and attitudes expected by the employers and to facilitate the school to work transition).[31]

On average, formal TVET programmes in Africa reach fewer than 5 per cent of the student population in most countries. Public vocational training centres tend to have a wide geographical coverage and to focus on training in skills required by highly capital-intensive occupations. Both the quantity and quality of public vocational training centres are highly dependent on government budgets. Moreover, since budget allocations to public training providers are usually unrelated to objectives and outcome measures – such as success in placing trainees in productive employment – there is little incentive for institutional training providers to align training courses offered with the needs of the labour market. Consequently, most centres have little interaction with the private sector. Most public training centres do not develop training programmes focusing on the particular needs of the informal sector nor do they cater well for the special needs of minorities and disadvantaged groups.[32] This is the case for instance of Côte d'Ivoire, Madagascar, Mali and Senegal.[33] Originally modelled on the French school system, TVET in these countries has often not fully taken into account the possibilities of traditional apprenticeship for meeting the needs of the artisan sector which both provides jobs and often stands in need of improvement. This is mainly because their school-based TVET programmes have maintained a fairly large amount of general content that is not relevant to the specific skills required for the informal sector.

Most budgetary resources finance operational expenses (in particular teachers' salaries), while very little is allocated to investment, and maintenance of equipment. This is particularly problematic in the training oriented to agriculture and industry which requires people trained in the maintenance of mechanical and electronic systems at every stage of production.

Non-governmental institutions are the most important providers of formal training in many African countries. These institutions can be commercial enterprises or non-profit institutions founded by NGOs or religious bodies. In Benin, Côte d'Ivoire, Mali and Niger, for example, private TVET centres train more than 65 per cent, 52 per cent, 75 per cent, and 66 per cent of trainees, respectively. In Uganda, 80 per cent of training is provided by private centres. Private providers are particularly active in the provision of training for the tertiary sector of the economy (business, commerce and information and communication technologies), which by nature requires less investment than training in industry or agriculture, which is usually provided by public institutions. In Niger, it is estimated that the cost for a trainee per year is about EUR 840 when is provided by the public sector and EUR 230 when the provider is the private sector. Nevertheless, the quality of private training provision may vary

30. African Union (2007), *Strategy to Revitalize Technical and Vocational Education and Training (TVET) in Africa Final Draft*, Addis Ababa.

31. Atchoarena D., *op. cit.*.

32. Ziderman, A. *Financing Vocational Training*, presentation at GEFOP Conference: Vocational Training at the Heart of Development Policies, Paris, November 12, 2007

33. Atchoarena D., Delluc A. (2002), *Revisiting Technical and Vocational Education in Sub-Saharan Africa: An Update on Trends, Innovations, and Challenges*. IIEP/Prg. DA/01.320. International Institute for Educational Planning, Paris.

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greatly. Governments can make better efforts to monitor the quality of private training provision while at the same time making better use of it. Indeed, the setting up of accreditation, quality assurance and funding provisions has been advocated by some experts as important measures to create a "level playing field" for competition between private and public TVET centres.

Traditional apprenticeships are the principal means of acquiring skills in urban Africa: young apprentices largely outnumber youth trained in the formal TVET system. For instance, in Senegal, some 400 000 young people are trained as apprentices annually compared to some 7 000 graduates from the formal vocational training centres; in Benin there are 240 000 apprentices versus 20 000 students enrolled in formal TVET schools at present [34]. According to a recent World Bank study, between 60 and 80 per cent of skill development in the Ghanaian labour market takes place through the apprentice system. Currently about 60 per cent of junior secondary school leavers who do not continue into higher education enter into apprenticeships. Informal apprenticeships are widespread because the educational attainment required for admission is lower, and it is more affordable since apprentices pay for training with their labour. Apprentices receive training in a trade and related skills preparing them mainly for self-employment in the informal economy.[35] In fact, the vast majority of contributing final workers and self-employed workers and owner-managers of small and medium-sized enterprises learn their skills in informal sectors.

These forms of training which are usually offered in artisan workshops owned by master craftspeople, prepare participants for trades, such as carpentry, masonry, auto-mechanics welding, foundry, photography, tailoring, dressmaking, cosmetics, and so on. Traditional apprenticeships are highly relevant to the real world of work, helping also to develop networks for aspiring entrepreneurs. They have proven to be cost-effective for delivering skills in an informal

Box 12 - The Informal Sector: An Important Reality Increasingly Acknowledged

Informal employment has been persistent and has even been rising in many regions of the world. According to the ILO definition, informal employment is defined as the "total number of informal jobs, whether carried out in formal sector enterprises, informal sector enterprises, or households" (ILO 2002). Informal jobs refer to work in unregistered businesses where labour and social protection legislation is not enforced, taxes are not collected, and there are no employment benefits. On the basis of this definition, several types of workers are identified: self-employed workers and owner-managers of informal firms, contributing family workers, informal employees (of formal and informal firms), and members of informal producers' co-operatives. In general, informal-sector employment in Africa accounts for about 90 per cent of the labour force. (In only three countries does the percentage of formal wage and salaried employment reach 80 per cent or higher, namely: Botswana, Mauritius, and South Africa). The livelihood of the large majority of workers on the continent depends on income-generating activities in the subsistence agricultural sector and in the urban informal economy. As an indication of its importance, the informal sector employs 95 per cent of workers in Benin, 90 per cent in Cameroon, Ethiopia and Senegal, and 31 per cent in South Africa. On average, it is estimated that size of the informal sector as share of non-agricultural employment in sub-Saharan Africa has increased from 68.1 per cent in 1988/89 to 74.8 per cent in 1998/99. According to field studies carried out by the *Agence Française de Développement* in seven African countries (Angola, Benin, Cameroon, Ethiopia, Morocco, Senegal, and South Africa), most school leavers, especially early school leavers, find jobs in the informal sector. With little access to formal vocational training, the vast majority resorts to makeshift mechanisms in the informal sector (on-the-job training, self-training or traditional apprenticeships). Overall, comparative analysis of the economic reality in African countries shows that the informal sector is an essential stepping stone to the labour market and employment for the vast majority of youth and adults. Thus, the informal sector occupies a multi-dimensional socio-economic position in African countries and the importance of including it in development policies must be fully acknowledged.

Source: POVNET Task Force on Employment and Labour Markets Conceptual Framework, 2008 and Richard Walther, ITG/AFD.

34. Walther, R., and E. Filipiak. 2007. *Vocational Training in the Informal Sector - or How to stimulate the economies of developing countries? Conclusions of a field survey in seven African countries*, Research Department, Agence Française de Développement (Paris, AFD).

35. ILO (2008), *Apprenticeship in the Informal Economy in Africa, Report of the Workshop, May 2007*, Skills and Employability Department, Geneva (forthcoming).

economy and enhancing the productivity of the informal sector. Often, such systems are more effective than pre-employment training; since trainees are more motivated and mature than in formal pre-employment training and can also enter without the formal qualifications needed for public vocational training centres. However, expanding apprenticeship and work experience beyond the traditional craft and technical trades and improving the quality of training is a major challenge. Lack of monitoring and quality assurance, compounded by the absence of formal recognition of apprentices' skills, contribute to the low employability of graduate apprentices (see Box 13).[36]

Nevertheless, some African countries, including Benin, Ghana and Mali are making important efforts to modernise traditional apprenticeship schemes and to integrate them into a national training system. This takes the form of dual apprenticeship systems, where craft enterprises co-operate with training centres to provide training and to issue certificates attesting the skills possessed by informal sector workers.

Enterprise-based training (formal apprenticeship) is regulated by law and based on a formal contract. It is delivered in enterprises, often complemented by training in publicly funded training institutions. Many African countries, for example, Benin, Ghana, Kenya, South Africa, and Tanzania have enacted formal apprenticeship laws regulating, among others, official registration of contracts; access to apprenticeship such as educational or age requirements; training duration; and skills assessment and certification procedures. This institutional arrangement however is applied by only a small number of enterprises. Formal apprenticeship therefore has been able to provide training to only a small share of young people in Africa, mostly in medium and large enterprises.[37] For example, in Kenya, between 1990 and 1996, an average of 750 craft apprentices was trained per year.[38] As in many countries, this low number of trainees is due, among others, to the limited ability of companies or their lack of incentives to offer apprenticeship training, the limited size of the public training systems, strict entry requirements for students who have to acquire at least Grade 8 of general schooling, and low demand by youth as labour market absorption rates and employability are usually low. There have been attempts at making apprenticeships more attractive. For instance, Ghana has made arrangements with private contractors to identify trades with high employability potential, to arrange for apprenticeships in workshops and to help graduates with job placement [39].

Box 13 - **The Problem of Traditional Apprenticeship in Senegal**

Despite its importance, traditional apprenticeship has always been at the marginal to public vocational training systems. This training approach, which arises from the mutual interests of master craftspeople and apprentices and which maintains itself through solidarity and traditional cultural values, suffers from weaknesses that impede its efficient integration into the national system:

- The level and content of qualifications is not well defined or standardised and is unrelated to national qualifications systems.
- A survey of the informal sector in Dakar reveals that the average number of years of study for apprentices is 2.8, while 35 per cent of respondents were illiterate.
- Considerable variance exists with regards to age and level of education at entry.
- The learning environment is precarious: fewer than 20 per cent of informal-sector enterprises had a permanent production site.

Source : Sanoussi DIAKITE, Engineering and professional training expert, Senegal

36. ILO Skills and Employability Department's contribution
37. World Bank (2006), *World Development Report 2007 - Development and the next generation* (Washington, D.C., World Bank).
38. Atchoarena, D. (ed.). (2000), *The transition of youth from school to work: Issues and Policies*, New Trends in Technical and Vocational Education (Paris, UNESCO/IIEP).
39. ILO (2005) *Skills Training and Employment Placement (STEP) Programme, Ghana: The Programme Document and Performance Appraisal.*

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2 - Access to Technical and Vocational Education in Africa

The only survey on access to formal TVET worldwide was conducted by the UNESCO Institute of Statistics in 2006. This publication provides recent statistics on technical and vocational education enrolment in Africa as a percentage of secondary school enrolment (see Box 14 below). Certainly, these statistics only show part of the whole picture because enrolment in formal TVET reflects only a small percentage of the total participation in training, neglecting the other TVSD modalities. Consequently, comparative data on TVET systems are difficult to compile.

Box 14 - **More and Better Data**

Quantitative analysis of formal TVET systems in Africa has been hampered by the shortage of comparable quantitative data on TVET participation, graduation and labour-market outcomes. National statistics on access to TVET are often not available, and even when they are, their quality is variable due to methodological difficulties in defining relevant indicators. Even the misrepresentation of TVET as being less relevant than other forms of education plays a role. Furthermore, whilst the data that do exist may meet some national information needs, they can rarely be used for cross-country comparisons...

Fortunately, comparable data are becoming increasingly available as these programmes become more visible and appreciated. UNESCO-UNEVOC and the UNESCO Institute for Statistics (UIS) have responded to the paucity of TVET data available on a global basis through the collection of cross-sectional data by more than 250 specialised TVET institutions in over 150 countries world-wide, including most African countries for the year 2005. If the effort to collect such data on a regular basis is successful, it will be of considerable assistance in monitoring the impact of TVET programmes. The important challenge ahead will be monitoring the quality of TVET the internal efficiency of providers, and the relevance of programmes.

Source: UIS/UNESCO, Montreal, 2006: "Participation in Formal and Vocational Education and Training Programmes Worldwide – An Initial Study."

Despite the shortcomings in the coverage, reliability and comparability of these data, the statistical tables reported in UIS/UNESCO (2006) and in UIS/UNESCO's 2007 Global Education Digest provide the clearest picture yet of what national-level data currently exist to describe access to formal TVET programmes within traditional education centres in Africa by ISCED level and type of subsequent education or destination, gender and age.

TVET provision in formal education systems takes place at the lower secondary (ISCED Level 2), upper secondary (ISCED Level 3), and post-secondary non-tertiary (ISCED Level 4) level, as well as through the provision at the first stage tertiary level (ISCED Level 5). Owing to the shortage of data available at ISCED Level 4 and Level 5, the present assessment focuses on total secondary enrolment, which includes ISCED Level 3 and ISCED Level 4.

On the basis of the percentage in total secondary enrolment of technical and vocational programmes in 2005, African countries can be grouped in three categories as shown in table 11. The first group encompasses 10 countries re-ordered according to ranking scores: Rwanda (36 per cent), Cameroon, DRC, Egypt, Libya, Congo, Mauritius, Benin, Algeria and Mali (10 per cent) all with a proportion of TVET enrolment in general secondary education with 10 per cent or more. The second group has a proportion of TVET enrolment in general secondary education between 5 per cent and 9 per cent. This group of 10 countries includes Burkina Faso (8 per cent), Burundi (8 per cent), Djibouti (8 per cent), Mozambique (8 per cent), Tunisia (8 per cent), Botswana, Morocco, South Africa, Cape Verde and Togo (5 per cent). Finally, the third group of 15 countries includes Mauritania (4 per cent), Uganda (4 per cent), Niger, Ethiopia, Ghana, Guinea-Bissau, Zambia, Chad, Eritrea, Gambia, Kenya, Lesotho, São Tomé and Principe, Senegal, and Sudan (1 per cent).

While enrolment in technical and vocational programmes is quite high in North Africa (averaging

22.95 per cent of total secondary school enrolment between 2001 and 2005), the vocational education sector generally occupies a much smaller - if not marginal - position in school systems in countries in sub-Saharan Africa (5.2 per cent between 2001 to 2005 with a falling trend since 2003) compared to the OECD countries in the same period (18.6 per cent) and other developing regions, such as Latin America (11.6 per cent) and South East Asia (9.5 per cent). For instance, the percentages of technical/vocational enrolment (PTVE) of high-growing South East and East Asian countries such as South Korea (19 per cent), China(18 per cent), Indonesia(16 per cent in 2005), Singapore (13 per cent in 2005), Thailand (18 per cent in 2006) were still dwarfed in 2006 by most OECD countries such as Australia(70 per cent), Austria(62 per cent), Belgium (68 per cent), Czech Republic(65 per cent), Finland(40 per cent), Italy(59 per cent) and Norway(49 per cent).

The low proportion of students enrolled in technical/vocational programmes signals stagnation and overall poor public training capacity. As highlighted later, the system fails to absorb many primary schools graduates. In addition, many vulnerable young people have no financial means to access to formal TVET. Formal TVET is seriously under-funded, and in turn the obsolescence of the equipment and weak managerial capacity affect the quality of training programmes. Low enrolment is partly due also to the perception that it leads only to low-status occupations and forecloses access to higher levels of education. Pupils who enrol in this kind of education are considered to be those who have failed in general education. This results in a contradiction between the generally negative public image of TVET and the strategic role it is supposed to play in economic and social development. There is therefore a need to make school based TVET seem less of a dead-end.

Table 11 - **Total Secondary Enrolment in Technical and Vocational Programmes, 2005**

	Total Secondary Enrolment in Technical and Vocational Programmes (PTVE) 2005 (percentage)	Total Secondary, All Programmes 2005	Secondary Enrolment in TVE 2005
Group I			
Rwanda	36	203 822	73 376
Cameroon	32	1 197 505	383 202
Congo, Dem. Rep.	27	1 655 023	446 856
Egypt	27	8 177 320	2 207 876
Libya	22	726 794	15 989 675
Congo	18	235 294	42 353
Mauritius	14	127 891	17 905
Benin	13	435 449	56 608
Algeria	12	3 755 821	450 699
Mali	10	429 716	42 972
Group II			
Burkina Faso	8	295 412	23 633
Burundi	8	173 717	13 897
Djibouti	8	30 142	2 411
Mozambique	8	305 877	24 470
Tunisia	8	1 239 468	99 157
Botswana	7	1 697 271	118 809
Morocco	6	1 952 456	117 147
South Africa	6	4 593 492	275 610
Cape Verde	5	51 672	2 584
Togo	5	399 038	19 952

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Table 11 - **Total Secondary Enrolment in Technical and Vocational Programmes, 2005** *(cont.)*

	Total Secondary Enrolment in Technical and Vocational Programmes (PTVE) 2005 (percentage)	Total Secondary, All Programmes 2005	Secondary Enrolment in TVE 2005
Group III			
Mauritania	4	92 796	3 712
Uganda	4	760 337	30 413
Niger	3	181 641	5 449
Ethiopia	2	5 185 429	103 709
Ghana	2	1 409 373	28 187
Guinea-Bissau	2	...	
Zambia	2	408 971	8 179
Chad	1	236 754	2 368
Eritrea	1		
Gambia	1		
Kenya	1		
Lesotho	1		
São Tomé and Principe	1		
Senegal	1		
Sudan	1		
Others			
Angola	...	...	
Central African Republic	...	...	
Comoros	-	43 349	
Côte d'Ivoire	...	...	
Equatorial Guinea	...	...	
Gabon	...	...	
Guinea	...	423 479	
Liberia	...	...	
Madagascar	...	...	
Malawi	.	515 462	
Namibia	.	148 104	
Nigeria	-	6 397 581	
Seychelles	.	7 520	
Sierra Leone	...	...	
Somalia	...	...	
Swaziland	-	67 849	
Tanzania	...	...	
Zimbabwe	.	758 229	

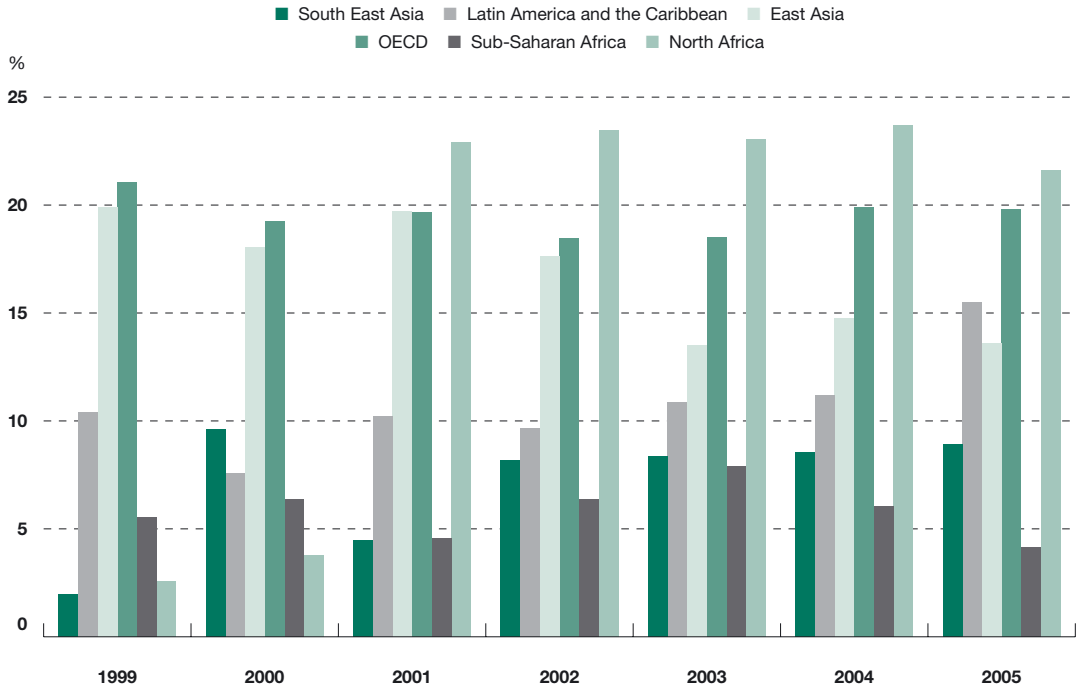
Note: Vocational Gross Enrolment Ratio (VGER): Number of students enrolled in technical / vocational programmes at a given level of education, regardless of age, expressed as a percentage of the population in the theoretical age group for the same level of education. For the post-secondary non-tertiary level, the population used is the two-year age group following on from the secondary school leaving age. Percentage of Technical/Vocational Enrolment (PTVE): Number of students enrolled in technical/vocational programmes at a given level of education as a percentage of the total number of students enrolled in all programmes (technical/vocational and general) at that level.
Source: OECD adapted from UNESCO, 2006: "Participation in Formal and Vocational Education and Training Programmes Worldwide – An Initial Study;" and UNESCO, 2007: "Global Education Digest 2007".

StatLink http://dx.doi.org/10.1787/320607470006

If this general picture is gloomy, it is even worse for girls. Gender inequalities in TVET reflect the lower enrolment rates of women in secondary education generally. Countries where women account for fewer than 15 per cent of TVET enrolment include Eritrea, Ethiopia, Malawi, Namibia, Niger and Uganda. For this group of countries, the share of TVET enrolment in overall secondary enrolment is less than 5 per cent, and the proportion of girls is low not only in technical and vocational education but throughout the entire

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Figure 10 - **TVET as a Percentage of Total Secondary Enrolment**



Source: OECD Development Centre calculations based on UIS statistics.

StatLink http://dx.doi.org/10.1787/315817350525

education system. In other countries in 2005, such as Botswana (38 per cent), Chad (40 per cent), Mauritania (38 per cent), Mozambique (30 per cent), and Senegal (40 per cent), the proportion of girls in TVET stood at about 30 per cent to 40 per cent. In only a few cases does the proportion of girls enrolled in TVET come close to 50 per cent. In Benin, Egypt and Kenya the proportion of girls enrolled in TVET in 2005 reached 43 per cent, 45 per cent and 46 per cent, respectively.[40]

A major challenge is managing the flow of students graduating from primary school. The Primary Gross Enrolment ratio (GER) in Sub-Saharan Africa surged from 82 per cent to 97 per cent from 1999 to 2005[41]. This expansion in primary education is producing enormous pressures on the relatively small secondary and vocational systems of many countries. Secondary and vocational schools struggle to absorb the large number of youths completing the first cycle, while the poor quality of students is reflected in high drop-out rates from secondary school, and the failure of many students to gain employment. In parallel with the higher enrolment rates, the number of early school leavers is also increasing. The challenge of many countries is therefore to rehabilitate and maintain the existing infrastructure and simultaneously to expand it in order to accommodate an increasing number of students at all levels. At the same time governments should envisage more flexible and alternative structures to primary schools, and provide pre-vocational skill training or pre-apprenticeship skill training for early school leavers (Box 15).

It is important to improve the link between formal and informal TVET, in order to allow students who drop out of school to learn a trade to re-enter the

40. UNESCO/UIS On-line Database, 2008.

41. UNESCO (2007), *Global Monitoring Report*.

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Box 15 - **Prospects for Pre-vocational Training**

The community schools in Senegal, the Centre of Post Primary Vocational Training in Guinea and the Centres for Non-Formal Education in BurkinaFaso cater to children who have left school but are not old enough to start an apprenticeship, offering them the possibility to improve their academic credentials, while introducing them to trades in order to choose a future occupation. Mali is the only country so far to have conceived an alternative to primary school with its Centres of Education for Development (CED). The CED project is part of a Ten-Year Programme for the Development of Education (PRODEC) developed in 1998 with the support of the World Bank and many bilateral donors. The goal embodied in PRODEC was to reconcile the shortage of schools in rural areas with the goal of promoting access to school for 95 per cent of children between 7 and 12 years old by 2010. From 2002 to 2005, 981 centres were established throughout the country and around 23 000 children, of whom 47 per cent were girls, were enrolled. The CED includes a six-year cycle including four years of theoretical courses and two years of practical training in a specific trade. The overarching objective is to give youth "the necessary skills to enable them to integrate into active life and into a continuous learning process".

Source: Walther, R.,(forthcoming) *De l'apprentissage traditionnel à l'apprentissage réstructuré, vers la modélisation d'un dispositif de formation professionnelle post-primaire*, AFD.

formal vocational school system to upgrade the skills acquired on the job, either on a part-time or full-time basis. Similarly, regular vocational-school students should be able to acquire relevant practical skills in the informal sector. More attention is being given to diversified approaches to education which include technical and vocational subjects, in line with the needs of the labour market. Box 16 offers an example of secondary schools being "vocationalised" [42].

Seventeen countries in SSA have presented draft, comprehensive, sector-wide education plans for 2015. Selected country examples of the main targets, and policies for 2015 regarding the expansion of vocational education and skills are listed below:

- In Ethiopia, the government plans to increase its admissions to technical and vocational education from 103 708 (2005) to 312 826 (2010) and 624 095 by 2015. Furthermore, 3 300 classrooms and workshops will be built while an additional 4,500 TVET teachers will be hired. Moreover, new standards and programmes for technical and vocational education are being put in place.
- The Gambia and Ghana, which exhibit a PTVE of 1 and 2 per cent, respectively, have committed

Box 16 - **Recent Evolution of Technical and Vocational Training System in Uganda**

In Uganda, the Poverty Eradication Plan (PEAP), for the period 2004/05 to 2007/08, recognises that Business, Technical and Vocational Education and Training (BTVET) is a priority area for training and education needs to be well matched with the economy's need for skills. PEAP calls for appropriate balance within post-primary education between academic and vocational education. In this regard, the secondary curriculum is being reviewed to make it more responsive to national labour demands, and 56 secondary schools are being "vocationalised", re-oriented to emphasise vocational education. The Education Sector Plan envisages that BTVET will become an alternative to academic education in the last two years of the secondary level, rather than an alternative to the early years of secondary education. The introduction of short modularised courses should also make it possible for adults to acquire skills over their lifetime. Although enrolments have been rising, the public BTVET institutions reach only a fraction of potential demand and females account for 50 per cent of total intake in 2007. 87.1 per cent of formal BTVET institutions are government-owned, 4.3 per cent are owned by the private sector and 2.6 per cent by the local community.

Source: See note in the main text.

42. Refers to curriculum elements of a vocational or practical kind, for example agriculture, commerce, design and technology, which are introduced into a school curriculum that remains dominated by general education subjects. A closely related term is diversified education.

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to a 50 per cent increase in the number of technical and vocational education institutions. Mauritania with a 4 percent PTVE has engaged in a reform to offer opportunities for skills training adapted to labour market needs.

- Mozambique has an 8 per cent PTVE and in 2005 launched a pilot reform to increase participation in secondary and technical and vocational education.
- Rwanda, which exhibits the highest PTVE, at 36 per cent, has plans to increase the number of Technical and Vocational education institutions by 50 per cent by 2015.
- In 2006, South Africa started rehabilitating and expanding its "Further Education and Training" colleges and the national objective is to reach a million students by the school year 2014-2015, compared to the current 276 000.
- In Tanzania despite no official PTVE records has committed to enrol 30 000 full time and 35 000 part-time and distance-learning students in technical and higher education by 2008. [43]

Lessons Learned from Technical and Vocational Skills Development Reforms

TVSD in Africa operates under many constraints that limit its impact and further expansion. This sober picture is not merely due to lack of resources but also to how available resources are being used.

Several African countries have missing/weak links at many levels: between national development policy and the role of TVSD; between skills needs in industry and educational curricula; between TVET institutions and universities; between formal training and firm-based training or informal training. In some countries, the responsibility for TVSD is often split among different ministries and agencies (see Box 17) often operating in isolation and not as part of a comprehensive system for human resources development. In turn, the lack of a coherent strategic approach to the sector results in fragmentation of efforts, and wasted resources, and thus makes it difficult for private actors and donors to assist adequately the development of technical skills.

Box 17 - Egypt and its 22 Ministries of TVSD

In Egypt, the TVSD system involves 22 ministries and agencies. These include, inter alia, the Ministry of Education, the Ministry of Manpower and Migration (MoMM), the Productivity and Vocational Training Department of the Ministry of Trade and Industry (MTI) (52 training centres, 40 000 trainees), the Ministry of Reconstruction and Housing (53 training centres, 70 000 trainees), the Ministry of Social Solidarity (196 training centres), and the Ministry of Military Production and Defense. In July 2006, the Industrial Training Centre (ITC) in the Ministry of Trade and Industry was established. According to the ITC plan, 250 000 workers will be trained per year. The high number of training centres mainly reflects the fact that they are very small. Training quality is generally low leading to very limited employability of graduates.

Source: See country note in the main text.

In the wave of public sector reforms many countries have decided to reshape the technical and vocational skill development system in order to make it more efficient and effective. The need to link training to employment (either self or paid employment) is at the root of all the good practices and strategies observed. In some countries TVSD reforms have been underway long enough to identify some of the main lessons learned. The review of successful African countries' experiences suggests that TVSD strategies need to be informed by a clear vision, fully integrated into development and poverty reduction strategies and action plans, and focused on sectors with promising employment prospects. In particular, in the majority of African countries where the informal sector is dominant, TVSD reforms should recognise and emphasise skills development, such as business management and entrepreneurial training. Successful

43. Levesque, D., (2007), "Expanding access to vocational education and skills development in sub-Saharan Africa", *Norrag News 38*.

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implementation of the strategy requires an enabling environment for monitoring, evaluation, funding, and regulation. Partnership with the private sector, employers and civil society is increasingly recognised to be crucial to secure additional resources to finance TVSD, ensure training relevance, and promote lifelong learning.

1. Adopting a Clear Vision

Political will, vision and leadership at the highest level are necessary conditions for formulating and implementing TVSD policies. Many reforms started with repositioning TVET within the framework of educational reform. In Ghana, for example, a Presidential Committee on Education was established in 2006, and a Council for TVET bill was passed by Parliament which emphasised the objective of providing people with employable skills, as well as training driven by industry needs and entrepreneurship. The function of the council is to co-ordinate technical and vocational skills provision across the formal and informal arenas and to harmonise skill strategies across ministries. Senegal provides a similar example (see Box 18).

Box 18 - TVSD Reform in Senegal

In 2001, Senegal launched a TVSD reform underpinned by a new vision: making the sector a tool for ensuring the competitiveness and the performance of the economy. The goal of the reform is to target initial training, continuing training and youth insertion in the job market. Since its launch, important results have been achieved. In 2005, a Ministry of Technical Education and Vocational Training was created to improve the institutional visibility of the sector. In 2006, the governance of the structure was reformed with the setting up of national agencies. The state set up vocational training centres to meet the challenge of the priority sectors of the economy (construction, agribusiness, ports). In parallel with increased engagements, the state is devoting increasing resources to TVSD: a fund for continuing training for enterprises was set up in 2003, while the budget allocated to TVSD grew from 16 billion in 2007 to 25 billion CFA in 2008 (about 9 per cent of total education budget).

Source: Sanoussi Diakite, Expert en ingénierie de la formation professionnelle, Senegal, personal communication.

The majority of African countries engaged in reform have formulated or are in the process of preparing a sectoral policy and an action plan for TVSD which summarise the objectives, and aligns the plan with available human and financial resources. A major challenge for countries in this phase is to build up and strengthen their own capacities to formulate reform policies, not just capacities to implement policies supported by donors.

Progress has been made in creating specific training authorities charged with the central role in national skills development, such as the Botswana Training Authority, and the Vocational Education and Training Authority in Tanzania. Yet, in many cases, it remains difficult to identify the leading institution. In Tanzania for instance, it is not clear how the Ministry of Education and Vocational Training interacts with the Vocational Education and Training Authority. In other cases, the competent ministry, or the training authority, lacks responsibility in decision making or control over resources allocation, in other cases the institutional/technical capacity is low. Without a capable institution to take the action plan forward, implementation may be challenging. To respond to the changing skill needs of the economy, and to be proactive in regard to technological and industrial change, national authorities need to be more independent from line ministries. Reforms of vocational education and training are successful and sustainable if policy development, formulation and implementation are firmly based on broad ownership and if one institution is entrusted with a clear mandate and authority over resources.[44]

44. Reforming Technical and Vocational Education and Training in the Middle East and North Africa, experiences and challenges, European Training Foundation, Turin, 2007

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2. Improving Forecasting and Planning for Skill Needs

Successful TVSD reforms include long-term planning and the setting up of a clear legal and regulatory framework, in the areas of access, provision, financing, and certification. Nevertheless, many African countries lack such a framework, as well as central co-ordination and guidance to develop and maintain certain quality standards. Of particular importance is the development of a national qualification framework for the classification and recognition of the qualifications attained through formal TVET and other training programmes. Supervisory bodies are needed for the accreditation of public and private training institutions, to develop new TVET qualifications and courses, and to provide skills testing and certification which recognise prior learning. Regulation should nevertheless be flexible enough to adapt to changing training needs and foster lifelong employability.

An analysis of different countries experiences shows that training cannot be effective unless its impact is monitored and assessed. Policy formulation and decision-making over TVSD requires the capacity to assess skill needs and training capacity and evaluate the impact of

Box 19 - TVSD Regulator in Zambia

In 2005, the Technical Education, Vocational and Entrepreneurship Training Authority (TEVETA) was established to regulate the training sector. Training institutions are required to register with the Authority and provide details of their curricula. Definitions of curricula are based on occupational profiles that are developed in close partnership with the private sector. These curricula do not only include technical skills but focus also on entrepreneurship. Another important function is the provision of quality assurance with respect to training standards. Providers are regularly audited for compliance with minimum standards.

Source: See note in the main text.

Box 20 - The Business Technical and Vocational Education and Training (BTVET) Act in Uganda

In Uganda the Ministry of Education has prepared a BTVET Act for consideration and approval by Parliament in 2008. The Act will establish an institutional framework for the promotion and coordination of BTVET that clearly defines the scope and levels of BTVET programmes and the roles of the different stakeholders in the provision of BTVET; separates training and delivery of BTVET from quality assurance functions; specifies the criteria and the process of admission of students and trainees to BTVET institutions; provides for the effective governance and management of BTVET institutions; and establishes mechanisms and organs for the regulation of qualifications (standards, assessment and certification) and training delivery in formal and non formal institutions.

Source: See note in the main text.

Box 21 - The Experience of Ethiopia and Benin in On-Site Monitoring and Evaluation

Ethiopia's Federal Micro Enterprise Development Agency (FeMSEDA) which trains micro entrepreneurs through a course entitled "develop a skills-based economic activity through business creation" conducts on-site visits to help acquired skills take root within the training beneficiaries' business activities. In Benin, a project which promotes craft enterprises and SMEs organises systematically monitoring and evaluation activities. A few weeks after the training, a trainer visits each participant to verify that the content of the course is being implemented. This provides an opportunity to check the quality of the training and also to offer additional training in the craft workers' actual working conditions. The evaluation reports indicate that the rate of skills transfer increases after the trainer's visit. An impact evaluation is carried out six months following the training. An evaluation of the results over the 2000-05 period demonstrates that 60 per cent of the 9 000 craft workers trained stated that their turnover and profits had increased following the training, and that their costs had gone down. Seventy per cent said they had accessed new markets, and over 80 per cent acknowledged that they had significantly improved their technical knowledge.

Source: Walther, R. and E. Filipiak, *op. cit.*

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training schemes on the beneficiaries' life and careers. The benefit of continuing monitoring and evaluation of training are exemplified from the experiences of specific project in Ethiopia and Benin (Box 20).

Nevertheless, monitoring and evaluation mechanisms are extremely rare in Africa. There is a paucity of data on youth unemployment, assessments of ongoing training projects, evaluations of past programmes, and impact studies. It is therefore a challenge for countries to identify the need for corrective measures in the course of implementing reform. The creation of labour market observatories in many African countries marks an initial step towards aligning training systems to labour market needs. These observatories are in charge of collating statistics on changes in the labour market and conducting surveys with the aim of providing ongoing advice and feedback to technical skills development strategies at national, regional and local level. They are likely to be more credible if they are independent of labour or education ministries. Institutional strengthening and funding would help manifest the potential of this institution. Important efforts should be made also to make regular labour-market skills surveys and training needs assessments in collaboration with the industry in order to develop manpower development plans and provide appropriate feedback into curricula design and development. The experience of Rwanda offers some interesting insights in this respect.

Box 22 - **Skills Audit in Rwanda**

The Skills Audit undertaken by the Ministry of Public Services in 2007 represents a crucial first step in identifying the skills gaps that require attention to facilitate Rwanda's development objectives as specified in the PRSP. The results of the Skills Audit will have immediate implications for curricula and training reform across all levels of education. Rwanda's Private Sector Federation responded very positively to the audit, exhibiting a high degree of enthusiasm and eagerness to partner in national curriculum development, in-service training, and implementation activities related to the reforms that will likely be required as a result of the Skills Audit. In order to formalise collaboration and dialogue between partners in industry, education, and government, the Ministry of Public Services plans to create an Office of Employment to be charged with, *inter alia*, tracking graduates with so-called "tracer" studies, labour-market surveys, and future skills audits. Thanks to these instruments, the government will be better placed to perform evidence-based curriculum reform as well as performance-based monitoring and evaluation with the effect being higher job-placement rates for graduates.

Source: African Development Bank Case Studies, 2007.

Training schemes focused on self-employment have the greatest chances of being effective if they are part of a holistic support system (including incentives schemes, access to finance, marketing support, etc.) to ensure that skills development truly leads to the creation or consolidation of an enterprise. In Ghana, one NGO-supported programme which integrates start-up support (in the form of equipment credits) has allowed 88 per cent of its graduates to establish businesses after the completion of the training. The AfDB African Women in Business Initiative (AWIB) seeks to support the growth of women-owned enterprises by providing appropriate financial and business development support services in an integrated manner. The Bank is engaged in: *i)* raising awareness and capacity among stakeholders, in particular policy makers, on the challenges affecting businesswomen in Africa, and mobilise key players in the field of AWIB promotion; *ii)* reinforcing Business Support Provision by promoting, *inter alia*, capacity building and networking among businesswomen's associations, which can support the emergence and growth of women-owned SMEs; *iii)* developing concrete forms of support for enterprise education and entrepreneurship development; *iv)* designing specific programmes and launching initiatives aiming at providing tailored and adequate financial and technical support to the development of women entrepreneurship in Africa. A critical element of this holistic support will be the need for close follow-up and mentoring of the women entrepreneurs. Other countries have put in place active labour-market policies to facilitate youth transition to work (Box 23).

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Box 23 - "First Job" Law in Angola

In 2006, the Angolan Ministry of Public Administration, Labour and Social security (MAPESS) implemented a series of measures to promote training and employment, in the framework of the overall implementation of the new "First Job" law. According to the law, helping trainees find work is a prerequisite for successful training schemes. Against this background, three initiatives were launched: *i)* an internship programme in firms, aiming at providing students from technical secondary schools with professional skills developed in the workplace; after the training, the state is expected to contribute 60 per cent of the salary in order to foster job creation and ease the transition from training to employment; *ii)* a programme to foster the creation of micro and small enterprises, including training in business management; and *iii)* a programme to develop self-employment, mainly addressed to ex-soldiers (*desmobilisados*).

Source: See country note in the main text.

Access to microfinance is another important form of post-training support for graduates. Microcredit represents an integral part of the means deployed to cement training and make it more effective. It plays a crucial role in helping informal-sector workers to progress from the skills development phase to enterprise creation, consolidation, and development.

3. Improving the quality of TVSD

In line with international best practices, recent reforms have witnessed a switch from a provider-driven training model, where people received training without the assurance that the training was aligned to an identified need in the labour market, to a demand-driven one[45]. In Mozambique, South Africa, and Ethiopia (see Box 24) TVSD reforms, for instance, emphasis has been put on designing flexible competency based training programmes[46], to adapt to the changing structure and evolution of the demand for competencies in the labour market. In South Africa, the sector education training authorities (SETAs), set up by the 1998 National Development Act, are in charge of preparing skill development plans, aimed at identifying the skill needs

Box 24 - New Quality Management System in Ethiopia

Previously TVET in Ethiopia was provided on the basis of national curricula and strictly defined rules for its delivery. This approach failed to appropriately address the ever-changing requirements of the labour market, since it was unable to provide flexibility and timely adjustment of programmes when needed. Despite efforts to enhance access to TVET, quality has not kept pace with expansion.

An important step of the current Ethiopian TVET strategy, adopted in 2006, is to reorganise the TVET system into a demand-driven system, where the identified competences needed in the labour market become the objective of training and learning. "Competences" comprise the possession and application of a set of skills, knowledge, and attitudes which are necessary to successfully exercise the trades prevalent in the labour market. A demand-driven TVET system will also make it easier to recognise the wide range of non-formal and informal training and learning schemes available in Ethiopia which involve the previously neglected target groups. Under the responsibility of the Federal TVET Agency and industry, all competences will be linked to national occupational standards which define the outcomes of training and learning expected by the labour market and constitute the benchmarks of the quality management system. The graduates and candidates from the formal, non-formal, or informal TVET schemes will be given access to skills testing and skills recognition. The candidate who demonstrated his/her competence will be awarded a relevant national certificate. The system of occupational standards together with standard-based training, testing and certification has become the centrepiece of the TVET reform towards better relevance, demand and accessibility.

Source: TVET National Strategy 2006, Federal Democratic Republic of Ethiopia.

45. When training is demand-driven, it is determined by whether there is a labour market demand for particular skills.

46. The competency-based training emphasises the outcome of skill development programmes, in terms of acquiring the competences (often defined as encompassing knowledge, skills and abilities) required in the world of work, rather than training on inputs necessary to acquire these.

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of industrial sectors (including skill shortages and gaps), as well as constraints to the effective utilisation of skills in relation of the objectives of the National Skills Development Strategy. All training initiatives in the enterprises, which include learnerships (which combine institution-based learning with workplace-based learning) are competency based, depending therefore on the specific competences required by the world of work. In some other countries (Algeria and Morocco), curricula implementation initiatives are still at an early stage and in some cases not embedded in a wider reform programme (Algeria and Egypt).[47]

In the context of demand-driven systems, many countries, including Botswana, Egypt, Ethiopia, Mauritius, Namibia, South Africa and Tunisia (see Boxes 25 and 26), are developing pilot initiatives which involve establishing new TVET national qualifications frameworks (NQF) with occupational standards for sectors experiencing employment growth and skill shortages. The NQF typically seeks to provide a framework within which all education and training achievements are recognised in the broad perspective of lifelong learning. Design and implementation of NQF differ widely across countries.

Box 25 - **Enhancing the Efficacy and Efficiency of the National Qualification Framework in South Africa**

The South African national qualification framework (NQF) was formally established under the South African Qualifications Act of 1995. The objectives of NQF were: to create an integrated national framework for learning achievements, to facilitate access to and mobility and progress within education, training and career paths, to enhance the quality of education and training; to accelerate the redress of past unfair discrimination in education training and employment opportunities, and to contribute to the full personal development of each learner and the social and economic development of the nation at large. The South African Qualifications Authority (SAQA) was appointed to oversee the development and implementation of the NFQ. During the early 2000s, the implementation of the NQF went through a long evaluation which identified important shortcomings. Major concerns included the lack of shared vision for the NQF between the Department of Labour and the Department of Education, the uncertainty about the respective responsibilities of the SAQA and government ministers and departments and the perception among many stakeholders of a lack of leadership at all levels. The proliferation of bodies responsible for standards setting and quality assurance was strongly criticised. The review pointed to the need for clear and flexible leadership for NQF development, the necessity to build communities of trust involving the providers and users of qualifications, and the importance of recognising necessary and legitimate differences between learning sectors within one framework. In response to the recommendations a new policy statement for the NQF was developed in late 2007. The revised architecture, which is based on an integrated approach to education, training and skills development, includes the establishment of a Quality Council for Trades and Occupations (QCTO), and the setting up of 10 NQF levels determined by the Department of Education and the Department of Labour with participation of a broad range of stakeholders in order to allow proper scope for the full range of qualifications

Source: The South African Qualifications Authority (SAQA) www.saqa.org.za.

Box 26 - **The National Qualification Framework in in Tunisia**

A national strategy for the reform of vocational training and employment in Tunisia, known as MANFORME was launched in the mid 1990s with the strategic goals of developing a demand-driven, flexible and cost-effective vocational training system, which would provide trainees with the skills required by Tunisian businesses. An important component of the Tunisian reform was the establishment of a national framework for quality in vocational education and training (NFQVET) which has been implemented progressively starting from 2001. The structure of the NFQVET is strongly based on quality assurance principles, encompassing regulations for management (55 standards) and tools for measurement (287 indicators). Standards have been introduced in vocational training centres as part of their accreditation. At the moment 130 centres participate in this quality assurance approach that is constantly fine-tuned and improved. Whereas the implementation of a quality assurance approach in vocational training centres is making progress, a complementary reform on the central institutional level building on local achievements and thus capitalising bottom-up processes is still pending.

Source: European Training Foundation.

47. European Training Foundation, op. cit.

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Although an NQF is normally tailored to a country's profile, it is important to link up NQFs with regional frameworks. This process could promote credit transfers, mobility and simplify the recognition of qualification of competences. Ultimately by increasing the portability of technical skills qualifications across national frontiers, TVSD could foster regional integration. Recognising this, the Southern African Development Community (SADC) Conference of Ministers of Education in 2006 requested Member countries to develop as soon as possible national quality assurance and qualification frameworks which will be used as a basis for the development of a SADC sub-regional framework. UNESCO is supporting this programme by assisting SADC Member States to develop national qualifications/quality assurance frameworks.

Promoting demand-driven TVSD is not a sufficient condition to ensure the quality and relevance of training. Complementary policies are needed to improve the qualifications and dedication of teachers. In general, teachers in formal TVET programmes have relatively low formal qualifications; they are poorly remunerated, lack motivation, and suffer from low social status and poor career prospects. In many cases, vocational teachers lack practical skills in the trades that they teach and have difficulties to impart skills that meet the occupational standards. This is the result of a training system that for a long time overemphasised theoretical knowledge at the expense of practical skills. International good practices highlight the need for vocational instructors to be well-qualified as practitioners and certified in the trades that they teach. In addition, close links should be established between TVET and the educational institutions which train vocational teachers in order to adapt the content of teacher training programmes to the needs of TVET. The remuneration levels and the social status of vocational teachers should be on a par with other teachers. Some countries are putting in place a series of incentives, including the provision of housing allowances, allotment of bicycles, or other benefits.

4. Adressing the skill needs of the informal sector

Training those who participate in the informal sector should go hand-in-hand with other instruments, such as fiscal policies, provision of credit, and extension of social protection and labour laws, to improve the performance of enterprises and the employability of workers. The aim should be to transform what are often marginal, survival activities into decent work fully integrated into mainstream economic life. Prior learning and skills gained in the sector should be validated by certification systems which can help workers in the informal sector gain access to the formal labour market[48].

In view of the very large informal sector in Africa and its important role in the labour markets, the provision of training for workers in the informal sector should be recognised in the policy agenda. Yet in many countries, such as Mozambique, the ongoing pilot reform does not include training programmes for the informal sector. A major overhaul of the apprenticeship laws, policies and practices in Africa is required to support and improve informal apprenticeship systems[49]. They badly need upgrading to ensure higher quality, more equal access, enhanced employability and better returns to the public and private investment in training.

According to the *Agence Française de Développement*'s field studies[50], some ongoing reforms are attempting to modernise the informal apprenticeship systems through strengthening their institutional frameworks and building links with the formal TVET systems. These efforts aim at improving the quality of training by offering skills upgrading for master craftspeople in formal training institutions (e.g. in Uganda, Niger, and Mali), and providing

48. ILO, Conclusions concerning human resources training and development, International Labour Conference, 88th Session, 2000 (Geneva, ILO, paragraph. 7).

49. ILO Skills and Employability Department's contribution

50. Walther, R., and E. Filipiak.*Op. Cit*.

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opportunities to test and certify skills acquired on the job. Overall, many West African countries such as Benin, Togo, Senegal and Mali are restructuring technical and vocational training systems and incorporating traditional apprenticeships; they are developing dual apprenticeships systems, where the craft enterprises which take on apprentices share the responsibility for training with colleges. In parallel, some regulatory instruments have been developed, in order to implement the overall policy objectives and the specific arrangements for apprenticeship, such as the types of apprenticeship contracts to be drawn up, and the rules governing vocational qualifications. Also, South Africa and Ethiopia are opening their TVSD systems to informal sector needs (see Box 27). Morocco and Tunisia have programmes which focus on the introduction of apprenticeship contracts, setting remuneration levels, offering incentives to employers (in terms of exemptions for the payment of social security obligations), setting age requirements, and introducing dual training between the place of work and specialised training institutions.

Box 27 - **Examples of Restructuring and Innovation Practices of Traditional Apprenticeship**

Benin has implemented a TVSD reform where the evolution of the traditional apprenticeship into a dual training system has become an integral part of the national training policy. The country has introduced a Vocational Skill Certificate (national diploma attesting the attainment of skilled worker level through a reformed traditional apprenticeship) and the Occupational Skill Certificate (certificate attesting the completion of an apprenticeship) to recognise the skills acquired through informal apprenticeships and has put in place a consultative mechanism involving the National Federation of Craft workers, local craft workers groups and the relevant ministry to steer the process. With the introduction of a dual apprenticeship system, a series of regulatory instruments has been developed. Certification is awarded using the assessment methods that maintain a balance between theory and practical skills (30 per cent and 70 per cent respectively).

In Senegal, the integration of traditional apprenticeship into the national training policy was an innovation of the TVET reform in 2001. In 2007, with the support of the *Agence Française de Développement*, Senegal has launched an informal education pilot scheme to reform traditional apprenticeship in three priority sectors: auto mechanics, construction and clothing. A directorate for traditional apprenticeship has been created to oversee the pilot scheme. The objective is to improve skills for master craftsmen and support the development of a specific traditional apprenticeship certificate recognised at national level. So far, the scheme involves 750 trainers, 50 workshops and master craftsmen, more than 10 professional organisations of artisans, and a system of evaluation. Indeed, As in the case of Benin, the transformation of traditional apprenticeship into a dual system has the advantage of building on the existing skills of apprentices and craft workers, while improving their ability to master technological and qualitative changes affecting their products and services.

In moving from a supply driven approach to a demand-driven one, the reform in Ethiopia focuses on the accreditation of skills, irrespective of where they are acquired. The reform is intended to make training in the informal sector an integral part of the training system, providing access to training for people who are usually excluded (youth and adults who have dropped out of school, have a low level of education, or are illiterate, entrepreneurs, and workers who need to upgrade their skills and obtain recognised qualifications.)

The South African Department of Labour, with support from the German Technical Co-operation (GTZ), has launched a structured learnership system in South Africa's informal sector. The initial assumption is that conventional forms of training do not meet the skill needs of people working in this sector and that it is necessary to set up training contents and methodologies that suit the specific needs of the people to be trained. The experimental learnership is based on the development of local co-operation network at municipality level, involving NGOs and local co-operatives. In addition, it involves co-ordinated identification, by the network, of the skills and qualifications needed to create new business and self employment. The new business and self employment activities can obtain development aid services and apply for loans from finance institutions supported by the South African Government. The country is currently rolling out an experimental learnership system to promote business creation and self employment, through training schemes and grants for start up activities.

Source: Walther, R., and E. Filipiak, Op. Cit.. and Sanoussi Diakite, Senegal.

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5. Facilitate the Growth of the Productive Sector through Technological Learning and Innovation

Some countries are also designing integrated programmes that couple access to finance with appropriate short-term, accessible, relevant training for the informal sector to foster innovation and improve performance, allowing the best performers to slowly migrate to the formal sector. Rwanda has made important efforts to facilitate value-addition, skills development, and technological learning for subsistence agriculture, in which the majority of Rwandans currently participate. The PEARL coffee project offers one example of subsistence coffee farmers effectively working together to create a registered co-operative and establish partnerships with research and training institutions (Box 27).

The AfDB in a strategic partnership with ILO has developed a framework geared towards supporting successful women-owned enterprises. The framework as described in Box 28 has been developed and piloted in a number of countries. Its objective is to reinforce women entrepreneurs' technical capabilities. It focuses on generic management skills as well as on the technical skills that support business growth and access to export markets. For each individual entrepreneur, training is based on the assessment of her specific needs. Depending on needs and demand, the training includes one or several of the following: business management and planning; financial management and relationships with banks; marketing and access to markets. In addition, other subjects, such as technology transfer, productivity improvement, product improvement and development, and networking opportunities, are also provided depending on the needs assessment of each project client.

Box 28 - Coffee Sector Agribusiness Development Projects in Rwanda

In 2001, a USAID-funded project, Partnership for the Enhancement of Agribusiness in Rwanda (PEARL), was started with the aim of improving rural livelihoods by reviving the coffee sector in Rwanda. PEARL has been successful in *i)* improving-capacity building in the agricultural sector, *ii)* improving agricultural quality, *iii)* providing market diversification of export products, and *iv)* empowering local farmers and building linkages between them and other actors in the private and public sectors. In just six years the PEARL project has had a considerable impact. It introduced new practices for rural smallholder farmers, which increased the quality of the final product and made changes in local production, technology and supply-chain development. Two technological transformations that contributed to increased quality were *i)* the introduction of new and improved washing stations, which enabled cleaning and sorting in accordance with qualitative standards, and *ii)* training facilities to improve local washing techniques as well as tasting skills. The latter type of knowledge is necessary in order to enable sellers to negotiate a fair price for their coffee products. In 2006, for example, 60 individuals received training in testing, tasting and other quality-improving processes. The training, tasting and research facilities provided through the programme also facilitated the creation of a collaborative network between farmers, sellers and researchers at the National University of Rwanda. It is estimated that the technology and innovation programmes implemented through the PEARL project have increased the price for a kilo of unprocessed dried coffee — from USD 0.22 to roughly USD 2.00 — to the benefit of the local smallholder farmers. Furthermore, the number of farmers engaged in the co-operative increased from 400 in 2002 to 1 600 in 2006.

Source: UNCTAD (2007), *The Least Developed Countries Report 2007*.

6. Foster Partnership with All stakeholders

Although governments carry the primary responsibility for TVSD reform, policy design and actual delivery of education and training can best be achieved through a partnership between government, employers, trade unions, business associations, and various stakeholder groups in the formal and informal sectors of the economy (see Box 30).

Partnerships with industry helps accurately to define the vocational qualifications for each trade, the content of relevant occupational standards as well as improvements to the training curriculum aimed at improving its relevance. Likewise, trade unions have an interest in ensuring that workers are able to develop and utilise their productive skills to the full. Burkina Faso for instance has set up a working group between employers and unions to establish common guidelines

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Box 29 - Promoting Growth Oriented Women Entrepreneurs - An African Development Bank and International Labour Organization Partnership

The AfDB and the ILO have developed a strategic partnership to support growth-oriented women entrepreneurs. The partnership takes advantage of ADB's expertise in development finance for women entrepreneurs and the ILO's experience in technical assistance for women's entrepreneurship development. Together they have developed a standard international assessment Framework for Growth Oriented Women Entrepreneurs (GOWE). The guide is intended to inform policy makers, researchers, evaluators, programme managers, business and financial consultants, development advisers, women entrepreneurs' associations (WEAs) and other key actors, and assist them in identifying the most effective support mechanisms. It is concerned with identifying the actions needed to create a more equitable enabling environment for the development and growth of women's enterprises, including enterprises owned by women with disabilities. The framework has, so far, been applied in Cameroon, Ethiopia, Kenya, Tanzania and Uganda.

The guide calls for a comprehensive assessment of ten core and inter-linked components of the business environment: *a)* policy leadership and co-ordination for women's entrepreneurship; *b)* regulatory and legal instruments and issues affecting women's enterprises, and including women's domestic situations, and support services to enabling them to meet family responsibilities; *c)* the promotion of women as entrepreneurs, including vulnerable and disadvantaged women, such as women with disabilities; *d)* access to enterprise education, and to skills and management training; *e)* access to credit and financial resources; *f) a*ccess to business development services (BDS) and information; *g)* access to women entrepreneurs' associations, business networks and employers' organisations; *h)* access to business premises; *i)* access to markets; and *j)* research on women entrepreneurs and women-owned SMEs.

In 2007, following the application of the Assessment Framework to Kenya, the AfDB and ILO joined forces with the International Finance Corporation on a programme that:

- provides loan guarantees to selected commercial financial institutions to facilitate loans to women entrepreneurs;
- promotes increased access by women entrepreneurs to business development services;
- provides capacity building in women entrepreneur association building; and
- provides gender mainstreaming capacity building to the SME loan departments of the selected financial institutions.

Source: Grania Mackie, Regional Technical Adviser, Women's Entrepreneurship Development and Gender Equality (WEDGE) Programme, ILO Addis Ababa.

Box 30 - Ethiopian Experience in Involving Stakeholders

One of the main accomplishments of the TVET reform in Ethiopia over the period 2002-2006, was the broadened governance structure for TVET through the establishment of a National TVET Council comprising representatives from different government sectors, including state representatives, trade unions, public and private TVET providers and representatives from the business community. This represented a start of institutionalised stakeholder involvement and helped stimulate deeper integration and understanding of TVET within the broader Ethiopian development environment. A further strengthening of this governance set up, however will be necessary while TVET reform is unfolding.

Source: *Ethiopia National Vocational Education and Training Strategy*, 2006.

for the funding of training. The Ministry of Labour is negotiating with employers and unions with a view to reaching a concerted commitment of the two parties on vocational training. Similarly, in 2005, in Mali, the National Council of Employers (CNPM), the National Federation of Artisans (FNAM), the National Workers' Union of Mali (UNTM) and the Confederation of Trade Unions of Workers of Mali (CSTM) have prepared a statement, called the Bamako Declaration, according to which these organisations are committed to "combine their efforts to foster vocational training, create a new social dialogue, and promote accreditation of vocational training"[51].

51. Walther, R. Gauron, A. *Le Financement de la formation professionelle en Afrique, Étude des cas sur cinq fonds de la formation*, Ministère des Affaires étrangères, Paris, 2006.

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The social partners and the crafts associations in particular, play a very important role in the restructuring of apprenticeship in some West African countries. They offer skills assessment for graduate apprentices so that their skills are recognised in the labour market, and resolve conflicts between master craftspeople and apprentices. In Benin, Senegal and Mali, trade associations help informal apprenticeships evolve into dual training programmes and are also involved in defining the content of skills and competencies[52]. In Tunisia, the conceptually innovative strategy and action plan envisaged a strong partnership with all professional associations for curricula design and oversight of training centres but so far the participation and motivation of some stakeholders has remained low. Although the private sector was strongly involved, other actors were left behind, i.e. employees' organisation and civil society. Nevertheless, over the last two years, the General Union of Tunisian Workers *L'Union Générale des Travailleurs Tunisiens* has become involved in tripartite discussions concerning the financing of training.

In many African countries, NGOs are also important partners in training activities, especially for disadvantaged groups and communities (Box 31).

As highlighted earlier, an orientation towards demand-driven training systems leads to an increasingly prominent role for the private sector. Enterprises, in particular, are expected to undertake a proactive role in training. In countries where there is a strong partnership between the state and the private sector, such as Tunisia and Mauritius, the technical and vocational skill development system has diversified its sources of funding and improved the quality of training, making it more responsive to labour market requirements.

However, in general, the involvement of employers in TVSD remains limited, owing to the weaknesses of private-sector organisations and their lack of interest in training. Many enterprises do not provide adequate training for their employees, with the exception of very limited on-the-job training for basic production skills. This could be explained by lack of awareness of the benefits of training, and the fear of poaching trained workers by other firms. In addition, in some cases the government does not provide any incentives to encourage firms to engage in training programmes, such as sharing the costs of training, or providing tax reductions for firms involved in such activities. In other cases, members of the private sector are poorly co-ordinated, making it difficult for the government to find reliable interlocutors who truly represent their peers. Moreover, small and medium-sized enterprises (SMEs) barely invest in training programmes, due to budget

Box 31 - Youth Community Training Centre in Zambia: Targeting Vulnerable Youth and Orphans

The Youth Community Training Centre (YCTC) in Zambia, supported by the Diocese of Livingstone and CeLim, an Italian NGO, provides skills training to orphans and vulnerable youth from the poorest compounds of Livingstone, to facilitate their transition to work. A second aim is to offer a Drop-In Centre to "provide a safe environment for youth to come together, to socialise and to be helped in a variety of ways, including counselling and short skills courses." The YCTC offers two year skills training courses to some 88 students, aged between 15 and 25, male and female, in catering, tailoring, carpentry and plumbing/metalwork, leading to Trades Test examinations under the Examination Council of Zambia. In addition, 3 short courses (60 students) and a basic training in computer use (25 students). The students for all the courses are selected through a process involving local churches and community groups. The staff is also charged with helping the students find formal employment. Students are also provided with loans to help set up a small business. The programme includes the possibility for all students to get an internship after 21 month of school and before the final exam, in one the commercial activities of Livingstone. The statistics of the centre estimates that 80 per cent of YCTC former students found a permanent job. In addition, the centre has set up production units (carpentry, tailoring, metal working), which sell products to the community of Livingstone. It is expected that the school will achieve financial sustainability by 2009.

Source: Youth Community Training Centre, Zambia.

52. Walther and Filipiak (2007) *op. cit.*

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constraints and lack of understanding of the benefits of these programmes.

These market failures could be handled through incentive schemes for in-service training[53], disseminating best training practices, and awareness campaigns of the benefits of training in improving productivity and cutting production costs. Indeed, the experience of Malawi and Ethiopia shows that efforts to systematically involve the private sector in the reform and governance of TVSD need to be matched by awareness raising about the benefits of getting involved, capacity building in communication and networking, as well as technical assistance for organisational development of their associations.[54]

Important efforts have been made by some countries to strengthen the partnership between enterprises and training institutions, through a series of advertising campaigns, awarding participating companies or providing fiscal incentives. The involvement of local industry and professional associations in school's management is crucial to ensure greater convergence between the labour market and training offered. In particular, these representatives can influence the programmes of study and the implementation of proposed training plans: help aligning programmes of study with the needs of local business, identifying businesses willing to engage in work-study or apprenticeship training, evaluating the learning progress and employer's satisfaction. To this end, according to the 2006 National TVET Strategy of Ethiopia, training providers will be given the maximum flexibility to develop relationships with individual employers, or business-sector associations concerning the organisation of apprenticeships (with the bulk of on-the-job training taking place in an enterprise and with theory and initial practical exposure provided by a training institution). The Ethiopian Strategy also encourages training institutions to enter in partnerships with small companies and the micro-enterprise sector as these companies represent the target labour market for a large group of trainees. An interesting example of public-private partnerships is illustrated in Box 32.

In Angola, some partnerships were created between government and enterprises, as in the case of Chevron and the UNDP, or between Total, NGOs and local banks. Chevron and other big enterprises offer coaching to micro-activities or microenterprises owners in order to promote small businesses in sectors with high growth potential, such as mechanics or food processing. The

Box 32 - **Public-Private Initiative in Egypt**

A successful example of public-private partnership between training institutions and businesses is the Mubarak-Kohl Initiative (MKI) widely regarded as the most successful training programme in Egypt. This project involves co-operation among the Ministry of Education (MOE), the German Technical Cooperation (GTZ) and business associations. MOE provides school premises, trainers and teachers and training funds, while GTZ provides technical experts, school equipment and training materials, enterprises through business associations offer training opportunities and allowances for the trainees. Within MKI, training has been provided for 29 occupations in 45 technical secondary schools in 24 governorates. In total, 16 000 trainees have been trained by 1 600 training companies.

The EU Technical, Vocational and Educational Training Reform Programme is another example of successful public-private partnership in Egypt. The initiative aims to provide adequately trained labour for technology intensive sectors and those with high growth potential. The programme targets students and staff in the post secondary TVET sector, and industrial and service sectors, where skills are lagging behind and represent an obstacle to raising the competitiveness of these sectors. In 2005 the programme established enterprise training partnerships between public and private technical, vocational and educational training providers for garments in collaboration with the chamber of textiles and garments affiliated with the Federation of Egyptian Industries (FEI).

Source: See note in the main text.

53. In-service training is education for employees to help them develop their skills in a specific discipline or occupation. In-service training takes place after an individual begins work responsibilities. Most typically, in-service training is conducted during a break in the individual's work schedule

54. Implementation issues of diversified financing strategies for TVET, GTZ, Addis Ababa, 2006

advantage of this personalised support is that it can be organised to fit entrepreneurs' particular work methods.[55] In 2006, Sonangol and other oil companies promoted an initiative called *Formação de Fornecedores* aiming at increasing the capacity of SMEs to participate in the oil industry as suppliers of goods and services.

7. Involving Local Communities

Vocational and technical training must be adaptable to local and regional needs. Experience in many countries has shown that regional participation and local control play a key role in determining the success of technical and vocational skills initiatives. Local communities have a better understanding of local realities enabling quick and realistic decision making. The need to customise training provision with local needs is particularly necessary in remote and rural areas, and in addressing the needs of vulnerable and disadvantaged people. For instance, the commitment of the Rwandan government to build up the national training capacity through more community-based short courses (delivered for example by Kivumu PTC) exemplifies a pragmatic approach to skills development in both the informal and formal sectors. In addition, the AfDB-funded Skills Development and Income Generation Project (SDIG) in Malawi provides an example of an intervention where the involvement of the local communities has resulted in increased livelihood opportunities (See Box 33).

Box 33 - Malawi Skills Development and Income Generation Project (SDIG) – Community Involvement

The SDIG Project provides an opportunity for very poor illiterate people to become literate, learn how to earn regular income and participate in the sustainable economic activities in Malawi. This would be achieved through the following components; Functional Literacy, Basic Business Management Training, Production Skills Training, Institutional Strengthening, Micro-Finance and Project Management Unit.

Community Development staff organise groups of beneficiaries and take them through the literacy acquisition process on to the business skills training after which they choose a trade in which the Project provides training. Special emphasis is placed on the skills for value-added agriculture.

The success of the Project is largely due to the community development approach. Communities constitute business groups, headed by community leaders who then assume the role of overseers providing maximum support to the Project. As such, groups are self-forming. The involvement of the community leaders in the Project is a key success factor especially for the adult literacy component of the Project.

Training is structured in such a way that trainees learn both theory and practice from the extension worker as well as from their peers within the group, giving them maximum exposure within 4 to 6 months. As the groups go through training, they are also taught how to build their own capital from scratch and get up their businesses. At mid-term, group working capital, investments and savings have reached a Malawi record of USD320 000. This capital building initiative taking place during the training period promotes self-reliance and is very instrumental to the sustainability of the businesses.

So far, over 220 groups have gone into the first phase of production and another 800 are at different stages towards establishing their businesses.

The most interesting achievement of this Project is how poor people have mobilised their meagre resources and applied their business skills to establish production units generating millions of KMT (Malawian kwacha) even before the launch of the Credit Scheme.

The project has an over USD1 million Credit Fund to support groups wanting to expand their businesses and/or diversify into more profitable businesses.

Source: African Development Bank

55. R.Walther Filipiak, E, *op. cit.*

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8. Strengthening Local Management of TVSD

Over the past 10 years, many countries have started decentralising the management of TVSD, with the delegation of numerous responsibilities to regional authorities. In Ethiopia, the government is considering reforms of the governance and management structures of TVET, by establishing autonomous TVET Authorities at federal and state levels, which will be governed by the TVET Council. Decentralisation of formal TVET also involves increased responsibility for educational institutions. Through decentralisation, public training centres can diversify their source of finances by being enabled directly to raise local finance (e.g. selling short courses to local industry, selling products produced in production units at formal TVET institutions) and to decide how such extra income should be used. In Tunisia, the decentralisation process is based on the devolution of responsibilities to the training centres which operate almost as private entities[56] (see Box 34).

However, although decentralisation is included in most countries' institutional reform packages, local authorities, and local school management; in particular, do not always have sufficient pedagogical, managerial, and administrative capacity to discharge their new responsibilities (see Box 35).

Box 34 - **Decentralisation in Tunisia**

The development and implementation of a new decentralised management model of vocational education and training (VET) institutions started in 2001, in the framework of the national strategy for the reform of vocational training and employment in Tunisia, known as MANFORME which was launched in the mid 1990s. The autonomy of VET institutions is piloted in four sectoral training centres. Benefits from this experience so far include a better partnership between enterprises and training institutions, particularly in the development of curricula and in enterprise-based provision of training (traditional apprenticeships, dual apprenticeship schemes and in some cases in-service training). However, the experience also shows that the quality of private-sector participation is uneven, with some private-sector representatives unprepared to assume their responsibilities. Resistance to change can also come from within the training institutions themselves and from the central agencies.

Source: European Training Foundation.

Box 35 - **Fostering the Capacity of School Management an Urgent Priority for Mozambique TVET Reform**

A 2007 assessment of 15 Mozambique TVET pilot schools shows big inadequacies in the area of recruitment, selection and compensation of school management, and highlights good practice which could serve as learning experiences. According to the evaluation, there are no clear criteria and guidelines at the school level on how school directors and school management team are selected. Their recruitment is centrally done at provincial directorate level. The performance criteria of school directors and school management team are not defined and there is no link between the compensation package and the performance of school management. To improve the school management capacity, the evaluation recommended that a school advisor be engaged on a cluster basis. The role of the school advisor would be to provide advice and support on good management practices to the school director and at the same time equip the school with the technical know-how in operating and managing TVET schools at all levels. On the issue of transparency in recruitment, selection and compensation of school management, it is recommended that this be addressed through the on-going public sector reform. Pilot schools in the TVET reform project could be used to pilot the reforms in recruitment, selection and compensation in the public service. It is hoped that by piloting public-sector reform in the pilot schools, there will be more transparency in the recruitment and selection of the most suitably qualified candidates as school leaders and they will have a more adequate compensation package.

Source: See country note in the main text.

56. Moncef Chékir, Expert on Education and Training, Former General Director of Technical and Vocational Training, Tunisia.

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Financing Technical and Vocational Skills Development

Despite the importance given to TVSD by many governments, the training system in Africa is largely underfinanced. Generally, the provision of technical and vocational skills and especially formal TVET is expensive, since facilities, material, equipment and maintenance costs are high.

On average, only about 2 to 6 per cent of educational budgets are devoted to TVSD, and in many countries, it is mainly channelled toward formal TVET. Limited public-sector budgets have seriously constrained the ability of governments to provide adequate and stable funding to public sector training institutions. In parallel, training budgets are accorded little priority in many enterprises, resulting in under-training by firms[57]. Donors' support to training has been erratic and not sufficient to upgrade the quality and access to training. In addition to the general shortage of funds, the financing of formal TVET remains substantially fragmented, and piecemeal. The private training market does not operate with the same financing framework as public providers. A pressing issue for African countries is therefore not only to increase resources devoted to training but to make better use of existing funds.

African countries are moving towards a greater diversification of funding sources for skill development (including cost sharing, payroll levies, and income generation activities), the development of private training markets, increased competition between public and private training providers, and encouragement of more and higher quality enterprise training. At the same time, the state retains the crucial role of designing financial support mechanisms to facilitate access by the poor, disadvantaged and vulnerable. The challenge is to adopt all those financing mechanisms in combination as an integrated financing framework that will ensure equitable contributions from government, local communities, industry and the beneficiary trainees. The national training authorities which are being set up in several African countries are increasingly seen as the overarching bodies in charge of integrating the different funding mechanisms.[58]

In this light, the adoption of sectoral policies and action plans identifying the objectives and the financial resources available to achieve them is crucial to improve the transparency and clarity of the system, making the TVSD system "bankable", and therefore more attractive to financial and technical partners, from the donor community, business associations and industry.

1. Financing Pre-employment Training

Financing Public Training Institutions

In Africa, public pre-employment training is mostly financed by government's budgetary allocations. Most budgetary resources finance operational expenses (in particular teachers' salaries), while very little is allocated to investment, and maintenance of equipment. In Algeria and Senegal for instance 90 per cent of the government's budget which is allocated to training, finances teachers' salary.

In parallel with improving the management capacity of public institutions, in its financial framework for TVET, Ethiopia is thinking of introducing performance-based budgetary allocations, linked with the autonomy of public institutions, which could create incentives to improve the quality and the responsiveness of the institutions to the labour market.

An additional source of income is represented by the sale of production and service activities (e.g. consulting services to local enterprises) of trainees. The exposure to the local market provides hands-on working experiences to trainees and allows them to keep their skills up to date (see Box 37. This approach has been followed by the Ethiopian government which aims to recover a substantial share of recurrent costs of public institutions through more systematic income-generating activities. In particular, it encourages the management

57. A.Ziderman, (2007) *Op. cit.*

58. A. Ziderman (2007), *Op.Cit.*.

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Table 12 - **Percentage of Technical and Vocational Education Expenditures in Total Education Expenditures in Selected African Countries** (in m$/year)

Country	1990s		After 2000	
Algeria	…	…	2005-09(a)	13.0
Benin	1995	3.3	…	…
Botswana	1991	5.5	…	…
Burundi	1992	5.0	…	…
Cameroon	…	…	2007	2.3
Cape Verde	1991	2.9	2008	5.5
Chad	1994	2.0	…	…
Comoros	1995	5.7	…	…
Congo	…	…	2005	…
Côte d'Ivoire	1994	4.8	…	…
Democratic Republic of the Congo	…	…	2007	1.5
Equatorial Guinea	…	…	2005-07	<0.5
Eritrea	1994	1.6	2004/05	8.6
Ethiopia	1993	0.9	…	…
Gabon	1992	12.7	2008	13.9(b)
Gambia	1990	9.9	…	…
Ghana	1990	4.9	…	…
Guinea-Bissau	1993	7.5	…	…
Kenya	1993	-	2006/07	2.7
Lesotho	1994	3.3	…	…
Madagascar	1993	4.0	2006	1.0
Malawi	1992	1.1	…	…
Mali	1995	9.1	2004	9.6
Mauritania	1995	2.3	…	…
Mauritius	1990	1.2	…	…
Morocco	…	…	2007	…
Mozambique	1990	6.2	2003	2.3
Namibia	1995	2.0	2007/2008	2.0
Niger	…	…	…	…
Nigeria	…	…	2005	13.0
Senegal	1990	2.7	2007	9.0
Seychelles	1995	9.8	…	…
Sierra Leone	1989	4.5	…	…
Swaziland	1989	3.6	…	…
Tanzania	1989	3.6	…	…
Togo	1994	3.7	…	…
Tunisia	…	…	2006	6.1
Uganda	…	…	2006/07	3.6
Zambia	1989	4.6	…	…

Notes: (a) World Bank PER 2007; (b) Share of overall public capital expenditures
Source: African Economic Outlook country notes, and ILO World Employment Report 1998-99.

StatLink http://dx.doi.org/10.1787/320616417243

of public institutions to develop tailor-made training offers for industry and business and to deepen the relationship with the private sector.

In order to increase the provision of funds to public institutions, several African countries have implemented a skills-development levy on companies. Levies are usually set between 1 per cent and 2 per cent of the total payroll of the enterprise; proceeds are used mainly to support public-sector training provision, with the emphasis on initial training at formal public training institutions.

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Box 36 - Improving Schools Capacity to Carry Out Annual Budgeting in Mozambique

In the context of the first implementation phase of the Mozambique TVET reform process (PIREP 2006-2011), a review of 16 pilot schools in Mozambique was carried out as a way of identifying the institutional capacity and suggest short- to long-term recommendations. The evaluation reveals that "many of the schools' machines, equipment and tools are no longer functioning because no provision was made in the state budget for the purchase of spare parts and to service, maintain and repair the equipment donated by the donor countries. The fact that financial sustainability was not built into any of the bilateral assistance projects has created a serious problem for the TVET system which, if not addressed immediately, may impede the success of the TVET reforms, including PIREP. Financial information kept by the schools does not provide realistic financial information of the school. Schools do not conduct annual budgeting but instead depend on allocation of funds from the state. School financial statements also do not provide the real financial health of the school. For example, the balance sheet does not show the amount of assets and liabilities in the school. Fixed assets such as equipment are not amortised over time. In actual fact, many of the machines are already out of service for many years but still kept by the school". The review highlighted the need of undertaking a long-term approach to ensure financial sustainability of the TVET reform, especially beyond the pilot schools' life span. "The state must make provision for a realistic budget allocation for the (remaining) TVET schools, which should take into consideration an annual budget submitted by the school. The budget should provide for both recurrent and operating expenditure. The state should also make provision for capital expenditure in TVET schools. To encourage the state to provide realistic funds, an internationally recognised accounting practice should be adopted by the school. This will help alleviate concerns about irregularities in the administration of the finances and ensure that schools capture their financial position, more accurately." For this, it is crucial that capacity building programmes are undertaken at the level of school management.

Source: *Mapping of Mozambique PilotRreform*, May 2007.

Box 37 - Successful Examples of Public Institutions in Raising Income and Improving their Relevance

The Botswana Brigades (government-subsidised but community-owned TVET centres) generate external income by involving training in productive work and running independent production units in the centre. Production units serve the double purpose of raising some income for the TVET institution and improving the relevance of training through exposure of the trainees and instructors to the world of work. The whole concept of the Botswana Brigades was developed around such units with the added objective of contributing to local development by implementing (government sponsored) infrastructure development projects. This strategy has also been followed by the Lilongwe Technical College in Malawi. Prior to the reform, the college faced the common challenges of poor infrastructure, under funding, under-utilisation of capacity and a poor fit between training programmes and employers' requirements. Thanks to the development of relations with the private sector and the market, through the sale of products or consultancy services, LTC has improved the relevance of its training, which is now competency based, becoming one of the leading schools in Malawi.

Source: Implementation Issues of Diversified Financing Strategies for TVET, GTZ, 2006.

Cost-Sharing Schemes

Traditionally, training fees have been heavily subsidised, making only a very small contribution to covering the costs of TVET institutions. This can be a severe budgetary burden, in a context of scarce public resources. Some countries, such as South Africa, have implemented cost-sharing schemes, through the imposition of user fees to trainees or students enrolled in training courses. While some countries have opted for country-wide compulsory fees, others have left to individual training centres the possibility of setting the level of fees. In the former case, fees perceived by public institutions often accrue to the government, rather than remaining with institutions, this in turn translates into little incentives for the training institutions to develop market-oriented courses that could generate fee income. On the contrary, providing institutional autonomy to training centres to fix training fees has proved successful in some African countries.

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In general, trainees can contribute to sharing the burden of the training financing by paying upfront fees (covering a high percentage of the actual training cost), through loan schemes, or by paying ex-post a "graduate" tax as proposed in Ethiopia. Requiring students to contribute to training costs can actually help to foster commitment to learning. Evidence from Ghana shows that participants in the government's fee-free skill training and entrepreneurship programme (STEP) were consistently judged as being the least committed, with dropout rates of the order of 60 per cent at some institutions.

However, cost-recovery policies can also exclude disadvantaged candidates from training if there is no provision for assessing individual needs and supporting the poorest to overcome financial barriers. These risks can be mitigated by targeted subsidies directed at vulnerable groups in the form of scholarships and reduced fees. An AfDB funded project in Kenya is designed to improve the existing government bursary scheme as well as offer direct bursary support to disadvantaged secondary school students made up of AIDS orphans, girls and children from deprived rural arid and semi-arid land (ASAL) communities, like hard-to-reach nomadic communities. Of course, these measures might constitute an important burden on public budgets if the number of deserving candidates is high. Putting in place appropriate criteria to select the candidates can help achieve a balance between economic and social objectives. Nevertheless, screening requires the design of appropriate criteria, which should take into account the multi-dimensional nature of poverty. This includes not only the level of income but also the ability to access information. It is therefore crucial that screening criteria are backed by outreach strategies to reach the most disadvantaged target groups.[59]

Promoting Private Training Providers

In many countries, a further expansion of private training providers is considered a key strategy to expand formal and informal training in a sustainable manner. Indeed, the encouragement of private training institutions may represent an effective way of introducing more competitiveness into the sector and, in parallel, reduce the call on public funds.

Nevertheless, in general, private providers operate below international standards in terms of management and teaching quality. In Uganda, where private training providers train more than 80 per cent of formal students, the Uganda Association of Private Vocational Institutions – UGAPRIVI has made important efforts to increase the capacity of its members to deliver good quality services (see Box 37). It is therefore important for the state to monitor the quality of private institutions while at the same time providing financial and technical assistance to private training providers' associations.

Box 38 - The Role Of UGAPRIVI in Upgrading the Quality of Private Institutions

With the support of donors, UGAPRIVI (the Uganda Association of Private Vocational Institutions) has developed into a strong national network, with about 450 members. Its main aim is to foster collaboration between private training institutions throughout the country and to improve, not just the standards of the training provided, but also its relevance for the actual employment market. UGAPRIVI acts thereby as a mediator and an interface between its members, the private sector, the government and its development partners. It actively engages in the governance of the Business, Technical and Vocational Education and Training – BTVET – system at national level, and shapes the national policy for BTVET. UGAPRIVI has gained good reputation by improving the quality of the services provided by its members through advisory services and accreditation.

Source: www.UGAPRIVI. org.

59. Ziderman, A. (2006), *International Experience with Cost Sharing with Trainees/Students*, presentation, International Symposium on Implementation issues of Diversified Strategic strategies for TVET, GTZ,.

Expansion of private training institutions might be constrained by cumbersome investment regulations and uncertainty about the capacity and preparedness of private households to pay commercial training fees, especially outside urban areas. Indeed, non public training institutions which operate on a commercial basis need full cost recovery, applying fees that many poor household cannot afford. In order to reduce the cost of private training delivery and make it more accessible to the poor, the government of Uganda has recently decided on a policy to subsidise training in private institutions in the context of the Universal Post-primary Education and Training Policy. The government plans include indirect support especially for private informal training institutions through contributions to instructors' training and wages. Other measures to ensure access to non-public institutions for disadvantaged groups include the sponsoring of poor students with resources from levy funds, state budgets, NGOs and donors. [60]

2. Financing Continuing Training: Encouraging Enterprises' Participation

A more in-depth involvement of employers in the provision of training, through in-service training has a significant potential to increase cost–effectiveness in the training system and specifically to reduce relative expenditure for public training institutions. During in-service training, the employer covers the trainees' and instructors personal costs. It also provides for training facilities, either at a separate training workshop or integrated into the regular productive activities of the company. Encouraging in-service training was an important part of the Vocational Education and Training reform in Morocco, engaged since 1996, and an impact study reveal positive outcomes.

The investment of private enterprises in training can be favoured through a series of fiscal incentives, including direct subsidies (including subsidising apprentice wages), and fiscal deductions for training expenses, subsidies for capital expenses to improve training facilities, collective and individual agreements to insert training clauses into the labour contracts of trainees. The government of Botswana for instance provides a double tax-deduction scheme, which provided for a deduction of 200 per cent of expenses incurred by an employer on approved training of Botswana employees in their company. Nevertheless, the efficiency of the system remains limited since there is insufficient information available to potential users and it is complicated and cumbersome.

Box 39 - In-Service Training in Morocco- As Part of an Integrated Company Strategy

The development of human capital represents a major political objective of the Moroccan government. In this context, public authorities in conjunction with their social partners have been engaged since 1996 in a thorough reform of the TVET system including in-service training. Two major instruments have been implemented: An Inter-Professional Advisory Aid Groupings (*Groupements Interprofessionnels d'Aide au Conseil, GIAC*) and Special Training Contracts (*Contrats Spéciaux de Formation, CSF)*. Both mechanisms aimed at encouraging companies to develop in-service training as an essential element in the success of their modernisation plans.

The European Training Foundation in partnership with the Moroccan ministry in charge of vocational training carried out an assessment of public in-service training policies. The overall results of the evaluation are good: in particular, there is a positive effect of the use of Special Training Contracts on company balance sheets, and specifically in companies that use the contracts as an integrated tool, part of a genuine development policy. The most successful cases were those in which companies combined the modernisation of plant while developing new markets with a formal human-resources strategy. The companies involved in training declared more frequently that the competencies of their employees were part of their general strategy. Innovative firms (those which were modernising their plants) were more likely to provide training than others. On the other hand, companies solely interested in financial opportunities did not manage to benefit from this positive impact.

Source: European Training Foundation, 2008.

60. *Promoting Private Investment in TVET*, Op. Cit. 2006.

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In general, international good practice shows that stimulating enterprises to invest in training requires continuous efforts by the governments to raise awareness about training programmes and their benefits. Beginning in the late 1990s most African countries have set up National Training Funds with the support of donors to generate sufficient funds to support skills training and to motivate enterprises to train their staff. The Funds are public bodies administered by a board comprising employers' and employees' representatives whose main objective is the financing of continuing training both in the formal and informal sectors (see Box 40).

The creation of such funds was seen as an important step towards achieving a more equal share between enterprises in financing training activities, and towards the transition to demand-driven training. An important objective of the funds was to create new opportunities in the training market, though enhanced competition and the setting up of more transparent rules for the selection of different training providers, based on competitive bids. Many funds were created at the same time as employment and training observatories in charge of supporting the funds in the identification of the needs of artisans and businesses, and hence better tailor the provision for training.

Box 40 - **Examples of Funds' Missions in West Africa**

The National Training Funds are legally constituted and financially independent publically administered establishments. They are managed by either a management committee (Benin, Burkina Faso) or by a governing board (Mali). Their mission is to:

- Receive and manage resources for training and promotion of vocational education;
- Finance vocational training and employee re-training and apprenticeship, and collective projects for improving integration into the workforce or productivity enhancement;
- Finance studies to define and orient coherent vocational training policies in the light of national economic requirements;
- Promote continuing education and apprenticeship;
- Support businesses, craftsmen and economic actors from both formal and informal sectors, in professional associations or not, and help them identify and define training needs, and elaborate training programmes;
- Support vocational training institutions in implementing their programmes of building up physical and human resources and in reinforcing skills of trainers and training organisations.

Source: Walther, R. Gauron, A. *op. cit.*, 2006.

Box 41 - **An Integrated Approach to Skills Funding in South Africa**

In South Africa, continuing training is financed through a skills-development levy-grant scheme. The scheme is based on the introduction of a 1 per cent levy on firms' total payroll. All employers with a minimum annual payroll of 500 000 Rand are required to pay the levy. Eighty per cent of the levy goes to Sector Education and Training Authorities (SETAs) - 23 sectoral training funds administered by a board comprising employers' and employees' representatives, responsible for promoting skills within various economic sectors), which in turn return the resources as mandatory grants to the contributing firms or as discretionary funds[61]. The remaining 20 per cent goes to the National Skill Fund (NSF) to support basic adult education, and to help previously disadvantaged individuals and the unemployed to acquire critical skills. In addition to disbursing the levies, the SETAs are in charge of developing and implementing sector skill plans, undertake quality assurance, and support the National Qualification Framework. Overall SETA's and NFS are part of the overarching National Strategy for Skill Development which aims at addressing at same time economic (through the SETA's sectoral funds) and social objectives (through the NSF) in an integrated system. Nevertheless the actual functioning of the funds has attracted some criticisms. The SETA system of grants is perceived to be cumbersome and inefficient. Recent audit reports revealed that a large proportion of funds earmarked for the training of the employees are unutilised. This has impacted negatively on SETAs credibility, raising concerns about mismanagement and corruption.

Source: See country note in main text.

61. The allocation of discretionary funds depends on the decision of a SETA board. These funds can be allocated to train sectoral skills specialists, to help job seekers into new jobs, to raise skill levels among untrained, etc.

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The National Training Funds are financed by payroll levies (which can range from 0.5 per cent to 5 per cent of total payroll) which provide dedicated funding for skills development both in the workplace and in the broader labour market (see Box 41). In general, payroll levies are linked to reimbursed mechanisms, whereby the funds provide firms with grants related to the amount of designated forms of training they provide. Firms could then invest in training their work force, through in-service training or by sending workers to train externally (dual apprenticeship between the work place and specialised training institutions). In many countries, in addition to training levies, the funds draw from a variety of income sources, including donor funding and government allocations (see Box 40 and 41).

Box 42 - The Vocational Training Development Fund in Côte d'Ivoire and "Collective Training"

Côte d'Ivoire has long been convinced that the impact of vocational training on socioeconomic development can be boosted by additional financial contributions to the state budget. An apprenticeship tax was introduced as early as 1959.

A vocational-training development fund (*Fonds de développement de la formation professionnelle* - FDFP) was set up at the end of 1991, the fruit of the multiple reforms of the 1960s and the 1990s, the latest of which provides for the separation of the financing from implementation by public or private operators.

The FDFP manages the continuing-vocational-training tax (1.2 per cent of the wage bill) and the apprenticeship tax (0.4 per cent). Its resources are intended to finance the training programmes of enterprises, as well as forms of collective training for micro-enterprises and non subscribers through a mutualisation system. For the latter, the World Bank loaned USD 20 million to the government specifically to support the FDFP received a.

From 1993 to 2006, the FDFP carried out 24 590 training programmes that involved 483 000 employees, for the amount of about XOF 82 billion (CFA Franc BCEAO) or nearly EUR 125 million (Euro). In the course of this period, 188 000 people were able to benefit from collective-training offers, at a cost of XOF 34 billion, or about EUR 51 million.

In-house enterprise training has had a positive impact on the upgrading, reconversion, promotion or better integration of the employees involved.

There has also been a favourable impact on the social dynamics and organisation of the rural and suburban communities. Groups have found better ways to operate, work organisation has improved, there is a greater range of activities and income has increased.

The value of the FDFP approach for economic development – not to mention growth – is undeniable, and further and deeper studies should make it possible to draw greater benefits from the idea or at least to give it more public exposure.

Source: Pierre Henri Coffi, President of FDFP.

While in Tunisia and South Africa applications made to the Sector Education and Training Authorities –SETAs- and to the National In-Service Training Programme- PRONAFOC-, respectively come mainly from the formal enterprise sector, in the large majority of African countries, the fund is also responsible for financing traditional apprenticeships and dual apprenticeship schemes for both craftspeople and youth. This is the case for instance, of the In-Service Training Development Fund (FODEFCA) in Benin, and of the Training and Apprenticeship Support Funds (FAFPAs) in Burkina Faso and Mali. The funds have played a crucial role in those countries in filling the gap left by the state in providing access to training in the informal sector, especially concerning initial training for youth.

In South Africa and Tunisia, the main beneficiaries of the funds coincide with the contributors; however, in West African countries, there is a substantial cross subsidisation of training in the informal sector by firms

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in the formal sector. The financial resources of the funds are drawn from enterprises in the formal sector which not only finance the continuing training for their own employees but also contribute to financing initial training and traditional apprenticeships in the informal sector. Overall, in Benin, Mali and Burkina Faso, artisans and apprentices remain the main beneficiaries of the resources of the funds. The funds also finance training programmes for defined target groups, including women entrepreneurs.

In view of the growing funding needs for dual apprenticeships in the informal sector, the National Federation of Artisans in Burkina Faso is exploring ways of launching a mutual fund to finance apprenticeship, financed by its own members (through a tax on turnover). Nevertheless, in general, business and artisans should not be responsible for financing the initial training of apprentices, which should be a responsibility of the state. Indeed the financial burden on state training budgets cannot be alleviated by existing funds, whose primary mission remains that of financing continuing training.

Training funds sometimes fail to address the training needs of small and medium-sized enterprises. This mainly reflects the poor capacity of SMEs to comply with the administrative procedures required to access the funds. This is the case in Tunisia, for example. In 2004, out of about TND 40 million allocated to continuing vocational training, the vast majority of funds went to a few big public enterprises. Thus, of the 120 000 companies contributing to the payroll levy, only 1 700 of them took advantage of the grants, and 115 public companies received about 60 per of the total allocations of the fund. This situation is not uncommon; it shows that the identification of beneficiaries is a necessary prerequisite for the efficient use of training funds. SETAs in South Africa have adopted a pro-active attitude towards small businesses, through the issuing of cheques to be used for specific training by SMEs. [62] In order to cater for the needs of small enterprises, other countries have also put in place voucher schemes. In Kenya, for instance a small and medium enterprises voucher programme was launched already in 1996 and has proved to be very successful in meeting the needs of informal-sector business. An important objective of the scheme was to widen the pool of training providers (including master craftsmen), capable of catering to the needs of SMEs. At the same time private providers were appointed to distribute and market training vouchers. The use of these intermediaries was crucial in ensuring that vouchers were taken up and that advice and assistance was available to potential trainee applicants.[63]

Another main problem encountered by national training funds lies in the limited and delayed transfer of the total amount of the payroll levy from government's budgets. There are several cases in which "earmarked" training taxes (which amount to 1 per cent of total payroll in South Africa, and Mali and from 1-2 per cent in Tunisia) are absorbed into general government revenues rather than being used for the financing of public training. To overcome this problem, some countries, such as Cote d'Ivoire, have assigned some agents of the fund to work with the finance ministries to monitor the allocation process. In addition, during the first years of the implementation of the funds, the World Bank and other donors have contributed substantially to increasing the resources of the funds, but this support has recently come to an end, for example, in Benin and Mali, leading to a sharp drop in resources. This raises concerns over the long-term sustainability of training funds.

In general, most funds do not have genuine control over their financial resources, but remain dependent on uncertain and unpredictable disbursements from the finance ministries. In general, the functioning of the Funds would be enhanced by granting the greater financial autonomy since predictable resources are necessary for determining training strategies and priorities.

62. Walther, R. Gauron, A.Op. Cit., 2006.

63. A, Ziderman, Financing Vocational Training to meet Policy Objectives : Sub-Saharan Africa, World Bank, 2002 .

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By and large, with the notable exception of South Africa, training funds are not integrated into an overarching national strategy, and lack a well-structured policy for continuing training and dual apprenticeship, as well as a clear definition of the target beneficiaries and procedures which need to be put in place to address their needs. Additional efforts are needed to improve the visibility and the outcomes of national training funds in TVSD strategies and action plans.

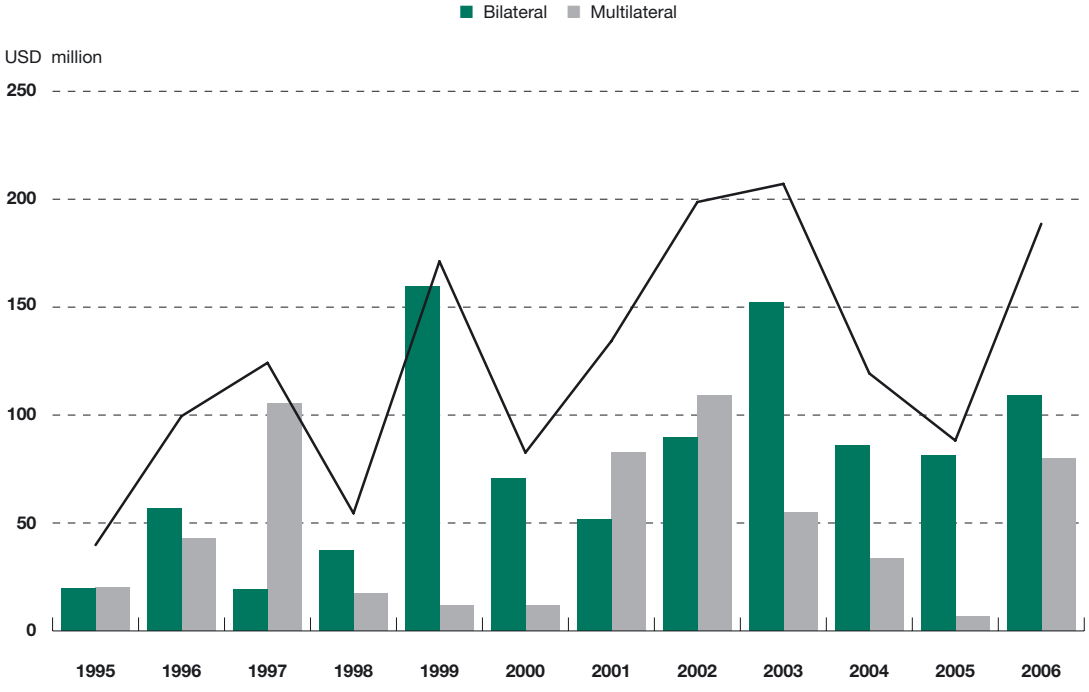
3. The Role of Donors

In the years following independence, TVSD in Africa was strongly supported by multilateral and bilateral aid agencies, which regarded training as a potential factor of modernisation for African societies. From 1964 to 1969, formal TVET was the second largest recipient of World Bank loans for education, accounting for nearly 20 per cent of the total amount loaned. However, the TVSD share of the World Bank education loans was cut to 10 per cent in the late 1970s and has decreased steadily since then, falling to 6 per cent in the 1993 and 1998 period.

The sharp drop in multilateral support to TVSD during the 1990s, is widely attributed to the outcome of the World Conference on Education for All (WCEFA, 5–9 March 1990) after which both bilateral and multilateral donor agencies increased the focus on expanding universal primary education, partly at the expense of initial youth training and continuing adult training.

Figure 11 shows that both bilateral and multilateral commitments exhibited large fluctuations over the period 1995 to 2006. Bilateral commitments reveal an upward trend. But multilateral commitments do not (they appear to fluctuate around an average of USD 50 million per year). In some years the fluctuations offset one another. According to the latest available OECD DAC statistics

Figure 11 - **Total ODA to Africa for Vocational Training Training**
(commitments in USD millions, 2005 prices)



Note: OECD Vocational Training definition: Elementary vocational training and secondary level technical education; on-the job training; apprenticeships; including informal vocational training. OECD/CRS Purpose Codes.
Source: DAC statistics, Creditor Reporting System.

StatLink http://dx.doi.org/10.1787/315825826604

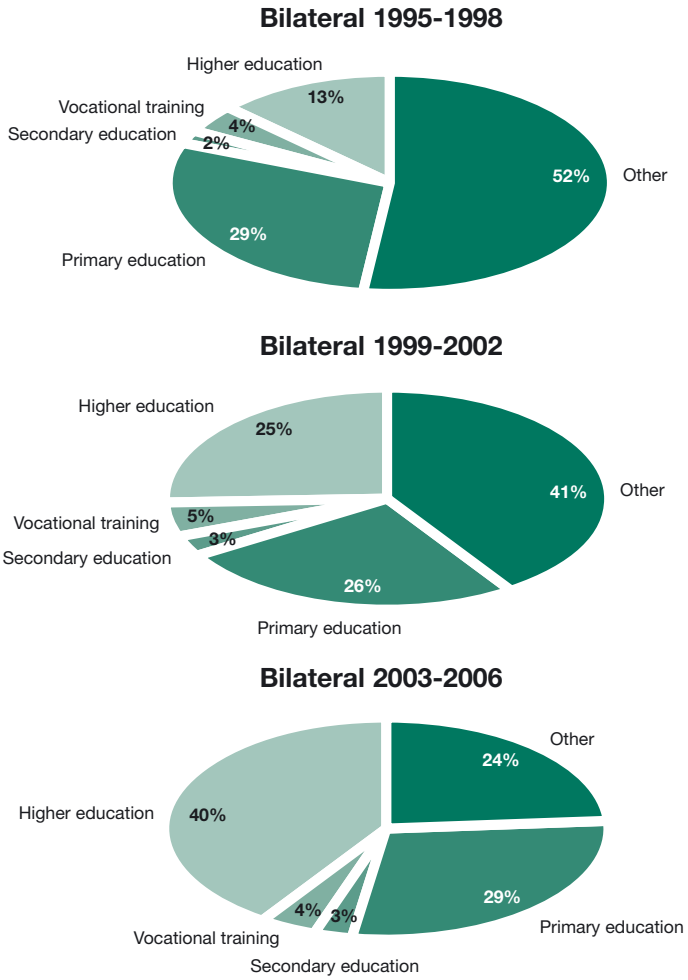
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the slow down experienced in 2004 and 2005 seem to have been reversed in 2006, where total commitments increased by 80 per cent compared to the average of the two previous years, to more than USD 180 million. The question will be whether this increase will be maintained for the coming years or whether the erratic pattern experienced over the last 15 years will continue.

The recent rise in the bilateral and multilateral ODA commitment to vocational training in Africa reflects the recognition that the education targets could not be reached by simply focusing on them alone. Rather they had to be reconceptualised and made just one part of much more holistic sectoral and inter-sectoral development projects. This holistic approach was emphasised by the Commission for Africa Report (2005), the Millennium Project (2005), and the World Bank policies on secondary, higher education and skill development.

Figure 12 shows the educational funding broken down by sub-sectors, which illustrate the rising importance of primary education in donors' commitment at the expenses of other categories. More specifically, the share of bilateral donor ODA commitments to primary education in Africa increased from 11 percent in 1995 to 27 per cent in 2000 and to 34 per cent in 2006. A similar trend appears for

Figure 12 - **Total ODA to Africa for Vocational Training**
(commitments in USD millions, 2005 prices)

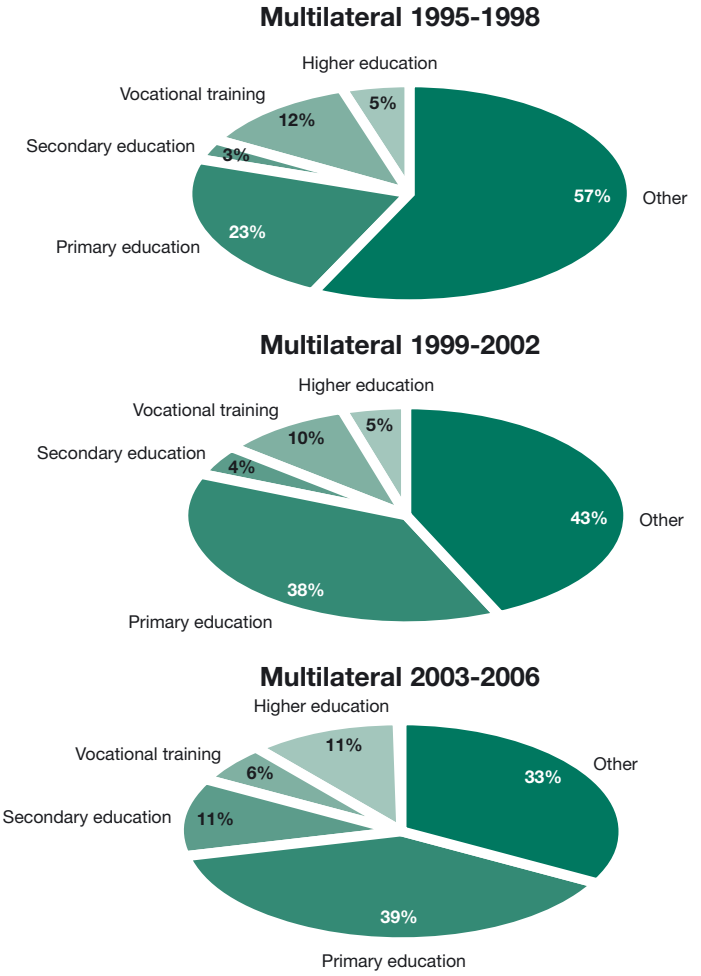


Note: Other includes policy research and teacher training.
Source: DAC statistics, Creditor Reporting System.

StatLink http://dx.doi.org/10.1787/315853084866

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Figure 12 - **Total ODA to Africa for Vocational Training** *(cont.)*
(commitments in USD millions, 2005 prices)



Note: Other includes policy research and teacher training.
Source: DAC statistics, Creditor Reporting System.

StatLink http://dx.doi.org/10.1787/315853084866

multilateral donor ODA commitments to primary education, which increased from 9 per cent in 1995 to 20 per cent in 2000 and to 25 per cent in 2006.

The share of vocational training in bilateral ODA commitment to education remains unaltered at around 3 to 4 per cent throughout the entire period. The share of multilateral donor ODA commitment to vocational training only increased slightly from 8 per cent in 1995 to 10 per cent in 2006, after having fallen to only 3 per cent in 2000.

Africa's regional share of the total bilateral ODA commitments to vocational training increased from 21 per cent in 1995 to 33 per cent in 2006, although its share had peaked in 2003 at 54 per cent. Africa's regional share of total multilateral ODA commitments to vocational training fluctuated even more extensively. Although the share more than doubled from 22 per cent in 1995 to 48 per cent in 2006, it had reached both 78 and 81 per cent in respectively 1997 and 2001.

In 1995, the World Bank and the European Commission were by far the most important vocational training donors in terms of commitments. Of the USD 19.8 million in 2005 constant prices, almost a third was committed by France, followed by the

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Netherlands, accounting for 25 per cent of the overall bilateral Aid amount. The other major DAC bilateral donors were Belgium (15 per cent); Switzerland (12 per cent) and Denmark (7 per cent).

By 2006 the picture had changed significantly. Bilateral ODA commitments to the vocational training sector in Africa has since 1999 been dominated by Germany whose rank amongst donors alternated between second and first (since 2004), and whose commitment in 2006 of USD 48.4 million exceeded both that of the African Development Fund (AfDF) (USD 43 million) and the EC (USD 36.6 million). Germany's share of 44 per cent of the total USD 109 million of bilateral ODA commitments in 2006 also by far distanced the other important bilateral donors including Spain (11 per cent); France (10 per cent); Luxembourg (7 per cent); Netherlands (7 per cent); Japan (5 per cent) and Belgium (5 per cent). These seven DAC donors were together responsible for 89 per cent of all bilateral ODA commitments to the vocational training sector in Africa.

Likewise, in 2006 two thirds of the total ODA commitments to vocational training in Africa was concentrated in 10 recipients with Uganda (14.15 per cent) and Mozambique (11.62 per cent) alone both receiving more than 11 per cent of the grand total each. The other major recipients include Egypt (9.92 per cent); South Africa (9.89 per cent); Senegal (9.22 per cent); Mauritania (7.99 per cent); Algeria (4.46 per cent); Morocco (3.22 per cent); Burkina Faso (2.85 per cent); and Ethiopia (2.53 per cent). These 10 countries together received 66 per cent of the USD 109 million committed to vocational training.

The situation was very much different in 1995, where the total bilateral ODA commitments of USD 19.8 million were even more concentrated amongst the 10 most important recipients, which accumulated more than 86 per cent. The ranking amongst those was also very different. In 1995 Côte d'Ivoire was the most important recipient with 23.60 per cent, followed by Zimbabwe (13.65 per cent); Chad (10.10 per cent); Eritrea (9.54 per cent); Togo (6.69 per cent); South Africa (6.67 per cent); Mozambique (4.77 per cent); Kenya (4.30 per cent); Angola (3.57 per cent) and finally Rwanda (2.69 per cent).

In many countries, donors' support to TVSD is currently channelled through the Sector-Wide Approach (SWAP), which entails an integrated and inter-sectoral approach to education. The SWAP approach is based on a sectoral policy document and global strategic framework, the existence of a sector medium-term expenditure framework and of an annual budget. The adoption of such a result-oriented approach is crucial to avoid duplication and fragmentation of support. A key challenge in this regard is to develop recipient-country capacity, especially bringing the planning processes of different ministries under a single institutional umbrella and developing strength to negotiate with and manage donors. Important efforts should be done also to improve donors' co-ordination and avoid the continuation of isolated, parallel projects in collaboration with various Ministries.

Past experiences show that many donors' projects are short-lived because they do not include a sustainable funding strategy, they are not integrated in the local context, and they do not sufficiently involve local communities. Additional efforts are necessary to improve alignment with national and local priorities, and to redirect donors' human and financial resources towards providing skills for the informal sector, which is too often forgotten, despite its primordial role in alleviating poverty and promoting development in Africa.

In order to improve co-ordination and harmonisation, donors and national governments need to monitor, assess and disseminate their research and consultancy insights on this complex but crucial sub-sector. Thus already in 1996 a donor network called the Working Group for International Cooperation in Skills Development was formed as a vehicle for knowledge-sharing. The Network is an informal group of bi- and multilateral donor agencies and international organisations involved in international assistance to TVSD. Its Secretariat includes the Swiss Agency for Development and Cooperation (SDC), the International Labour Office (ILO) and the Network for Policy Review Research and Advice on Education

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and Training (NORRAG). In 2005, another International Group of Vocational Training Experts (GEFOP) has been set up by the French Development Agency (AFD) to provide better documentation in the area.[64] The first conference of GEFOP took place in Paris in November 2007 and focussed on three themes of strategic importance both within national policies and in donors' interventions: Training in the informal sector, training in the rural areas, and financing and regulation of TVSD. Youth inclusion in the labour markets was a transversal theme to the whole conference.

These initiatives provide a platform for policy learning from donors' and practitioners' insights, highlighting innovative and successful examples of donors' supported projects, which are aligned with national efforts and integrated with the specific local context.

TVSD in Specific Contexts

The development of relevant skills facilitates the application of new technologies, increases individuals' employability and enterprises' productivity and competitiveness. Nevertheless TVSD by itself is not sufficient. To be fully effective, it needs to form part of integrated policies directed at economic growth and employment. An understanding of some of the socio-economic contextual issues under which skills development is carried out in Africa is essential. To this effect, the issues of youth unemployment, the fragile nature of some states in Africa and migration require special attention. Indeed, African countries are confronted with the challenge of increasing productivity while at the same time absorbing the growing share of unskilled unemployed youth; or recreating human capital in fragile contexts in order to prevent further social conflicts, as well as retain the educated young people and skilled professionals needed for their development.

1. Youth Unemployment

Young people aged between 15-25 represent more than 60 per cent of the continent's total population and account for 45 per cent of the total labour force. Unlike other developing regions, sub-Saharan Africa's population is becoming more youthful, with youth as a proportion of the total population projected at over 75 per cent by 2015, due to the high fertility rate underlying the demographic momentum. It is expected that this increase in the number of young people will not decline before 20 years or more.

It is estimated that about 133 million young people (more than 50 per cent of the youth population) in Africa are illiterate. Many young people have little or no skills and are therefore largely excluded from productive economic and social life. Those that have some education often exhibit skills irrelevant to current demand in the labour market, in a situation where educational and skill requirements are increasing, resulting in millions of unemployed and underemployed youth. The incidence of youth unemployment in sub-Saharan African is estimated to be over 20 per cent.

Too often, vocational training is seen as a means to "help bring young people back" when the basic education system has failed (the notion of giving a second chance), or as a top-up to the basic knowledge base young people will need, to help prepare them for the immediate needs of the world of work (the notion of continuous adaptation or re-adaptation to a flexible and constantly changing labour market). This type of vocational training needs be replaced or supplemented by an educational option which can provide young people with a maximum set of durable achievements in terms of literacy, basic knowledge and lifelong learning skills. Vocational training also has a very specific purpose, namely, to improve skills related to specific technologies and to develop them further in the work place.

However, vocational training as a single intervention is likely to be insufficient to overcome a context of high levels of youth unemployment because of serious difficulties in integrating youth into the labour market, especially amongst early school leavers. The reason

64. GEFOP, established in 2005, looks particularly at the following countries: Thailand, Viet Nam, South Africa, Algeria, Morocco, Tunisia and Senegal, but also at Germany, Spain, France and United Kingdom. www.gefop.org.

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being that poor skill levels are only one of a myriad of factors leading to youth unemployment. To counter this and make TVSD successful other reforms including labour-market policies for young workers need to encompass training as part of an integrated and targeted package that recognise the array of labour market barriers that youth face. This is important if the training programmes are to be successful. Some of the most powerful of these barriers to employment opportunities for many young people are: lack of job creation, vulnerability of young workers to layoffs when economic growth falters, high labour costs or unrealistic wage expectations on the part of youth, discrimination (i.e. negative attitudes towards inexperienced young workers), poor access to fundamental education (e.g. the lack of skills from limited job experience and hence little access to on-the-job training), government policies that discourage work, rapid economic change, and the compounded labour-market disadvantages that accompany poverty.

Understanding these core causes of youth unemployment is an essential first step before costly investments in TVSD are made. Perhaps due to the lack of this understanding, much of the training offered to young unemployed people is said not to have lived up to its expectations when subjected to rigorous evaluation of training programmes, which in general have not yielded positive results in raising incomes and job offers for these workers.

As highlighted earlier, most school leavers, especially early school leavers, find work in the informal sector. The case of Benin and Senegal, illustrated earlier, show important efforts to expand and upgrade informal apprenticeship to enhance the employability of young people. The ILO has made other important efforts to support youth transition to work. In particular, it supports dual apprenticeship systems in combination with initiatives to improve access of girls, disabled and other vulnerable groups to training, and with the

Box 43 - **Enhancing Employability for Youth through Apprenticeship**

The ILO supports apprenticeship training which enables to enhance employability of youth and improve access to decent employment through:

- improving quality and relevance of skills training, e.g. by complementing training on-the-job with theoretical training or by providing master crafts people in informal apprenticeship with technical, entrepreneurial and pedagogical skills;
- combining skills training with development of literacy and numeracy of the low-educated apprentices;
- developing national schemes for recognition of skills through assessment and certification of skills, irrespective of whether they were acquired in the informal or formal apprenticeship system;
- introducing social protection for apprentices to reduce adverse impacts of accidents and health-related risks;
- providing post-training support for graduates through access to microfinance and other support for self-employment;
- eliminating incidence of child labour and improving access of girls, disabled and other vulnerable groups to training;
- strengthening social partnership in training and employment

The EU-funded and ILO-executed current project in Niger combines skills training on the job with the development of functional literacy of apprentices; provision of social protection to the trainees; introduction of competence-based qualifications; training of master trainers; and enhanced dialogue with the social partners involving the National Federation of Artisans.[65] Furthermore, the ILO is undertaking research on apprenticeship in West and East African countries (Ghana, Mali, Tanzania) aiming at integrating apprenticeship into Decent Work Country Programmes.

Source: Nübler, I., *Upgrading apprenticeship in the informal economy: an institutional approach,* Skills and Employability Department, ILO, Working paper (forthcoming).
ILO (2008), *Apprenticeship in the Informal Economy in Africa*, Report on workshop held on 3 and 4 May 2007, Skills and Employability Department, Geneva (forthcoming).

65. Data from the project *Appui à la formation professionnelle continue et à l'apprentissage*. ILO/EEC. 2008

Box 44 - An Employment-Creation Initiative in Nigeria

In 1986, the Nigerian Government formed the National Directorate of Employment (NDE), a legally constituted body to tackle the unemployment problem in the country. NDE established a Vocational Skills Development Programme, which includes a National Open Apprenticeship scheme (NOAS), and a Waste-to-Wealth programme. The NOAS provides vocational training to the unemployed youth and school leavers in over 100 trades, by utilising the services of fully qualified and experienced instructors from private industries, government institutions and even from the informal sector. By using such a variety of instructors the programme is in line with the demands of both wage-employment and self-employment. The duration of the training is between 3 months and 6 years and theoretical lessons are offered over weekends. Between 1987 and 2000 it had benefited over 600 000 unemployed youth and of these over 400 000 had started their own enterprises. The Waste-to-Wealth programmes trains the unemployed in projects that turn waste into objects of value. A second programme is contained within the National Poverty Reduction Programme (NPRP). The NPRP mainstreams youth employment creation into its national policies. Out of the four interventions in the NPRP, one focuses on the youth: The Youth Empowerment Scheme (YES). The YES has three components, all with youth empowerment in mind. These are the Capacity Acquisition Programme (CAP), Mandatory Attachment Programme (MAP) and the Credit Delivery Programme (CDP). The CAP scheme provides the youths with skills for three months and at the end the youths are provided with credit in cash or in kind to set up their own enterprises. The MAP is essentially an internship programme where the youth (school leavers and graduates) are attached to established companies, while the government supports them with a stipend. This is a 3 to 6 months internship programme. It can be tailor-made to suit youth,, adults, the long-term unemployed and the recently laid-off .

Source: African Development Bank.

introduction of social protection for apprentices, and the provision of post-training support for graduates through access to microfinance and other support for self-employment.

Nigeria provides an example of an employment-creation initiative, for unemployed youth though vocational skills-development programmes (see Box 43).

2. Fragile States

In the aftermath of war, large numbers of people, many of them youths, become trapped in a cycle of violence, often because of a lack of educational and employment opportunities and sometimes because they lack the skills, abilities, or motivation to continue to learn or progress along a career path. TVSD is especially important in post-conflict situation, since it can facilitate economic reintegration and the restoration of sustainable livelihoods. The extension of access to, and improvement in, the quality of basic services also depends on the level of skills and institutional capacity in the public administration, at central and local levels. In practice, however, most training delivery modalities are non-existent during conflict and in post-conflict situations. External agencies are usually the only training providers, and their programmes are often short term and target only parts of the population. The programmes tend to be predominantly non-formal in nature.

The provision of education and training is a vital part of reintegration and reconstruction programmes and is an important part of UNESCO's work. During conflict or other emergencies, the provision of education is seen as the fourth pillar of humanitarian response. Indeed, UNESCO is committed to building on its current experience in this respect, in order to develop a strategy to assist those of its Member States emerging from conflict, e.g. by integrating ex-combatants into TVSD programmes. It works in co-operation with the Interagency Network for Education in Emergencies (INEE), other UN agencies, NGOs, and national and international organisations.

In many post-conflict settings, TVSD as part of Disarmament, Demobilisation and Reintegration (DDR) programmes (led by the United Nations) is a major aspect of the skills training provided, and is mainly targeted at ex-combatants. Today, DDR is an integral part of UN peacekeeping missions as well as of post-conflict reconstruction plans. Skills development (and economic development) is seen as an integral part of DDR. The success of the reintegration components of such programmes is vital for sustainable peace and

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development, for only when ex-combatants feel that they have an alternative for making a living, can peace and stability gain a real foothold. In Liberia, for example, where the conflict was the primary humanitarian crisis in West Africa for much of the 1990s with over 850 000 externally displaced refugees and much of the remaining population internally displaced (the fourteen-year conflict ended in 2003), much of the DDR TVSD programming was implemented through an 'Arms for Training' campaign wherein a collection site was set up and vouchers for training programmes were exchanged for weapons. According to the United Nations Mission in Liberia, who led the DDR process, 94 000 of the 100 000 men, women and children who were disarmed former combatants were given access to the rehabilitation and reintegration programmes in the campaign, which was funded by the UNDP DDR Trust Fund, USAID, the European Commission and UNICEF. The training often included skills and/or vocational training components and were often sub-contracted to local and international non-governmental organisations. The training provided focussed on construction, agriculture and business skills. Programmes geared towards women included cooking, domestic skills and small business management. The majority of the demobilised children also chose vocational-related training options, such as agricultural vocational training.

In Sudan, home to the longest-running conflict on the continent, the majority of the population in southern Sudan was denied access to schooling during the war years. Formal TVET training hardly exists in southern Sudan. The most common training programming involves livelihood skills at the community level. *Vétérinaires sans frontières (VSF)-Belgium*, for example, trains pastoralist groups in techniques that improve animal husbandry practises. Other NGOs work with farming communities to increase crop yields. Such livelihoods skills training programmes build on local knowledge or introduce innovation in a skill that is already practiced. Another international NGO, Catholic Relief Services (CRS), established about half of all two dozen training centres that currently exist in southern Sudan. In the absence of a southern Sudanese vocational curriculum, NGOs typically establish their own training curriculum at each centre or adapt Kenyan or Ugandan curricula. However, this is strongly opposed by the Ministry of Education, Science and Technology.

Although the implementation of TVSD programmes varies in different post-conflict contexts, there are some trends and problems which can be identified. Formal TVET programmes are rarely tied to skills demanded by the labour market. In fragile and poorly functioning post-conflict economies, the need for skilled labour is huge. However, paid employment opportunities are usually scarce given the state of the economy. This disconnect between training and employment opportunities is perhaps the most significant obstacle of existing TVSD initiatives in countries post-conflict. In Liberia, for example, there is very limited diversity in the existing TVSD programmes associated with DDR, as most have a strong focus on construction-related industries. This emphasis, while well-intentioned, largely failed to improve the livelihoods of the participants in the training, and often flooded particular labour markets while others remained under-represented. In southern Sudan, training programmes that focus on traditional skills – e.g., agriculture, fishing – are more successful than those which focus on trades such as carpentry or masonry, which are often taught in the formal training centres. The reason for this is that markets in southern Sudan are not large enough to employ graduates with these skills. In northern Uganda, given its rural economy, formal TVET cannot generally be expected to result in wage employment. The livelihood options for the majority of people consist of entrepreneurial self-employment, or, more realistically, small-scale agriculture or petty self-employment. It is crucial that education and training in northern Uganda reflect this fact[66].

Overall, in post-conflict countries the training capacity needs to be urgently revitalised, including the re-equipping of training courses and re-establishment of quality assurance in education and training, while at the same time, demand driven and flexible training

66. Information provided by UNESCO-UNEVOC, www.unevoc.unesco.org

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programmes must be delivered to quickly train the population and enable communities for revival. The need to build national training systems and establish proper governance and financing mechanisms for skills development is also considered essential in the medium term.

3. Migration

The report of the ILO Director General on the Decent Work Agenda in Africa (2007 – 2015) for the Eleventh Africa Regional Meeting in Addis Ababa has identified the lack of decent work opportunities and widening disparities between job creation, employment rates and increases in the numbers of job seekers joining labour markets as reasons for the heightening migration pressures in many Africa countries.

A critical policy concern in African and OECD countries alike is the effect of high rates of emigration to OECD countries among highly skilled Africans – doctors, nurses, teachers, engineers. Should similar concerns be expressed regarding people with middle-range technical skills? To answer that question, it is useful to look a little more closely at the patterns of mobility of Africans of various skill levels.

Is Africa losing skilled workers critical to national development in large numbers? Recent work by the OECD[67] demonstrates first of all that Africa, overall, is not an important source of immigrants in OECD countries, either among low-skilled or high-skilled workers. In 2000, only 8.8 per cent of foreign-born highly educated people in OECD countries were African; and only 9.6 per cent of the foreign born with low education levels were African. Among these, 49 per cent of the highly educated African emigrants came from the middle-income countries of North and southern Africa; 68 per cent of the poorly educated African emigrants came from those countries. By contrast, 50 per cent of the foreign born in OECD countries were born in other OECD countries. Thus, neither Africa in general, nor low-income countries within Africa particularly, are well represented among immigrants in the OECD.

From the perspective of African countries, however, the answer is more complicated. Because the number of highly-educated people is relatively small in most African countries, even moderate out-flows loom large in relative terms. Thus, if we define the brain drain as the proportion of a country's university-educated nationals living in the OECD, we find that 21 of the 40 countries with the most acute brain drain problems are African. For some, more than half of their university educated population lives in the OECD. Another way of looking at these population flows is to compare the number of an African country's highly educated emigrants to the OECD, to its total number of emigrants to the OECD. For most countries in sub-Saharan Africa, this ratio is well above a third, and around 50 per cent for many (Lesotho, Namibia, Nigeria, South Africa, Zambia, and Zimbabwe). That means that the skill composition of emigration flows is not at all representative of the skill composition of these countries' workforces over all.

Is the brain drain harmful to African countries? This is a controversial question. The loss of skilled people, especially for the poorest countries and in critical sectors like health and education, certainly imposes important costs on those countries. But there are positive effects as well. The prospect of emigration can encourage more people to acquire more training and education; if some of those people ultimately do not emigrate, this can create positive economic benefits for their countries. Moreover, emigration can provide people with opportunities to acquire further experience and skills that can redound to the benefit of their home countries through remittances, investments, diaspora networks, circular migration and the possible return of the migrant.

At the same time, the negative effect of the departure of skilled workers may not be as large as expected. For example, some sub-Saharan African countries are losing

67. OECD (2004/2005), *OECD Database on Expatriates and Immigrants*, www.oecd.org/els.; OECD (2007), *Policy Coherence for Development: Migration and Developing Countries*, OECD Development Centre Perspectives, Paris.

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worrisome numbers of nurses to OECD countries. But in some cases, the health care sectors in those countries are losing as many or more nurses to other sectors of the economy. In both cases, nurses are leaving health care because of poor working conditions and pay, but emigration of health care workers may, thus, be as much a symptom as a cause of problems in the heath care sector.

Will the acquisition of "middle-level" skills make Africans more mobile? In particular, if governments do a better job at training technicians and mechanics, do they risk losing a significant share of this investment to OECD countries? The evidence from the behaviour of more highly-educated Africans makes it hard to generalise. It suggests, nevertheless, that higher-skilled workers are more likely to emigrate to the OECD than low-skill workers. To minimise the cost to sending countries associated with the potential loss of workers of both high and middle level skills, an interesting policy proposal in OECD countries is the introduction of flexible instruments (e.g. visas, labour market access permits) to permit greater circular mobility. Circular movement holds the promise of reducing the costs of brain drain, by allowing or even encouraging greater participation by migrants in their home country's economy. The skills deficit in some countries could be addressed by supporting projects which allow the professional reinsertion and gainful employment of skilled emigrants returning to their home countries.

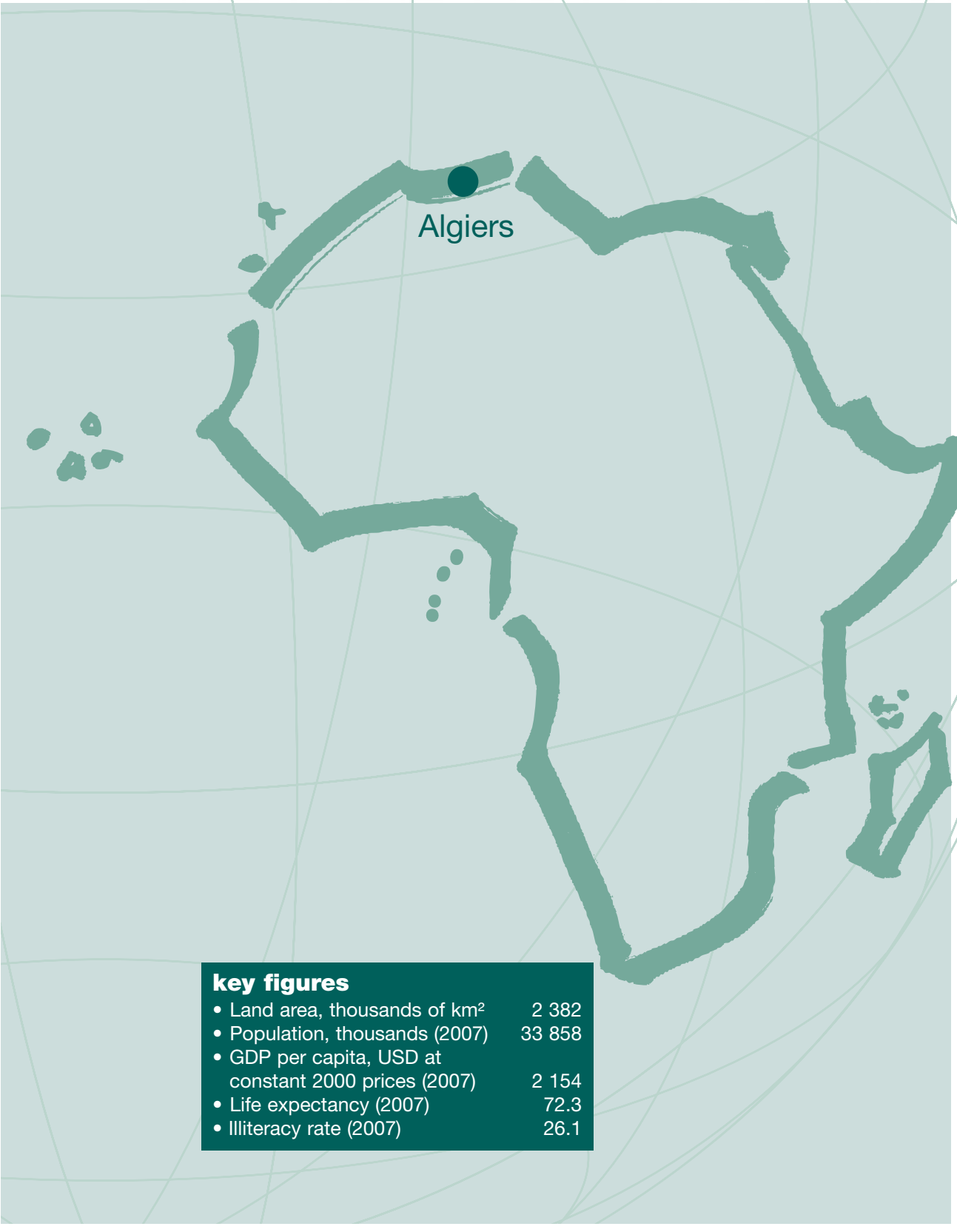
Finally, if the beneficiaries of enhanced TVSD programmes find themselves tempted by opportunities outside their home countries, it is arguably the case that these opportunities will be in other African, not OECD, countries (as anecdotal evidence of Mozambican automobile mechanics working in South Africa suggest). If so, African governments may wish to study regional mobility schemes in appropriate forums (e.g. ECOWAS, SADC) to promote greater opportunities for legal movement of nationals. Evidence from migrant corridors around the world suggests that more regular, legal movement increases the ease with which migrants can send home remittances through legal channels. Creative solutions are clearly necessary since efforts to thwart cross-border movements typically come at a high price to the individuals concerned, are politically unpopular, and are usually ineffective.

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Part Two



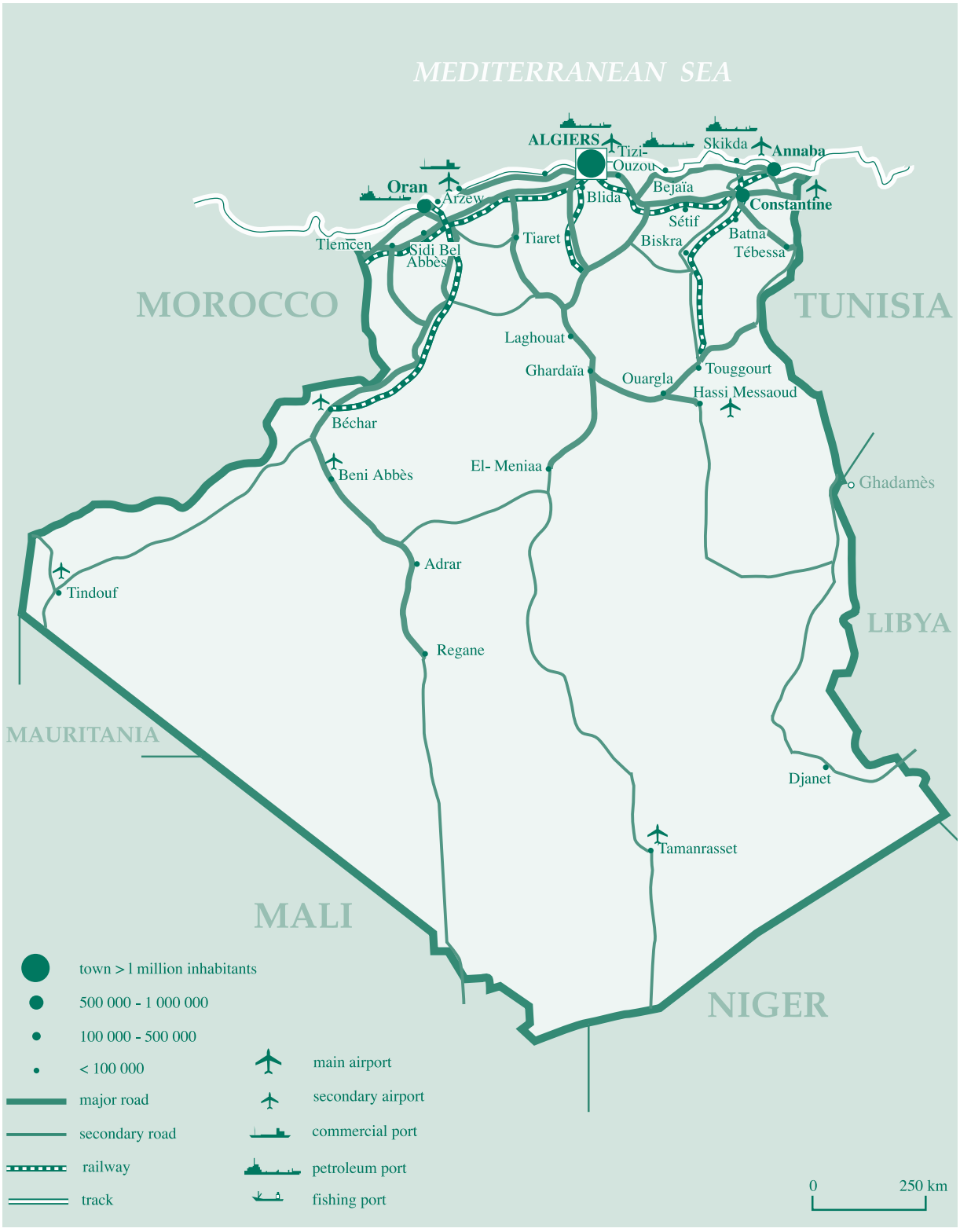
Algeria



key figures

• Land area, thousands of km²	2 382
• Population, thousands (2007)	33 858
• GDP per capita, USD at constant 2000 prices (2007)	2 154
• Life expectancy (2007)	72.3
• Illiteracy rate (2007)	26.1

Algeria


MEDITERRANEAN SEA
ALGIERS
Tizi-Ouzou
Skikda
Annaba
Oran
Arzew
Blida
Bejaïa
Constantine
Sétif
Batna
Biskra
Tébessa
Tlemcen
Sidi Bel Abbès
Tiaret
MOROCCO
TUNISIA
Laghouat
Ghardaïa
Ouargla
Touggourt
Hassi Messaoud
Béchar
Beni Abbès
El- Meniaa
Ghadamès
Adrar
Tindouf
LIBYA
Regane
MAURITANIA
Djanet
Tamanrasset
MALI
NIGER
town > 1 million inhabitants
500 000 - 1 000 000
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fishing port
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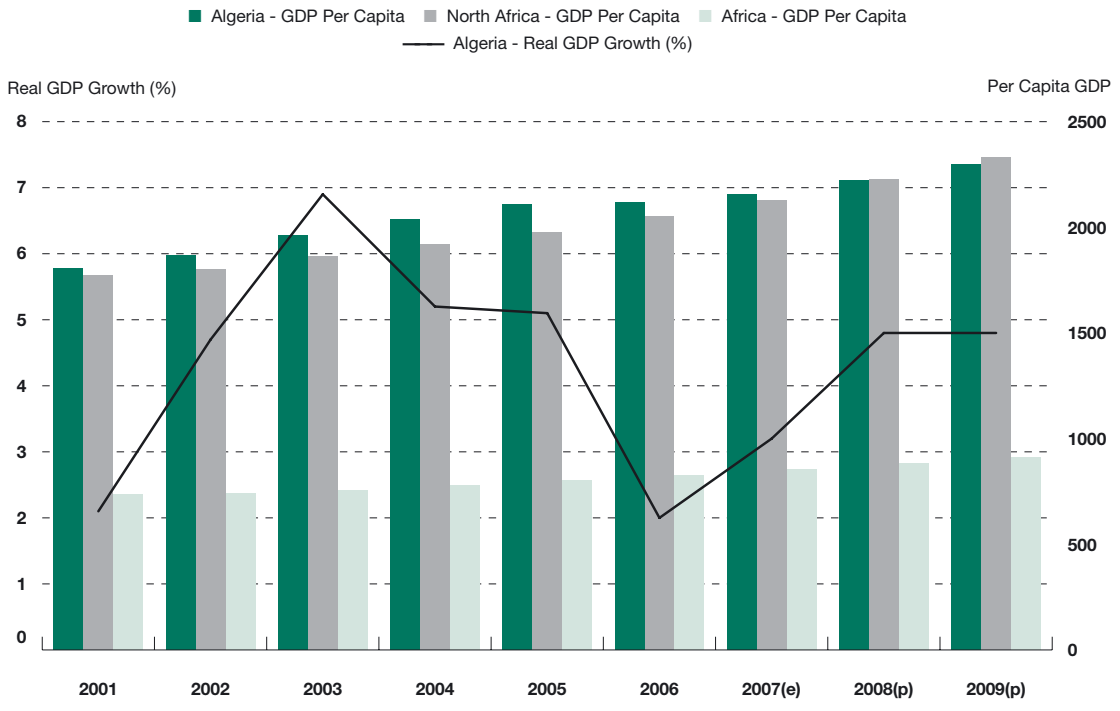
Algeria

A FAVOURABLE INTERNATIONAL SITUATION and good control over macroeconomic aggregates have enabled Algeria to maintain respectable levels of economic growth since 2002; these remain beneath the country's potential, however, particularly in non-hydrocarbon growth. The continued increase in revenue from hydrocarbons has allowed the country to achieve high investment rates and controlled wage increases, but unemployment remains high, especially amongst young people. The country has been able to discharge most of its external, public and multilateral debt thanks to prepayments. Compared to economies with a similar revenue level, the Algerian economy is still poorly diversified, and the contribution of the private sector to total GDP remains weak.

With funding of USD 150 billion (US Dollar), over the 2005-09 period the Complementary Plan for Growth Support (Programme complémentaire de soutien à la croissance - PCSC) aims to finance major projects that will generate employment and externalities, as well as accelerate structural reforms. The plan must nevertheless take into account the inadequate absorption capacity of the economy, particularly in the areas of project sizing and implementation, as well as the efficiency of public spending. The projects included in the plan are in the process of being re-evaluated in accordance with the recommendations of the World Bank. Lastly, in order

Most of the external public debt was paid off early, but high dependency on hydrocarbons persists.

Figure 1 - **Real GDP Growth and Per Capita GDP**
(USD at constant 2000 prices)



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

StatLink http://dx.doi.org/10.1787/316028130636

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to address institutional shortcomings and problems of governance, the authorities are determined to complete successfully the structural reforms that have been launched, notably in the banking sector and the tax system, and to reinforce reforms relating to the business climate, to the public sector and to agriculture.

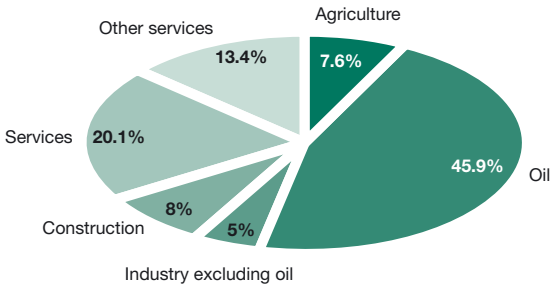
Recent Economic Developments

Following weak growth of 2 per cent in 2006 due to a 2.5 per cent fall in hydrocarbon production, GDP grew by 3.2 per cent in 2007. Non-hydrocarbon GDP (NHGDP) growth was 6.4 per cent. Due to strong increases in public spending and in imported inflation, the rate of inflation was 3.8 per cent, as against 2.5 per cent in 2006. Growth remains dependent on hydrocarbon revenues. The construction sector, which is strongly influenced by the government budget, registered growth of only 9.5 per cent in 2007, as against 11.5 per cent in 2006. Services and agriculture, with growth rates of 6.9 and 5.9 per cent respectively, performed better in 2007, while industry, with a growth rate of only 1.1 per cent, continued to slow down.

Algeria remains a major hydrocarbon-exporting country. Gas exports, mostly to Europe, are expected to reach 100 billion cubic metres in 2010, as against 64 billion in 2006. Hydrocarbon exports, reaching DZD 4 112 billion (Algerian Dinar) or USD 58.2 billion, represented nearly 97.8 per cent of total exports in 2007. The average export price of Algerian crude oil continued to rise, from USD 65.8 per barrel in 2006 to USD 75 in 2007. The share of GDP of hydrocarbons was 45.9 per cent, even though, due to technical and equipment maintenance problems, the growth of this sector again fell in 2007, by 0.7 per cent. In anticipation of continued price rises in the years to come, the authorities are planning to limit the expansion of hydrocarbon production and have opted to protect proven reserves and maintain revenues through to 2011 at the level of the average for recent years, that is, around USD 55 billion.

The industrial sector, which now only represents 5 per cent of total GDP, showed very slight growth of 1.1 per cent in 2007, as against growth of 2.8 per cent in 2006. This weak growth is due mainly to the mediocre performance of the private sector and the decline in public manufacturing industries. Only the mining and quarrying, energy, and wood and paper sub-sectors, and the iron and steel and metal industries showed positive growth in 2007. The highest growth was in mining and quarrying (largely due to strong growth in phosphate and iron ores), followed by the electricity and gas sub-sector. All other sub-sectors (leather, textiles, building materials, chemistry and agribusiness) showed significant falls in production in 2007. Even though industrial production in the public sector grew by 0.6 per cent in the first six months of 2007, following a drop of 0.3 per cent in 2006, the national industrial sector remained slack overall due to the fall in the share of private industry in total value added. It is estimated that public industry has lost more than 80 per cent of its potential since 1989 (1989 = index 100). Overall, for over a decade, there has been a continued fall in production (and therefore, in production capacity) of the public industrial sector, apart from the sub-sectors

Figure 2 - **GDP by Sector in 2006** (percentage)



Source: Authors' estimates based on IMF data.

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of energy, mining and quarrying, and, more recently, iron and steel.

Spurred on by government expenditure on capital equipment, construction was the most dynamic sector in 2007, with a growth performance of 9.5 per cent; this was however lower than the 11.6 per cent registered in 2006. This sector contributed more than 8 per cent to total GDP. The sector's driving force was housing construction.

The agricultural sector grew by nearly 5.9 per cent in 2007, as against 4.9 per cent in 2006, and its share of GDP reached 7.6 per cent. Agricultural production was slightly higher than the average of 5.5 per cent for the last five years, due to the effect of good performances in 2006 in the branches of cereals (+13.8 per cent), viticulture (+19.2 per cent), citrus fruits (+8.4 per cent), kernel and seed fruits (+27.3 per cent), and milk (+8.2 per cent). Fruit production seems to be taking off, with larger areas being given over to orchards, which came to over 1 000 000 hectares in 2006, as against 518 000 in 1999, while the areas devoted to table grapes increased by 56 000 to 107 000 hectares over the same period; this led to a growth in exports of fresh fruits. On the other hand, there were marked drops in certain branches that have a strong impact on the population's food consumption and on farmers' incomes, such as white meat, olive growing, honey, dried pulses, dates and mass-produced tomatoes.

The market-services sector, which represents 20.1 per cent of GDP, increased by 6.9 per cent in 2007, as against 6.5 per cent in 2006; the largest branches are transport, communications and trade. Other services, which represented more than 13 per cent of total GDP, were pulled by growth in the public-administration services, which more than doubled (+6.5 per cent) compared to 2006 (+3.1 per cent).

Demand composition in 2007 was characterised by a continued investment effort, which increased in volume by 8.8 per cent and contributed 3.1 per cent to GDP growth. Industrial investment remained marginal, however, which is an indication of the weak diversification of the economy. Final consumption in 2007 increased by 2.8 per cent. There was identical growth in public and private consumption.

Although total exports in 2007 fell in terms of volume, they grew by more than 8.9 per cent in value, while imports grew even more strongly, by nearly 27.9 per cent. In spite of their growth, non-hydrocarbon exports barely exceeded the symbolic level of one billion dollars (USD 1.31 billion), and remained too weak to make a significant contribution to growth. Only a

Table 1 - **Demand Composition**

	Percentage of GDP (current prices)		Percentage changes, volume			Contribution to real GDP growth		
	1999	2006	2007(e)	2008(p)	2009(p)	2007(e)	2008(p)	2009(p)
Gross capital formation	**26.2**	**29.7**	**8.8**	**7.2**	**8.2**	**3.1**	**2.7**	**3.1**
Public	8.2	11.8	10.0	7.5	10.0	1.4	1.1	1.5
Private	18.0	17.9	8.0	7.0	7.0	1.7	1.6	1.6
Consumption	**68.4**	**43.1**	**2.8**	**5.2**	**5.2**	**1.8**	**3.2**	**3.3**
Public	16.8	11.3	2.8	3.2	3.5	0.4	0.4	0.4
Private	51.6	31.8	2.8	5.7	5.7	1.4	2.8	2.9
External demand	**5.4**	**27.3**				**-1.6**	**-1.1**	**-1.6**
Exports	28.2	48.9	-0.4	1.7	2.3	-0.1	0.5	0.6
Imports	-22.8	-21.7	5.6	5.7	7.9	-1.5	-1.6	-2.2
Real GDP growth	**-**	**-**	**-**	**-**	**-**	**3.2**	**4.8**	**4.8**

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

StatLink http://dx.doi.org/10.1787/320655050837

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sustained effort of industrial intensification and diversification could boost exports and pull growth up slightly more. Due to the strong growth of imports, the balance of trade went down by 3.2 per cent compared to 2006.

Macroeconomic Policies

Fiscal Policy

The national budget still largely depends on revenues from oil taxation, which represented more than 78 per cent of total revenues in 2007. By comparison, ordinary taxation (DZD 846.7 billion) remains low and covers barely 53.4 per cent of current expenditures: the dependence of the budget on the rest of the world and its medium- and long-term viability have certainly been a cause for concern. Taxation on revenues from capital and labour remains low, constituting less than one-third of ordinary tax revenue and less than 6 per cent of the total revenue, which reinforces the idea that Algeria is a rent-based economy.

Owing to the strong increase in revenues from hydrocarbons, total budgetary receipts amounted to DZD 3 849.9 billion in 2007 (41.2 per cent of GDP), as against 3 578.6 billion in 2006. Total expenditure amounted to DZD 2 778.8 billion (29.8 per cent of GDP), as against 2 487.2 billion in 2006. Owing to the effect of the review of the public-service salary scheme as well as to that of the implementation of social measures brought in by the finance law of 2007, current expenditure (1 585.2 billion in 2007) represented more than 57 per cent of total expenditure. As a fraction of GDP, equipment expenditure amounted to 12.8 per cent in 2007, as against 11.7 per cent in 2006.

The primary deficit excluding hydrocarbons came to 37.2 per cent of NHGDP, as against 37.6 per cent in 2006, and could amount to 34.9 per cent in 2008. The overall budgetary surplus, which was 11.4 per cent of GDP in 2007 as against 12.9 per cent in 2006, is expected to remain high in the future and to exceed 7 per cent up to 2011. Nevertheless, it should be observed that the different deficits in public finance are somewhat artificial in that hydrocarbon revenues are budgeted at a reference price of USD 19 per barrel. Revenues in excess of this price are paid into the revenue-regulation fund, the Fonds de régulation des recettes (FRR), which in June 2007 held funds amounting to DZD 3 195 billion (USD 45.6 billion). The authorities had several excellent ideas: at the same time, to launch an ambitious programme of public investment; to prepay most of the external debt; and, in 2000, to set up this fund, which can be drawn upon in case of any downturn in conditions. Nevertheless, given the difficulty that the authorities have in finding alternative funding for the budget deficit excluding hydrocarbons,

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

	1999	2004	2005	2006	2007(e)	2008(p)	2009(p)
Total revenue and grants[a]	**30.0**	**36.3**	**40.9**	**42.3**	**41.2**	**43.0**	**41.9**
Tax revenue	10.0	9.1	8.2	7.7	7.7	7.7	7.8
Oil revenue	18.4	25.9	31.4	33.3	32.2	34.0	32.8
Total expenditure and net lending[a]	**32.0**	**31.0**	**27.3**	**29.4**	**29.8**	**28.7**	**29.5**
Current expenditure	23.8	20.4	16.5	17.0	17.0	15.9	15.7
Excluding interest	*20.0*	*19.0*	*15.5*	*16.2*	*16.2*	*15.2*	*15.1*
Wages and salaries	8.8	6.4	5.5	5.3	5.1	4.8	4.7
Interest	3.8	1.4	1.0	0.8	0.9	0.7	0.6
Capital expenditure	8.2	10.4	10.7	11.7	12.8	12.8	13.7
Primary balance	**1.8**	**6.7**	**14.6**	**13.7**	**12.3**	**15.0**	**13.0**
Overall balance	**-2.0**	**5.3**	**13.6**	**12.9**	**11.4**	**14.3**	**12.4**

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

StatLink http://dx.doi.org/10.1787/321515358757

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the rules governing the FRR were changed to allow direct financing of this deficit – under two conditions, however: that the amount outstanding in the fund should remain at more than USD 10 billion and the world price for Algerian crude at more than USD 49 per barrel.

Amongst the actions in 2007 that were earmarked as priorities by the authorities is budget-system modernisation. The reform project will be built on a pluriannual approach to revenue and expenditure management based on separate budgeting for each programme, the accountability of managers through assessments and checks on performance and results, and improvements in the content and presentation of the budget; these measures will allow greater control over the costs of capital-equipment programmes, and better budgetary planning. The authorities also intend to expand the pilot experience carried out in 2006 with three important ministries, which led to the identification of the constraints affecting the process of adoption of the reform.

Monetary Policy

The year 2007 was characterised by an increase in the net Treasury debt to the banking system and by the growth of the country's net external assets, which came to nearly USD 105 billion and exceeded the monetary and quasi-money liquidities of the economy, showing that these assets constitute the main source of money creation in Algeria. The money supply grew during the year by around 17.9 per cent, although Treasury resources – built up through extra revenues from oil taxation – lessened this monetary expansion. To avoid making withdrawals from the FRR in order to meet the prepayment requirements of the external debt for the year 2006, in 2007 the Treasury resorted to exceptional bank advances from the Bank of Algeria amounting to DZD 627.8 billion: this had the effect of expanding domestic public debt which had, moreover, grown due to the repurchase of non-performing loans held by the banks on non-viable public enterprises. In 2007, the assets of the public Treasury with the central bank amounted to more than DZD 4 000 billion (nearly USD 57 billion).

Monetary policy remained cautious in 2007, and in spite of a rise of 17.9 per cent, as against 18.6 per cent in 2006, money creation was contained, due to the sterilisation by the Bank of Algeria of bank overliquidity generated by the large increase in deposits by Sonatrach, the national enterprise for research, production, transport, transformation and marketing of oil and gas. The instruments used for sterilisation included: the absorption of liquidity by calls for tenders; the interest-bearing deposit facility; and the reserve requirement, set at a rate of 6.5 per cent. This policy has made it possible to clear more than 96 per cent of overliquidity and to contain inflation. Owing, however, to a price recovery in primary products and industrial inputs (most of which continue to be imported), and to the expansion of public expenditure and foreign-exchange reserves, the rate of inflation reached 3.8 per cent at the end of 2007. In a context of imported inflation and budgetary expansion due to public-investment programmes and salary increases, the bank of issue will have to tighten monetary policy further and increase the basic interest rate so as to keep it positive in real terms, while also applying a more flexible management the exchange rate of the dinar and so curb inflationary pressures. The interest rate of the Bank of Algeria was raised to 2 per cent in 2007, up from 1.7 per cent in 2006.

Lending to the economy, mostly granted by public banks, amounted to DZD 1 861 billion (19.9 per cent of GDP). A large share went to private enterprises and households, while lending to public enterprises fell. This growth of lending to the private sector should however take into account the risks of credit concentration on a few large private debtors and of household over-indebtedness. Lending to the private sector amounted to DZD 1 057.3 billion (11.3 per cent of GDP), and the share of medium- and long-term loans is growing. The supervision and the monitoring of public banks (mainly by means of on-site checks) have become more active. Nevertheless, the non-productive portfolio of public banks remains high, and the domestic public debt of the Treasury (DZD 1 779 billion in 2007) is essentially (1 376 billion) owed to these banks, as a result of the Treasury's reorganisation of the debt of public enterprises.

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Algeria's exchange-rate system is one of a managed floating exchange rate of the dinar against the main currencies of the country's major trade partners, aimed at ensuring the stability of the real effective exchange rate (REER). The latter appreciated by 0.9 per cent in 2007, rising from DZD 72.6 to DZD 69.3 for one dollar. Sonatrach, which has the state as exclusive shareholder, is obliged to transfer back all its revenues from hydrocarbon exports: this means that the Bank of Algeria remains the main seller of foreign exchange to the banks, apart from a marginal amount that can be exchanged amongst commercial banks on the inter-bank market. This allows the bank of issue to maintain the REER more or less at the same level as at end 2003, judged to be close to equilibrium. Furthermore, the gap between the informal market rate and the official exchange rate diminished markedly at the beginning of 2006 as a result of the drop in demand for foreign currency, particularly the dollar and the euro, following the obligation laid on importers to increase their capital to DZD 20 million, which resulted in the elimination of many of them. The gap seemed to widen again in 2007 due to the effect of the increased value of the euro, which led to its relative scarcity.

External Position

Thanks to the continued rise in the world prices of hydrocarbons, total exports reached DZD 4 242.9 billion (45.5 per cent of GDP) in 2007, as against 3 976 billion in 2006, representing an increase of 6.3 per cent. In spite of a volume reduction of 1.13 per cent, exports of hydrocarbons amounted to DZD 4 112 billion (USD 59.2 billion), representing 97.8 per cent of total exports. Although there has been clear improvement, exports other than hydrocarbons remain marginal (USD 1.3 billion, or 2.2 per cent of total exports), much to the authorities' dismay, since they are trying to promote these. The share of foreign oil enterprises in hydrocarbon exports fell to 9.9 per cent in 2006, as against 10.4 per cent in 2005. Moreover, in 2006 these enterprises became subject to payment of a tax on their excess profits, those made on the basis of a world price for crude oil higher than USD 30. This tax allowed the Treasury to collect nearly USD 2 billion in additional tax resources. In 2006, the United States bought USD 14 billion worth of imports from Algeria, or 26 per cent of the total value of commodities exports, followed by Italy (9 billion), Spain (5.5 billion), France (4.3 billion) and Latin America (2.9 billion), with Brazil's share standing at 1.8 billion.

Commodities imports amounted to DZD 1 862 billion (USD 26.8 billion) in 2007, as against 1 557 billion in 2006 (USD 21.4 billion). Imports increased due to the rise in public investments and to higher prices of imported goods such as capital equipment (USD 10 billion), intermediate goods (8.5 billion) and food products (4.8 billion). Commodities imports came mainly from the European Union (56 per cent), with USD 4.3 billion from France, 1.9 billion from Italy, 1.5 billion from Germany and 1 billion from Spain. Imports from the Asian countries amounted to USD 2.5 billion, with 1.7 billion from China, which has become the country's third-largest supplier. The association agreement with the European Union entered into its second phase of tariff dismantling in 2007, but Algeria's World Trade Organization (WTO)

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

	1999	2004	2005	2006	2007(e)	2008(p)	2009(p)
Trade balance	6.9	16.8	25.7	29.2	27.1	29.3	27.1
Exports of goods (f.o.b.)	25.3	37.9	45.0	47.0	45.5	47.4	45.6
Imports of goods (f.o.b.)	18.4	21.1	19.3	17.8	18.4	18.0	18.5
Services	-3.8	-2.4	-2.2	-1.9	-3.4	-3.4	-3.5
Factor income	-4.7	-4.2	-4.9	-3.9	-2.6	-2.2	-1.7
Current transfers	1.6	2.9	2.0	1.4	1.3	1.1	1.1
Current account balance	**0.0**	**13.0**	**20.6**	**24.8**	**22.4**	**24.9**	**23.0**

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

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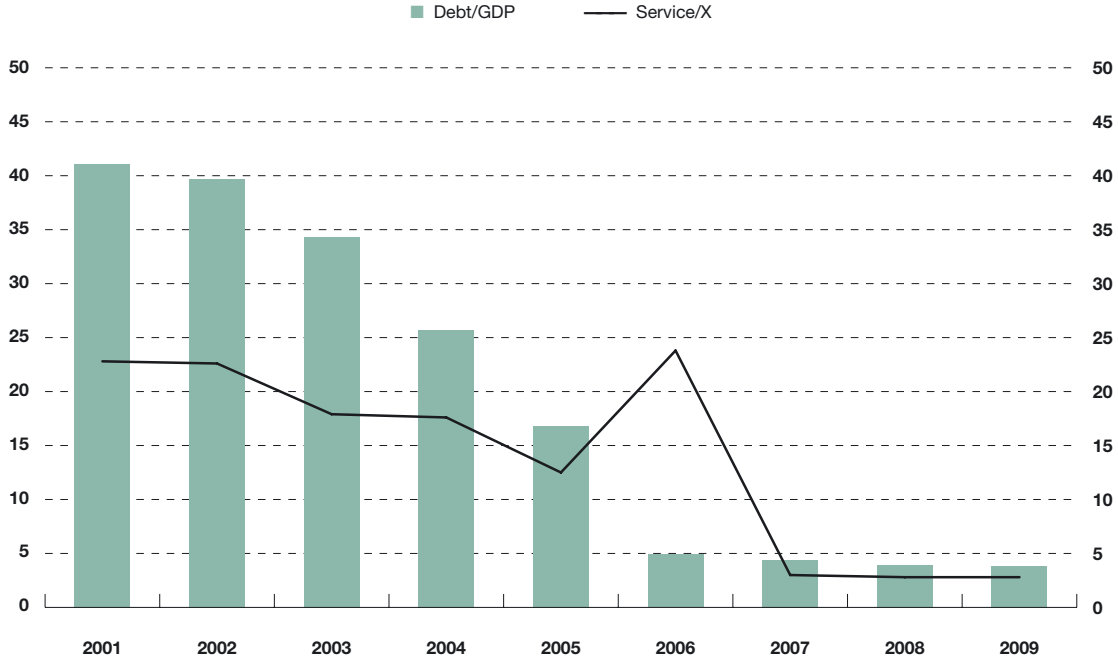
membership has still failed to make any progress, and trade amongst the countries of the Maghreb remains insignificant (3 per cent of the region's total trade with the rest of the world).

The opening up of the country to foreign direct investment (FDI), especially in oil, destabilised the income balance in 2006 even further, but what was new was that FDI (amounting to USD 1.8 billion for the year) turned increasingly (53.02 per cent) to non-hydrocarbon sectors. Nevertheless, in 2006 revenue paid to the rest of the world (76.2 per cent of which was made up of profits exported by foreign oil enterprises) amounted to nearly USD 7 billion, while the revenue received, mainly generated by investment abroad of the reserves of the Bank of Algeria, increased in 2006 by USD 1 billion, and amounted to 2.42 billion.

The current account showed an overall surplus of USD 30.1 billion n 2007, but this surplus is expected to continue to fall through to 2011, due to increases in imports and income transfers by foreign residents in the country. At the end of June 2007, foreign-exchange reserves were equal to USD 90.96 billion, or the equivalent of nearly 39 months of imports; with an average price of Algerian crude oil at USD 75 per barrel, they reached USD 105 billion.

Taking advantage of the financial windfall that the country has enjoyed for several years, the authorities have been making advance payments, since 2004, of the external public debt and capping non-concessional loans. Algeria has thus succeeded in paying back nearly USD 14 billion of an external debt that amounted to about USD 23.5 billion at the end of 2003. At the end of 2006, acceleration of advance payments enabled the country to reimburse more than USD 8.5 billion to Paris and London Club creditors, and 2 billion to multilateral creditors. These repayments brought the external debt-to-GDP ratio down from about 34 per cent at end 2003 to less than 4.8 per cent at end 2006, and the ratio is expected to fall to 3 per cent by 2011. On the strength of these figures, the country intends

Figure 3 - **Stock of Total External Debt** (percentage of GDP) **and Debt Service** (percentage of exports of goods and services)



Source: IMF.

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to obtain a sovereign-borrower rating. The stock of domestic public debt, which the authorities are determined to pay off gradually, remained nearly unchanged in June 2007 in comparison to December 2006, that is, at about DZD 1 780 billion (19 per cent of GDP).

Structural Issues

Recent Developments

The investments made have enabled considerable infrastructure to be built up over time, but this infrastructure suffers from serious maintenance problems. Algeria has 107 000 kilometres of roads (72 per cent of which are surfaced), 4 940 kilometres of railway lines, 10 commercial ports and 33 airports. The maintenance budget for roads amounts to only 0.2 per cent of GDP, but should be raised to 1 per cent. From the point of view of network density, Algeria is well provided, but institutional and regulatory bottlenecks put a strain on ports, roads and urban transport, and hinder growth. The economic profitability of railway and airport infrastructure remains questionable because of low levels of traffic, and the competitiveness of the ports sector is weak due to the lack of container terminals. The new port of Djendjen, in the east of the country, ought to remedy this situation to some extent. Otherwise, the assets are becoming outdated, and investments tend to be directed towards new infrastructures rather than to the maintenance of old ones.

The implementation of large-scale projects, especially the 1 200-kilometre-long east-west motorway, needs a regular maintenance plan and an institutional and regulatory framework that is independent of political decision-making centres. The private sector provides a major share of road transport (93 per cent of inter-urban passenger transport and 97 per cent of goods transport); this sector should be associated with other forms of transport, and public-private partnerships should be encouraged in order to improve service quality and preserve the infrastructure. A National Fund of Equipment for Development (CNED) was set up in 2004 with the aim of finding solutions for shortcomings in the preparation and implementation of large-scale projects, and of providing decision makers with prior advice on the economic viability of such projects.

Apart from the programme for transferring public entities and/or closing financially non-viable enterprises, the reform of the public sector has concentrated mainly on the upgrading of public enterprises. In order to address the problem of dispersal of the present upgrading programmes, a new policy to consolidate these programmes will be introduced through a new industrial strategy: the corresponding plan of action was adopted by the government in 2007. The reform also concerns public-private partnerships. Progress has been made in setting up an economic real-estate market, and four executive decrees were issued in 2007 defining an operational framework for it to work properly

Despite these improvements, the business climate in Algeria remains less favourable than in most of the countries of the region. According to the Ease of Doing Business ranking of the World Bank, Algeria gained seven points in 2006 owing to better-quality banking and statistical information, but the country still lags behind in other areas, such as in starting a business or registering property. Reform of the tax system included reducing taxes on business profits from 30 to 25 per cent, and in 2007, a single fixed tax was introduced to tax activities for a turnover not exceeding DZD 3 million. A large-enterprise department has been set up in order to improve tax collection, and a tax on excess profits of the oil enterprises, including Sonatrach, was introduced on the basis of a world crude-oil price higher than USD 30.

The banking system made considerable progress in 2006 owing to the launch of the Algeria Real Time Settlements (ARTS) system to handle gross payments of large amounts and urgent payments in real time; also launched was an inter-bank electronic clearing system, Algérie Télé-compensation interbancaire (ACTI): this is run by the Inter-bank Pre-clearing Centre (CPI), a subsidiary of the Bank of Algeria, and includes all the banks present in the financial market as well as the

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post office, Algérie Poste. The modernisation of the system has reduced manual operations and transaction costs, and has increased the efficiency of financial intermediation. Performance contracts for public banks were further developed, and the authorities are making particular efforts with regard to improvements in risk management and internal checks.

The privatisation process of the majority of the country's largest public bank, the Crédit populaire d'Algérie (CPA), which was to have been completed by the end of 2007, was held up because of the American subprime mortgage crisis, as this seems to have affected the financial standing of some of the banks that were candidates for the takeover. Privatisation of the CPA and, the removal, in October 2007, of the obligation for public enterprises to deposit their capital in exclusively public banks, as well as improvements in prudential regulations and bank supervision with the assistance of the IMF, should all lead to greater transparency in the sector. These positive trends should be consolidated, and expanded to include the funding by the financial market of some of the needs of economic operators. Although the bond market seems to be arousing interest, albeit still modest (with 9 securities in circulation, 3 of which are listed on the stock exchange, and financing of the economy amounting to DZD 170 billion), the capital market, on the other hand, is characterised by slackness in the Algiers Stock Exchange, which – in spite of a legal and regulatory framework and, in 2005, the passing of a law on risk capital in keeping with international standards – has been unable to find its bearings. In order to inject some dynamism into the market, the authorities plan to encourage partial-privatisation operations of public economic enterprises (EPE) via the stock exchange; they also decided to admit, in 2007, fungible Treasury bonds of 7, 10 and 15 years into the stock market. A new enactment related to the reform of the national accounting system in force since 1975 will mean that, as from 2009, the system will operate according to new International Accounting Standards (IAS). It will set up the exact rules for registering financial statements, which will facilitate auditing by potential investors, and thus promote the stock exchange. The authorities are also determined to prevent the emergence of new non-productive debt that is very costly to the Treasury (4 per cent of GDP in 2006), by drastically limiting bank lending to non-viable public enterprises.

In 2002, the Ministry of Agriculture's mandate was expanded to include rural development; a National Agricultural and Rural Development Plan (PNDAR) was developed to strengthen the country's food security, restore ecological balances and improve the living conditions of the rural population, which includes more than half of the country's poor. PNDAR is directed at integrated, balanced and sustainable rural development in the various territories (Tellian, steppic and desert) in terms of their distinctive characteristics. The main instrument for implementing the plan takes the form of rural development partnership projects (PPDR) based on a participatory approach and intended to create the conditions for the emergence of modern agriculture and income-generating activities, as well as to address the social aspects of the fight against rural unemployment, poverty, the paucity of human capital and the problem of precarious housing. Since 2003, the plan has in fact made it possible to open 23 471 kilometres of tracks and access routes, and to install 5 260 kilometres of electric power lines. By the end of 2005, no fewer than 1 146 PPDRs had been funded and 660 launched, to the benefit of 67 568 rural households. Nearly 240 projects have been delivered, and 9 200 others are schedules for the next few years, involving nearly 6 million persons, directly or indirectly.

With regard to environmental protection and resource conservation, a national land-use planning scheme (SNAT) was developed in 2004. It comprises several sector-based action plans covering the entire national territory. The SNAT is responsible for making sure the development projects are coherent with the territories that are to benefit from them, and for supervising their implementation in accordance with environmental impact studies.

Technical and Vocational Skills Development

The Technical and Vocational Education and Training (TVET) sector possesses a vast network of

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facilities and training institutions offering courses that lead to qualifications and diplomas covering a wide range of specialised fields, with different types and levels of qualification. At the beginning of 2006, there were 884 institutions and facilities totalling a capacity of 210 000 for residential training, plus nearly 200 000 for apprenticeship training, 21 000 for distance education and 24 000 for night school. The total number of trainees increased by 3.6 per cent in 2006, with 40 per cent newly registered students. To that may be added 66 000 training positions offered by 70 public institutions that fall into other branches of training, as well as 528 private institutions offering vocational training. The total number of trainees in these institutions comes to nearly 20 000. In 2006, 54 or so new facilities were delivered that offer an additional capacity of nearly 11 000 in residential training. This sector also offers a capacity of nearly 35 000 in boarding schools throughout the national territory, and provides training to 720 foreign trainees from Africa and the Arab world, 260 of whom were newly registered students in 2006/07.

An evaluation of the TVET system showed that there was a relative loss of prestige for vocational training tracks, the stagnation in the classification of the fields of study and a high concentration of trainees in a small number of branches. The sector suffers from the low level of the training provided and from inadequate internal and external outputs. Although the number of graduates in the sector has increased annually on average by nearly 5.6 per cent since 2000, the attrition rate remains high (14.4 per cent in 2005). Moreover, the integration rate for graduates from other sectors is only about 15 per cent. The root causes of these factors are teachers' low qualification level - only 27 per cent of them are specialised vocational education teachers (PSEP) – and the deterioration in the student-teacher ratio due to a lack of teachers (40 per cent of positions are filled by temporary staff). The reform which was begun in 2006 is attempting to alleviate this situation in order, on the one hand, to improve the system's internal and external outputs and train young people who have dropped out of the general education system, and on the other, to ensure a better correspondence between training and employment.

The sector's priorities are to provide the training of qualified manpower through residential and apprenticeship training, as well as its "maintenance" by means of continuing education (retraining, advanced training and refresher courses). The main objectives hinge upon: *i)* the re-establishment of the original purpose of vocational training through the revival of traditional craft trades and the development of manual trades, particularly in agriculture and construction; *ii)* the introduction and promotion of occupations created by the new knowledge-based economy; *iii)* the funding of training and advanced training for the sector's human resources, especially the teachers; and *iv)* the diversification of funding sources.

The sector has also developed new training courses on new information and communication technology (NICT), through setting up in 2006 the Intranet project to link up TVET institutions and the central administration. The aim here is the devolution of the sector by means of a specific information and communication network providing messaging, documentary research and e-learning services. The CISCO Networking Academies project developed in association with the CISCO Systems enterprise involves the creation of new NICT fields of expertise, particularly network computing (network installation, administration and maintenance). This project has led to setting up 33 academies, 3 of which are regional academies, each managing 10 local academies.

TVET is one of three segments of the educational system and comes under the authority of the ministry of vocational training and education. The sector's strategy depends on a central administration that develops national TVET policy and oversees its implementation by the public and private sectors. Management is decentralised to regional government bodies located in the 38 *wilayas* (provinces) whose task is to develop and implement vocational training promotional measures, and to run, co-ordinate and periodically evaluate how the facilities and vocational training means for which they are responsible in their territory are working. The public TVET structure includes 555 vocational training and apprenticeship centres (CFPA) and 223 CFPA annexes located

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throughout the country, as well as 74 national institutes for specialised vocational training (INSFP) and 20 INSFP annexes providing training for technicians and advanced technicians; added to this structure is a network for educational engineering made up of the national institute for vocational training (INFP), whose headquarters are in Algiers, and 6 institutes for vocational training (IFP) whose tasks are to provide training and advanced training of the administrative, technical and educational executives in charge of the sector, as well as to develop curricula, methods and teaching materials for TVET. In addition, there are 5 national support bodies: the national fund for the development of apprenticeships and continuing education (FNAC), the national centre for vocational distance education (CNEPD), the national institute for the development and promotion of continuing education (INDEFOC), the centre for study and research on occupations and qualifications (CERPEQ), and the national institution for technical and educational equipment in vocational training (ENEFP). The private sector features 528 vocational training institutions.

Besides granting approval to private institutions subject to certain terms and conditions, the supervisory ministry also provides them with support. In particular, it supervises the quality of training courses and how well they lead to occupations offering employment opportunities, and it tries to improve the control and evaluation of their activities. It is also responsible for building a dialogue with these institutions with the aim of improving their teaching capacities, diversifying training options and protecting student rights.

Partnership between the public and private sectors and associations takes the form of 81 framework agreements and 2 833 specific local agreements. The aims of this partnership are: the introduction of new tracks into the fields of expertise taught, such as, for example, occupations in water, environment and fishing, for which demand is estimated at approximately 30 000 jobs; the development of occupations in construction; and the continuing education of workers, the handicapped and the prison population. At the conclusion of training, authorised public and private institutions issue diplomas and/or certificates that are recognised nationally and locally.

In the framework of the reform recommended by the national commission to reform the education system, a new certificate course consisting of three levels (general and technological education, vocational education and vocational training) was set up during the 2005/06 school year; it includes two training stages, two years each, leading to first- and second-level vocational education certificates. These certificates will enable the recipients either to start working or to go on to more advanced studies to obtain a vocational baccalaureate, which will be awarded by the future institute for vocational education (IEP). This baccalaureate will also enable its holders to enrol in the vocational bachelor degree courses created by the ministry of higher education and scientific research in the framework of the LMD (bachelor, master, doctorate) reform introduced in 2005. In anticipation of the opening of the IEP, technician and advanced-technician training courses were started in 2006 on an experimental basis in 20 pilot INSFP, in new branches of the sector where there is strong demand, such as computer maintenance, and refrigeration and energy technology.

TVET reform is governed by inter-sectoral issues related to distinguishing technological secondary education from vocational education and to determining the importance of the main tracks of post-compulsory education, namely: *i)* general and technical secondary education; *ii)* vocational education, which needs to be set up and given recognition by means of a vocational baccalaureate, so that it becomes the backbone of vocational training; and *iii)* vocational training of every kind, which will take in those who have dropped out of middle secondary school and will also meet the needs of workers and job seekers for advanced training or retraining. The reform also responds to an internal sectoral requirement to set up vocational education gradually and to refocus vocational training on its original purpose: training for manual occupations. The reform will involve a revision of the classification of vocational branches and fields of expertise in such a way as to respond to market demand and promote access to employment for the trainees. Teaching will also be

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reformed through a review of the existing measures and the modernisation of educational methods, as well as of the design of teaching aids and training course content. Finally, a monitoring centre for vocational training and education will be set up, with the task of improving the information system, and of enhancing TVET transparency and planning in line with the needs of the national economy. The framework bill for vocational training and education that was passed by the government in June 2006 completes the legal and institutional framework for improving co-ordination within this sector.

TVET is mainly financed out of budgetary resources, but there are other forms of funding, such as contributions out of the wage bill (presently at 0.5 per cent, to be increased to 1 per cent) agreed to by employers for the continuing education and apprenticeship of their workers, and reduced-rate continuing education and apprenticeship taxes. Funding by European Union programmes such as the MEDA programme provides the sector with additional resources. As regards training abroad, since 2004 the sector has benefited from ten scholarships per year financed by the programme of co-operation with France. With resources from the ministry, it also benefits from short-term training courses held abroad, mostly for trainers. Apprentices receive an allowance equal to 15 per cent of the national minimum guaranteed wage (SNMG), paid by the state for a period lasting for between 6 and 12 months. After that, the employer takes over the allowance, according to a rate that moves from 30 to 80 per cent of the SNMG. In addition, the finance law of 2007 introduced allowances for trainees in manual fields of expertise and payments for master craftsmen and professional craftsmen who undertake education and training activities.

Political Context

Two major electoral events took place in Algeria in 2007. In May, some 20 political parties took part in general elections which, with a participation rate of hardly 38 per cent, were largely ignored by the voters; this was one of the lowest rates ever observed in this type of election. In November, participation in local elections to renew the municipal and *wilaya* councils reached the somewhat higher rate of 44.09 per cent. These rates, considered to be low for decisive elections, seem to have become a structural feature of Algerian political life and an indication of the relative loss of interest of the population, which tends to think of opposition parties and parties in power as being part of the same political system.

In order to improve transparency in public expenditure management, a project to modernise the budgetary system is under way. It is based on the application of a medium-term expenditure framework that will enable traceability for the public funds allocated to different projects. The framework aims to achieve a results-based system for managing public resources, as well as increased efficiency in their use. The medium-term project study will provide the elements to standardise the government budget set the level of expenditure per project, which will depend upon expected results. An Anti-corruption Act was also passed in January 2006. Otherwise, a new territorial division is nearing completion, which will increase the number of administrative districts (*wilayas*) and improve the possibilities of decentralising public policies and funding.

Social Context and Human Resources Development

In the field of education, the country shows high levels of access to basic education. For example, the net enrolment rate in compulsory education for 6-15 year-olds went up from 87.92 per cent in 1995 to 96.01 per cent in 2005, with a breakdown of 93.6 per cent for girls and 98.4 per cent for boys. The rate varies little in the different regions of the country. For other school levels, particularly middle secondary education, where the net enrolment rate was only 38.7 per cent in 2006 (46 per cent for girls and 32 per cent for boys), and higher education, where the rate was 21.8 per cent (25.3 per cent for girls and 18.4 per cent for boys), participation rates remain low when compared with countries with a similar income level.

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Overall, irrespective of levels, the education system displays weak internal and external efficiency. Dropout and repetition rates remain relatively high, and graduates of the system are not well prepared for working life. It has been estimated that the supplementary costs stemming from this inefficiency adds nearly 30 per cent to the overall cost of training a graduate. In 2003, the authorities decided to launch an exhaustive reform of the education sector; this was aimed above all at raising educational quality, increasing access to the different levels and improving the completion ratio for primary and middle secondary schools, but emphasis was laid more on teacher qualifications than on the quality of the teaching dispensed. Higher education continues to be more concerned with improved access for baccalaureate holders (in large numbers) than with a reform of the curricula, many of which are not adapted to market demand; there has also been little concern regarding the efficiency of the social expenditure allocated to students (scholarships and accommodation). Additionally, the education sector suffers at every level from the inadequacy of the institutional framework and from insufficient maintenance of its physical assets.

The Algerian health system enjoys a considerable level of development, from the point of view of both infrastructure and medical and paramedical staffing. The country's epidemiological profile is being gradually dominated by so-called "rich country" diseases such as cardiovascular diseases and diabetes, but the resurgence of "poor country" diseases, such as cholera and tuberculosis, has reminded the authorities that the health system is largely still that of a developing country. The rate of population affected by HIV/AIDS remains low, but this does not bar continuing awareness-raising campaigns amongst populations at risk, nor supplying health facilities with condoms and low-priced antiretroviral (ARV) treatments. Nearly 98 per cent of the population has access to basic health care, and health indicators have improved in the last few decades. Life expectancy at birth increased from 67.3 years in 1995 to 74.6 years in 2005, which is higher than other countries with a similar income level, and the infant mortality rate improved distinctly, declining from 94 to 33 per 1 000 live births between 1980 and 2004, although there are disparities amongst regions. In 2006, for example, this rate stood between 15.6 and 35.4 per 1 000 in the north, 15.2 and 37.2 per 1 000 in the high plateaux, and between 21.3 and 35.9 per 1 000 in the south. All the Millennium Development Goals (MDGs) in the area of health will probably be reached in 2015, but the health system suffers from qualitative and institutional failings. Primary health-care establishments are often underutilised, and the various levels of health care are used in much less than optimally. Facilities and equipment are afflicted by lack of maintenance and upkeep, and still show high levels of nosocomial infections and breakdowns. As for the private sector, its institutional and regulatory framework leaves much to be desired, and it has been unable to offset the shortcomings of the public sector in the areas of quality and access to care. The GDP share of health expenditure (4.1 per cent in 2003) remains low in relation to countries with a comparable income level. The allocations scheduled in the growth-support plan, the PCSC, should improve the situation.

Thanks to the growth recovery observed since 2000, the national poverty rate fell to 5.6 per cent in 2006, as against 5.9 in 2005, but more distinctly in urban than in rural areas. There were 1 876 000 poor people in 2006, about as many as in 1988, but with a higher total population. This figure is still high, however, considering the oil windfall that the country has received. It could be brought down through government social expenditure, if the (still acute) problems of housing, transport and security were firmly taken in hand.

The unemployment rate remains one of the highest in the region. In spite of the reduction in the number of jobs in the public sector, the state is still the largest employer. In the future, private-sector-led growth and investment should take over the state's role in this area, but labour productivity, which is low, will also have to be raised. According to official data, the total unemployment rate fell by half in five years, from 30 per cent in 2001 to 15.3 per cent in 2005 and 12.3 per cent in 2006. The estimated unemployment rate in 2007 was 13.8 per cent, with the number of unemployed standing at 1.24 million, for an active

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labour force of 10.51 million. The unemployment rate for young people also fell considerably, from 48 per cent in 2001 to 31 per cent in 2005. Unemployment was higher in urban areas (12.8 per cent) than in rural ones (11.5 per cent), and affected women (14.4 per cent) more than men (11.8 per cent).

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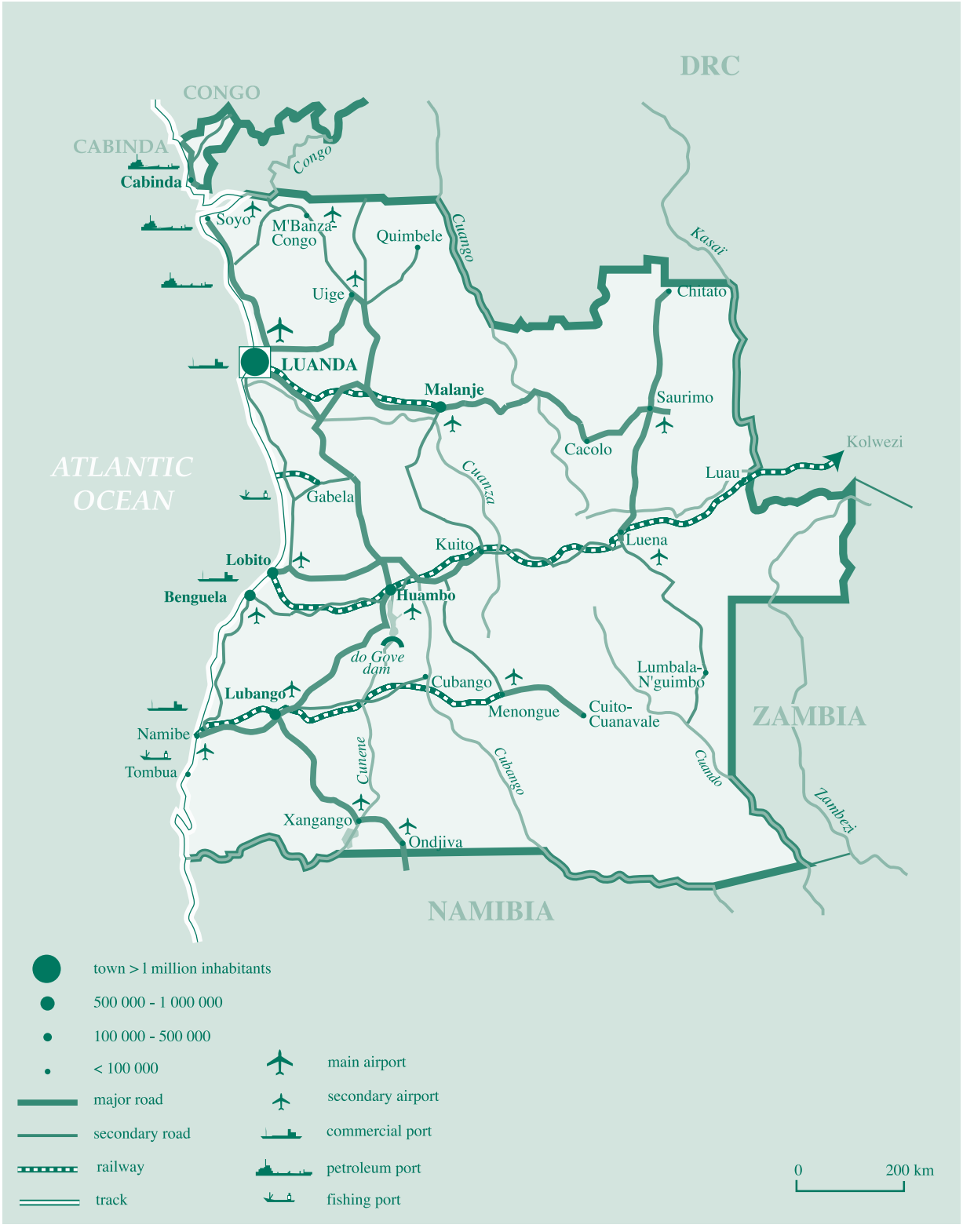
Angola



key figures

• Land area, thousands of km²	1 247
• Population, thousands (2007)	17 024
• GDP per capita, USD at constant 2000 prices (2007)	1 246
• Life expectancy (2007)	42.7
• Illiteracy rate (2007)	n.a.

Angola


DRC
CONGO
CABINDA
Cabinda
Congo
Soyo
M'Banza-Congo
Quimbele
Cuango
Kasai
Uige
Chitato
LUANDA
Malanje
Saurimo
Kolwezi
Cacolo
ATLANTIC OCEAN
Cuanza
Luau
Gabela
Kuito
Luena
Lobito
Benguela
Huambo
do Gove dam
Lumbala-N'guimbo
Cubango
Lubango
Menongue
Cuito-Cuanavale
ZAMBIA
Namibe
Tombua
Cunene
Cubango
Cuando
Zambezi
Xangango
Ondjiva
NAMIBIA
town > 1 million inhabitants
500 000 - 1 000 000
100 000 - 500 000
< 100 000
major road
secondary road
railway
track
main airport
secondary airport
commercial port
petroleum port
fishing port
0
200 km

Angola

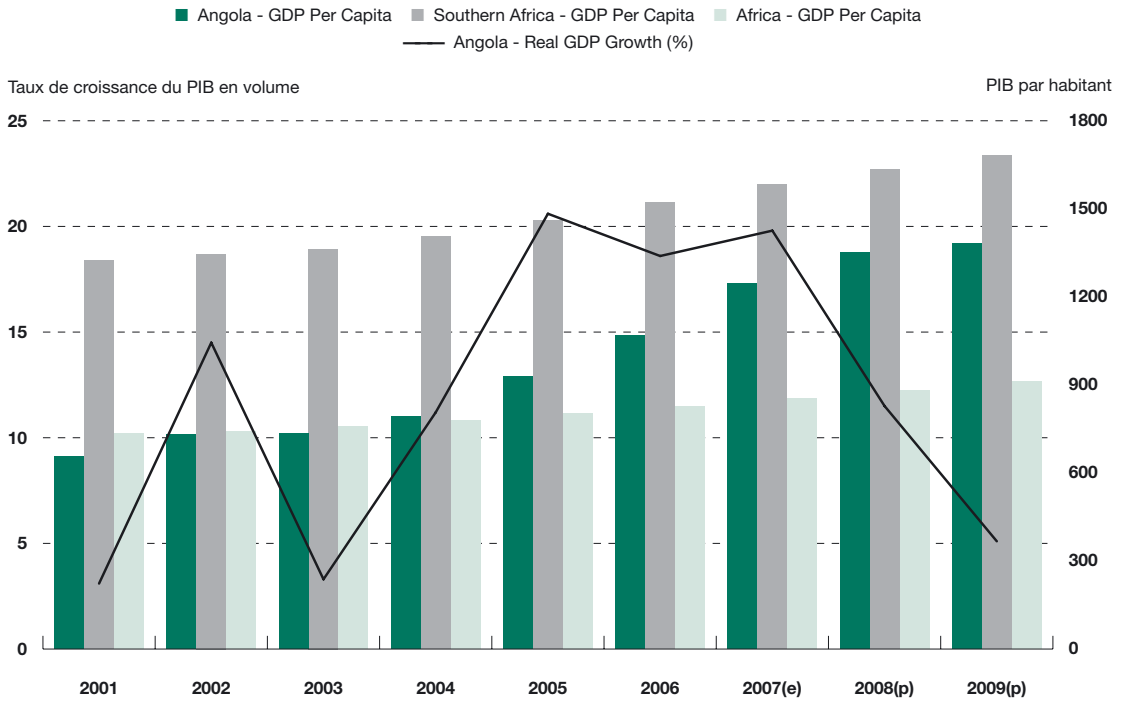
THE ANGOLAN ECONOMY GREW by an estimated 19.8 per cent in 2007, up from 18.6 per cent in 2006, boosted by increasing oil production and prices. The non-oil sector also performed well, notably construction, agriculture, manufacturing and financial services, although slightly less well than the previous year. Inflation has remained steady in the past two years, with the consumer price index increasing 12 per cent in 2006 and 11.8 per cent in 2007. This is a significant decrease from the 19 per cent inflation rate in 2005.

Growth is expected to moderate in 2008 and 2009 to about 11.5 and 5.1 per cent, respectively, as growth in oil production slows to about 11 and 2 per cent assuming that the country adheres to the new OPEC production quota of 1.9 million barrels per day (b/d). The non-oil sector should continue to grow strongly and to attract increasing investment. Despite high government spending and strong domestic demand, inflation is expected to decelerate slightly in 2008 and 2009, approaching the government's target of 10 per cent.

Higher growth than expected has not brought poverty levels down and dependence on hydrocarbons remains.

High levels of oil revenue have resulted in substantial surpluses in both the fiscal and external accounts. Angola has improved its access to external credit by reaching an agreement with its Paris Club creditors on a repayment schedule for its remaining debt. This accord opens new possibilities for financing Angola's huge reconstruction needs.

Figure 1 - **Real GDP Growth and Per Capita GDP**
(USD at constant 2000 prices)



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

StatLink http://dx.doi.org/10.1787/316067087616

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Spillover effects from the oil boom to the rest of the economy have so far been limited, but manufacturing and financial services experienced strong growth in 2006 and 2007. The construction sector, in contrast, slowed down in 2007 after its buoyant performance in 2006. The challenges ahead are the continued development of the private sector (particularly in non-extractive sectors), poverty reduction and improvement in access to basic services.

To this end, priority should be given to creating a healthy business environment for domestic and foreign investors, implementing structural reforms, continuing to rehabilitate infrastructure and improving public expenditure management by decentralising public investment to the local level. The legal system is also in need of reform. To date, efforts in this direction have been insufficient, and doing business in Angola remains difficult.

Failure to spread the benefits of growth could cause increasing social tensions. Political pressure on the government is increasing, especially with long-delayed parliamentary elections scheduled in 2008 and presidential elections in 2009.

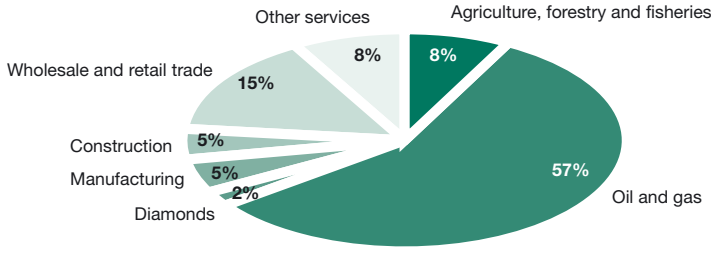
Recent Economic Developments

High oil prices and increased production continue to drive high rates of GDP growth, and the dynamism of the oil sector has attracted a great deal of ancillary investment in financial services, construction and manufacturing. Agriculture has also begun to exhibit strong growth thanks to improved security in rural areas, more favourable growing conditions and better transport links to urban markets. Until recently, growth in the non-oil sector was driven mainly by public investment, but private investment has begun to increase markedly, especially in the construction of office buildings in Luanda. Nevertheless, the constraints on private sector development remain strong and the creation of Angolan brands very limited.

Angola is the second-largest oil producer in sub-Saharan Africa, with reserves estimated at 13.5 billion barrels. The national oil company, Sonangol, is the sole concessionaire for exploration and production, and accounts for about 45 per cent of total Angolan oil exports. Foreign companies can participate only via joint ventures and production sharing agreements with Sonangol. At present, the biggest overseas companies operating in Angola are Chevron Texaco, TotalFinaElf and ExxonMobil, although smaller private companies and national oil companies from Brazil and China also play an active and growing role.

In 2006, production increased by 13.1 per cent as oil prices rose and new oil fields came on stream. Oil's share of GDP now stands at 57.1 per cent. In 2007, output rose by a further 20 per cent, to average about 1.7 million b/d, owing to new production from the five-field Greater Plutónio project. Output is expected to reach 1.88 million b/d in 2008 and to be held to 1.9 million b/d in 2009, the level of the quota agreed with OPEC. Very deep-water production, which is

Figure 2 - **GDP by Sector in 2006** (percentage)



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

StatLink http://dx.doi.org/10.1787/317286570072

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scheduled to start in 2012, will help to maintain and possibly raise this level despite declining production in more mature fields. Increasing exports in line with the increases in production capacity would eventually require an upward adjustment of the OPEC quota.

Although production of natural gas increased nearly nine-fold in 2006, reserves are sufficient to ensure production for the next 30 years. The exploitation of this resource will enable the country to diversify the hydrocarbon and petrochemicals sectors while cutting down on environmentally damaging flareups of associated gas from oil production. Angola LNG (Liquefied Natural Gas), a consortium led by Sonangol and Chevron, will receive approximately 1 billion cubic feet of associated gas per day from offshore production blocks and is expected to produce 5.2 million tonnes of gas per year by 2012, destined for both the domestic and overseas markets.

Non-oil sectors exhibited strong growth of 25.7 per cent in 2006, mainly led by construction, manufacturing and services. Non-oil growth in 2007 is estimated at 21 per cent. Although high, this rate is well below the government target of 27.9 per cent.

The most disappointing performance was recorded in the diamond mining industry, where production fell by 3 per cent in the first half of 2007 after an increase of 30.9 per cent in 2006. The production shortfall was due to heavy rains that disrupted mining operations.

In an attempt to increase the value added of diamond exports, a new polishing and cutting industry will be created in Lunda Sul province. The state-owned diamond enterprise Endiama, which launched the first firm of this kind in 2005, has recently started up a second. The new firm is able to produce USD 20 million worth of diamonds per month. Endiama is establishing a jewellery manufacturer as well, which will include a training programme for 400 jewellers.

With the return of displaced people and the rehabilitation of rural infrastructure, which was almost completely destroyed by the war, the agricultural sector is gradually recovering. Agriculture is a priority sector for public investment, particularly in irrigation, owing to its importance in employment creation and poverty reduction. The government also hopes to attract donor support and private investment. An agreement was signed in late 2007 between Angola and the International Fund for Agricultural Development to provide a credit line of USD 45 million to 200 000 farmers to strengthen agricultural production and investment. Despite considerable progress, however, a number of obstacles continue to hamper agricultural development, including poor access to credit and problems with securing clear land titles despite the adoption of a new land law.

Following a poor harvest in the 2005/06 agricultural season due to unfavourable growing conditions, agricultural production rebounded in the 2006/07 season, growing by 9.3 per cent. This recovery was aided by improved weather and an increase in cultivated area due to the continued removal of land mines from the countryside. The outlook for the 2007/08 season is for growth of 12.5 per cent, owing to early rains and a further increase in cultivable area.

Angola could become one of the most important producers of biofuels in Africa. Sonangol, the Brazilian company Odebrecht and the Angolan firm Damer recently signed an agreement to set up a new biofuel company, Biocom. The deal involves a USD 200 million investment in a 30 000-hectare sugarcane plantation, which will produce enough fuel annually to fire a 140 MW power plant.

This biofuel project will be located in one of the three industrial clusters created by the government with a view to upgrading the entire agricultural value chain. These three clusters are Futila (in Cabinda), Viana (Luanda) and Catumbela (Benguela). The Viana cluster is the biggest and the most advanced, with 119 contracts signed in a number of agricultural and industrial sectors.

The manufacturing sector grew rapidly in 2006 (by 44.7 per cent), although its share in GDP remains quite small. The boom was supported by demand for

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intermediate goods used in construction and infrastructure rehabilitation. Growth in the first half of 2007 is estimated at 11.4 per cent.

The construction sector also continues to expand, especially in Luanda and Benguela. After growing by 30 per cent in 2006, the sector is estimated to have slowed to 4.9 per cent growth in the first half of 2007. The prospects for the medium term are for a renewed surge of growth due to an increase in infrastructure and residential projects. New projects include the construction of a new town in Benguela Baia Azul municipality, the Benguela Blue Ocean project. Several oil companies are building skyscraper office buildings, several major residential projects are in the pipeline, and 39 hotels are to be built over the next five years. Finally, in preparation for the 2010 African Nations Cup, the construction of a new international football stadium will begin in 2008.

The construction boom is rapidly increasing demand for cement, in response to which the government expects an overall production increase of more than 15 million tonnes per year until 2009. A new cement factory will be built in Lobito by a Portuguese firm with an annual capacity of 6 million tonnes, in addition to a new factory financed by a Brazilian firm. An industrial complex for producing clinker and cement will be built over two years in the Lobito area. Finally, Nova Cimangola plans to invest USD 200 million in a new cement plant in Luanda's Cacuaco municipality, which will be able to produce 2 million tonnes per year.

Having acquired the Luanda refinery from Total, the government is currently developing plans for Sonaref, a new refinery with a capacity of 200 000 b/d, in the central coastal city of Lobito. When this facility is fully operational in 2013, 80 per cent of the products refined there will be exported regionally. The Chinese have withdrawn from the USD 3.5 billion project, but the Japanese government has started discussions about participating in it in exchange for guarantees of oil imports.

In 2007, the government started a Programme of Restructuring the Logistics and Distribution of Essential Products to the Population (PRESILD). The programme consists of the construction of 10 000 retail sales outlets, 163 municipal markets, 31 "Nosso Super" supermarkets and 8 distribution centres. This initiative is expected to reduce food prices, enlarge the market for locally produced food products and help to create 200 000 jobs by 2012. The programme focuses on construction of distribution centres, but its positive impact may be limited because it ignores transport costs to remote rural areas.

Table 1 - **Demand Composition**

	Percentage of GDP (current prices)		Percentage changes, volume			Contribution to real GDP growth		
	1999	2006	2007(e)	2008(p)	2009(p)	2007(e)	2008(p)	2009(p)
Gross capital formation	**28.4**	**11.3**	**-2.1**	**29.6**	**18.9**	**-0.5**	**5.3**	**3.9**
Public	12.6	8.9	-6.0	35.0	20.0	-1.0	4.7	3.3
Private	15.8	2.4	12.0	13.0	15.0	0.6	0.6	0.7
Consumption	**77.6**	**52.8**	**12.9**	**10.2**	**13.1**	**13.1**	**9.8**	**12.4**
Public	58.9	21.2	28.9	12.2	16.2	5.8	2.6	3.5
Private	18.8	31.6	9.0	9.6	12.2	7.3	7.1	8.9
External demand	**-6.0**	**35.8**				**7.2**	**-3.5**	**-11.1**
Exports	85.3	73.8	19.4	11.2	3.7	19.6	11.3	3.7
Imports	-91.3	-37.9	10.0	13.0	12.9	-12.4	-14.8	-14.8
Real GDP growth						**19.8**	**11.5**	**5.1**

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

StatLink http://dx.doi.org/10.1787/320681887144

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The sector developments described above are also reflected in the behaviour of the components of final demand. Domestic demand, especially public and private consumption, made the largest contribution to growth in 2007 and is expected to remain dynamic over the forecasting period. The contribution of private consumption is likely to increase strongly in the medium term as incomes rise due to the recent growth in the non-oil sector and the creation of a large number of jobs in public reconstruction. Private investment is also on the rise, especially in the oil sector, which accounted for 98 per cent of total private investment in 2006. Surprisingly, public investment fell in 2007 owing to capacity constraints, after a large increase in 2006; however, it is expected to grow strongly in both 2008 and 2009 due to an improving budget execution rate.

Macroeconomic Policies

Fiscal Policy

The executed budget for 2007 exhibited an overall surplus estimated at 10 per cent of GDP, as against a surplus of 10.9 per cent of GDP in 2006. The deterioration in the overall fiscal balance between 2006 and 2007 was far smaller than expected, because the actual oil price (USD 64.50 per barrel) was well above the mid-year revised assumption of USD 52 per barrel. This largely offset an expected decline in oil receipts due to reduced oil production. Moreover, total revenue was sustained by a spectacular increase in customs revenue, reflecting both the dynamism of economic activity and the improvement in customs collection. Total expenditures were also revised downwards to reflect the lower-than-expected budget execution rate (50 per cent). Recurrent expenditure continued to rise due to wage increases, expanded employment creation and higher expenditures on goods and services. Capital expenditure fell by 6 per cent as a result of the government's poor capacity to execute the investment plan.

A deficit of 8.6 per cent of GDP, based on a conservative oil price forecast of USD 55 per barrel, is implicit in the recently approved 2008 budget. The new budget law restricts the volume of current expenditure to the same level as in the previous year, reflecting the government's recognition of its poor administrative capacity to execute the expenditure plan. However, the authorised investment budget, mainly allocated to reconstruction works, is a huge 23.4 per cent of GDP, almost double the 12 per cent actually realised in 2006. As is evident from the 2007 execution rate, achieving an increase of this size is improbable given the country's low absorption capacity for capital expenditure. On the assumption that international oil prices will be considerably higher in 2008 and 2009 than in 2007, and that Angola's oil production will remain within the

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

	1999	2004	2005	2006	2007(e)	2008(p)	2009(p)
Total revenue and grants[a]	**43.4**	**36.9**	**40.7**	**46.4**	**45.2**	**44.1**	**44.2**
Tax revenue	4.7	6.8	6.1	5.7	5.2	4.8	5.0
Oil revenue	38.5	29.3	33.2	38.1	37.3	36.6	36.6
Total expenditure and net lending[a]	**59.9**	**35.8**	**32.2**	**35.5**	**35.2**	**34.9**	**40.3**
Current expenditure	45.8	30.6	27.2	23.5	25.3	24.3	27.9
Excluding interest	*40.9*	*28.3*	*25.2*	*22.0*	*24.3*	*23.5*	*26.8*
Wages and salaries	4.1	10.3	9.2	8.6	9.4	9.5	10.9
Interest	5.0	2.3	2.0	1.5	1.0	0.8	1.2
Capital expenditure	12.6	4.4	5.0	12.0	9.5	10.6	12.4
Primary balance	**-11.5**	**3.4**	**10.5**	**12.4**	**11.0**	**10.1**	**5.1**
Overall balance	**-16.5**	**1.1**	**8.5**	**10.9**	**10.0**	**9.2**	**3.9**

a. Only major items are reported

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

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OPEC quota, it is more likely that the budget outcome for 2008 will be another large surplus of 9.2 per cent of GDP, decreasing to 3.9 per cent in 2009.

An important feature of the budget legislation for 2008 is the pilot decentralisation of budget execution. Sixty-eight of Angola's 167 municipalities have been designated as "fiscal units" (*unidades orçamentais*), and each will be allocated USD 300 000, which will subsequently be scaled up to USD 1 million. This reform, which reduces the dependence of local administrations on provincial governments, aims to raise the execution rate of capital projects and to accelerate and improve delivery of basic services.

An integrated system for current expenditure management (*Sistema Integrado de Gestão Financeira do Estado* – SIGFE) was introduced in 2006 and expanded in 2007 by the Ministry of Finance. Although SIGFE has been extended to all provinces, it does not include the quasi-fiscal activities of Sonangol and Endiama, nor does it track expenditures financed by foreign credit lines. A parallel effort to improve public sector management was made by the Ministry of Planning, which has set up an integrated system for public investment management (*Sistema Integrado de Gestão do Investimento Público* – SIGIP). These two computerised systems have been criticised for their lack of compatibility, however, and steps are being taken to remedy this situation. The increased transparency made possible by SIGFE and SIGIP has been complemented by annual auditing of Sonangol's financial statements by international accounting firms. Fiscal receipts from diamond exports were posted on the website of the Ministry of Finance for the first time in 2007. However, Angola has not yet become a member of the Extractive Industries Transparency Initiative.

While the high level of public capital expenditure (over 10 per cent of GDP) is welcome in the light of the country's reconstruction and development needs, the imminent elimination of budget surpluses underscores the importance of implementing a multi-year public investment programme and a medium-term expenditure framework, allowing for more scrutiny of investment projects and more careful evaluation of their social rates of return.

Monetary Policy

Inflation in Angola appears to have stabilised at about 12 per cent in 2006 and 2007, following a long period of hyperinflation. The objective of monetary policy is to reduce inflation to 10 per cent or less by maintaining a strong kwanza and a restrictive monetary policy. Thus, sterilised intervention in the exchange market – facilitated by selling large amounts of US dollars and simultaneously increasing the issue of central bank bills – continued throughout 2007. As a result, the growth of the monetary base was contained to less than 20 per cent in 2007. The nominal exchange rate appreciated from AON 80 to 75 (Angolan kwanza) per US dollar, while the real effective exchange rate appreciated by approximately 6 per cent.

The monetary stance was further tightened through increases in reserve requirements and in the discount rate. In April 2007, the composition of compulsory reserves was modified. The cash reserve requirement was raised from 7.5 per cent of deposits to 10 per cent, and that of treasury bills was lowered from 7.5 per cent to 5 per cent. As this measure did not prove effective enough in curbing liquidity, in September the reserve requirement was eliminated for treasury bills and raised to 15 per cent for deposits. These measures were accompanied by an increase in the rediscount rate from 14 per cent to 19 per cent in May 2007.

A gradually declining dollarisation rate due to the stability of the kwanza, as witnessed by the recent increase of deposits in local currency, is expected to increase the effectiveness of interest rate intervention as a policy instrument.

External Position

In 2007 the current account surplus fell to 14.9 per cent of GDP, down from 23.3 per cent in 2006, mostly due to an increase in the volume of profits repatriated by foreign oil companies. The surplus is expected to continue its decline through 2008 and 2009, as oil

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

	1998	2003	2004	2005	2006(e)	2007(p)	2008(p)
Trade balance	33.1	38.6	51.4	49.3	49.7	49.6	42.2
Exports of goods (f.o.b.)	82.9	68.1	78.7	70.5	67.7	64.9	57.2
Imports of goods (f.o.b.)	49.8	29.5	27.3	21.2	18.0	15.2	15.0
Services	-39.1	-22.6	-21.6	-13.5	-13.8	-12.5	-10.9
Factor income	-22.0	-12.5	-13.2	-12.2	-20.7	-21.9	-17.5
Current transfers	0.9	0.0	0.1	-0.3	-0.3	-0.3	-0.2
Current account balance	**-27.1**	**3.5**	**16.8**	**23.3**	**14.9**	**15.0**	**13.6**

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

StatLink http://dx.doi.org/10.1787/322330424144

production approaches a plateau, repatriation of profits increases and imports continue to grow in line with booming domestic absorption. The strength of the kwanza has reduced the potential competitiveness of import-competing sectors, but the lack of infrastructure is still the most binding constraint on production. Several years of current account surpluses have increased international reserves to a level sufficient to provide six months of import cover.

Although Angola is a member of the Southern African Development Community and the Economic Community of Central African States, its major trading partners are outside Africa. Portugal continues to be the largest source of imports and an important destination for exports. The former increased by 44 per cent from June 2006 to June 2007, and the latter by 28 per cent during the same period.

Trade with Brazil has increased dramatically, with imports rising more than four-fold between 2003 and 2006. Angola has become the fourth-largest African export market for Brazil. Following an official visit by Brazilian President Luis Ignacio Lula da Silva in October 2007, seven co-operation agreements were signed, together with a USD 1 billion extension of the existing credit line provided to facilitate Brazilian companies' investment. The Brazilian construction company Odebrecht has won contracts for many projects, including road rehabilitation. Imports from South Africa increased by 37 per cent from mid-2006 to mid-2007. In November 2007, Angola and South Africa signed two co-operation agreements in the oil and tourism sectors, as well as a declaration of intention on eliminating visa requirements.

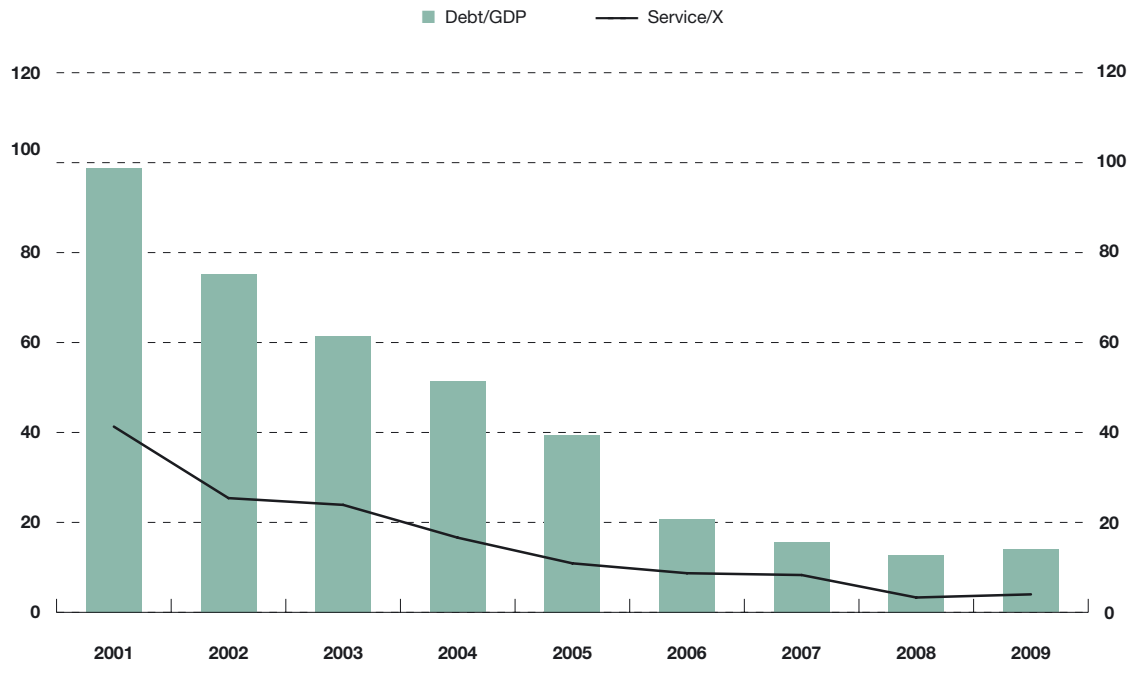
Since 2006, China has become the largest destination for Angolan oil exports. Imports from China increased by 138 per cent from 2005 to 2006, making China the second-largest supplier to Angola after Portugal.

Financial relations between Angola and China are governed by an accord signed in November 2003, which established the basis for future bilateral economic and trade co-operation. The first credit accord with China's Eximbank was signed four months later to fund public investment projects proposed by Angola and approved by a joint working group. Financial support pledged by China for the reconstruction of Angola stands at nearly USD 7 billion. China's aid consists of two credit lines of USD 2 billion each from China's Eximbank and an additional USD 2.9 billion from China International Fund. The latter credit line has gone to Luanda International Airport, the Caminhos de Ferro de Luanda railway project, drainage systems in the capital, studies on the new city to be built close to Luanda, and improvements to the Luanda-Lobito, Malanje-Saurimo, Saurimo-Dondo and Saurimo-Luena highways.

Thanks to its strong fiscal and external positions, Angola has gradually reduced its external debt from 39.5 per cent of GDP at end-2005 to 20.7 per cent at end-2006 and an estimated 15.6 per cent at end-2007.

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Figure 3 - **Stock of Total External Debt** (percentage of GDP) **and Debt Service** (percentage of exports of goods and services)



Source: IMF.

StatLink http://dx.doi.org/10.1787/318300676842

Towards the end of 2006 and during the first quarter of 2007, Angola eliminated its outstanding contractual obligations to the members of the Paris Club (USD 2.3 billion in interest and principal) and began to meet its current debt service payments on time. Towards the end of 2007, the government reached an agreement with the Paris Club on terms and conditions for payment of USD 1.8 billion in accumulated interest on late payments. Repayment is to be made in three instalments beginning in January 2008 and ending in January 2010. This agreement paves the way for normal financial relations with the Paris Club creditors, including the opening of new export credit lines. Spain was the first country to conclude a new agreement, opening a USD 600 million credit line, and Germany has recently begun negotiations.

Relations with the IMF have improved despite the Angolan government's decision in February not to pursue negotiations on an IMF-supported agreement.

Structural Issues

Recent Developments

The pace of reform has recently been stepped up, particularly with regard to state-owned enterprises (SOEs), access to credit and infrastructure rehabilitation.

The legacy of Angola's past includes a highly centralised state, with equity participation in 216 enterprises. In the most important ones, such as oil, water, energy and transport firms, the public sector is a majority owner. Most of these activities entail heavy direct and indirect subsidies from the treasury. The absence of investment during the years of war coupled with a dramatic shortage of managerial skills resulted in suspension of production for many and the accumulation of operational deficits for the rest.

In 2007, a state secretariat for SOEs was created with the aim of centralising responsibility for public

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sector enterprises. The first step in the reform process was the launching of a diagnostic tool (based on enterprise surveys) to evaluate performance and costs. The final objective is substantial disengagement of the state from the economy through the resumption of the privatisation process interrupted at the beginning of 2001. The state will retain 57 enterprises of strategic or public interest.

Recent years have seen progress regarding the transparency of oil revenue management, although much remains to be done. On one hand, the government has published extensive oil sector data on the website of the Ministry of Finance and has improved oil bidding practices; on the other, Angola has not yet joined the Extractive Industries Transparency Initiative, and Sonangol and Endiama continue to carry out quasi-fiscal operations for the treasury and the central bank[1].

In order to make better use of the oil windfall, in December 2006 Angola created the Angola Development Bank (Banco de Desenvolvimento de Angola – BDA) to administer its new Development Fund (FDA), to which 3 per cent of annual oil revenues and 2 per cent of diamond revenues will be channelled. By the end of 2007, the BDA had already approved a series of projects having a combined value of USD 307 million. Of this total, 55 per cent is for industrial projects, 32 per cent for agriculture projects and 13 per cent for wholesale and retail trade. There are concerns, however, regarding risks of corruption and mismanagement of funds, which are supposed to be channelled through commercial banks and allocated according to transparent criteria based on project profitability. The BDA and FDA are expected to ease access to credit for the private sector, which is a major constraint on investment, especially in agriculture.

Accompanying the acceleration of growth in the non-oil sectors of the economy, particularly in the construction and service sectors, credit to the private sector grew by 101.8 per cent in 2006 and 70.6 per cent in 2007. Most of this growth, however, represents credit to households, presumably for consumption. The structural savings deficit is still substantial, notably because of Angola's huge reconstruction needs, estimated at more than USD 20 billion. A USD 3.5 billion agreement between the Ministry of Finance and a syndicate of Angolan banks was signed to fund national reconstruction of infrastructure, plant and equipment.

In 2006, the number of branch offices of public and private banks increased by 20 per cent and 55 per cent respectively. Other services to customers are increasing as well; in 2007, for example, the Visa credit card system became fully operational. However, in 2006, although deposits grew by 76 per cent to USD 8.7 billion, only 5.8 per cent of the population had access to banking services, compared to 25 per cent in sub-Saharan African middle-income countries and 46 per cent in South Africa.

The banking system is well capitalised. In January 2008 a new prudential regulation will be implemented, bringing the Angolan banking system closer to the Basel II regulations. Stricter accounting and prudential rules will entail a tightening of credit before banks adapt to the new environment by increasing capitalisation.

Despite the increase in banking competition (with 16 institutions in 2007), three banks – Banco de Fomento de Angola (BFA), Banco de Poupança e Crédito (BPC) and Banco Africano de Investimento (BAI) – dominate the system. In line with the Angolan government's strategy of limiting foreign participation to 49.9 per cent, Sonangol will acquire a 40 per cent share of BFA, which is currently owned by the Portuguese group Banco Português de Investimento. As Sonangol already has shares in BAI, and BPC is publicly owned, this acquisition – likely to be made through the Luanda stock exchange, which is expected to begin operating in the first quarter of 2008 – will lead to further concentration of the banking system in the hands of the public sector.

1. In particular, debt operations on behalf of the treasury and distribution of subsidised refined products to SOEs.

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The government of Angola has made great efforts to rehabilitate transportation infrastructure, which was almost totally ruined by the war and chronic underinvestment. Although infrastructure remains highly concentrated in the capital city, improvements have begun elsewhere, especially for road transport infrastructure. During the past two years, the government has allocated over USD 33 million of its Public Investment Programme to the rehabilitation of roads. In Luanda, China is financing the substantial Luanda Bay project to enlarge the main costal road. This work, begun in 2007 and scheduled for completion by end-2009, should help reduce congestion in Luanda. Commuting problems certainly harm the business environment of the city, where 90 per cent of economic activity is concentrated. In 2007, 1 200 kilometres of roads and 94 bridges were rehabilitated. In 2008 the government plans to build or rehabilitate a further 1 500 kilometres of roads[2], mainly financed by China, Portugal and Brazil.

The 479-kilometre railway from Luanda to Malange should be operational before the end of 2008, along with the 1 000-kilometre railway running from Namibe (on the coast) to Menongue (in Cuando Cubango province). However, the rehabilitation of the Benguela railway line, which links the coast to the border with Democratic Republic of the Congo, has been postponed to 2010 because of the need for de-mining.

In 2007, the national airline TAAG was banned from EU airspace for safety reasons. Despite the protests of the Angolan government, this decision will not be reviewed until February 2008. In the meanwhile, TAAG has finalised an agreement with other African companies to ensure passenger connections to Europe. The strategic plan of the national airport administrator Empresa de Navegaçao Aerea (Enana) features an investment of USD 400 million to rehabilitate all the airports in the country. Since the Luanda airport cannot be upgraded and expanded due to its proximity to the city, the Chinese government will contribute to the construction of a new international airport and associated infrastructure as part of a EUR 9 billion investment. The new airport will cover an area of around 11 000 hectares to the north of Luanda and will also be the site of a Boeing-certified maintenance centre for the region.

Major problems persist in the port of Luanda, which cannot keep pace with the rapid development of the economy and the huge volume of cargo entering the country. As a result, ships wait offshore for up to several weeks, raising the cost of transport. During 2007, a long-delayed 20-year concession for management of the port was finally awarded to Sogester, a joint venture between Maersk and an Angolan pension fund. An investment of USD 35 million is expected to modernise the port and create a deep-water harbour. Other projects planned by the government include a new container terminal and the Viana drydock.

For the time being, electricity generation in Angola is limited to the Capanda hydroelectric power plant, whose fourth turbine has finally been installed. The dam has been operating at its full capacity of 520 MW, but its potential cannot be fully exploited until distribution is improved. Inadequate distribution capacity causes increasingly frequent power cuts, especially in Luanda, where the demand for electricity rose by more than 20 per cent in 2007 and is expected to increase rapidly in the near future. Numerous small distribution lines destroyed during the war have been restored since 2006. By the end of 2008, Luanda's power distribution company, Empresa de Distribuição de Electricidade de Luanda (EDEL), will install 41 000 meters throughout the capital. The new meters will be programmed with a pre-payment system, aimed at controlling demand and preventing power outages. A major reform programme being designed for the electricity sector will address regulation, the structure of the industry, tariffs and expansion of the grid.

Despite some progress in addressing important structural bottlenecks, the business climate is unfavourable and Angola is still at the bottom of the World Bank's *Doing Business* ranking. During the period of the socialist regime, private initiative was highly

2. Fifty per cent of the amount called for in the Government Plan for 2007-08.

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restricted and the elite in power, particularly the president's close entourage, had total control over the economy. With the restoration of peace, the same small group of people gained access to previously state-owned assets through an opaque privatisation process and are thought by many to continue to have easy access to licences, concessions, credit and business opportunities generally. If the economy is to be truly opened up to private initiative, it is necessary to foster fair competition through a strong, well-defined legal and regulatory framework. However, the legislature has not yet enacted a competition law that was submitted for approval in 2004. The perception of widespread corruption also needs to be addressed.

Technical and Vocational Skills Development

Technical and vocational education and training (TVET) is especially important in post-conflict Angola. Economic reintegration and restoration of sustainable livelihoods for the population depend upon it – particularly for the 3.8 million former displaced people, 450 000 refugees and 280 000 former soldiers.

As a result of the war, an entire generation has been entirely excluded from any form of education or training. The percentage of unskilled labour in the total labour force is as high as 94 per cent among the 15-19 age cohort, 74 per cent among those 20-24 and 68 per cent among those 25-29. The situation is also highly gender-biased, with 88 per cent of women totally unskilled.

Both general education and TVET have fallen under the responsibility of the Ministry of Public Administration, Labour and Social Security (MAPESS) since 2000, and are organised by the National Institute of Vocational Training (INAFOP), a division of the MAPESS. Initiatives for the reintegration of former soldiers are carried out by the Institute for Social and Occupational Reintegration of Former Combatants (IRSEM), an arm of the Ministry for Social Assistance and Reintegration.

At the secondary school level, where students have a choice in the type of education they receive, students have exhibited a strong preference for technical training over general schooling. Unlike in other countries, technical education is seen as a path leading to university (engineering or sciences) rather than to immediate entry into the labour market. Since the prestige of acquiring a university qualification is deeply rooted in the mentality of the student population, vocational training suffers from a severe lack of esteem – remaining only as a residual option for those who cannot continue with technical or general education. Angola recently undertook a major three-year plan (2005-07) to develop technical education, involving the construction of 35 new technical institutes with Chinese funds. Curricula have not been updated for decades, however, and there are no plans to do so in the near future. Furthermore, there are no current plans to hire and train new technical teachers.

Angola currently has 304 vocational training centres, of which 36 fall under the responsibility of the INEFOP, 245 are private and conduct only lifelong learning activities, and 23 belong to other organisations. Their total capacity of 24 564 students can accommodate only a fraction of the potential demand, since every year 300 000 new job seekers enter the labour market.

Public intervention remains very much focused on the reintegration of former soldiers. Most often, reintegration is conducted through the informal sector, reflecting the importance of the informal economy. IRSEM often collaborates with NGOs and trade associations. One major initiative was the World Bank-financed Angola Emergency Demobilisation and Reintegration Project (ADRP), which ended in 2006. However, these technical and vocational training programmes were conducted in isolation, with inadequate material support and little or no follow-up to help trainees get through the first few difficult months. As a result, their impact was limited.

The extractive industry is engaged in TVET, in order to train its own workers and contribute to the country's development. Many partnerships have been formed between public bodies and enterprises, as in the case of Chevron and the United Nations Development Programme, or between NGOs and firms, as in Total's

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initiative involving NGOs and local banks. The aim is nearly always to promote small businesses in sectors with high growth potential, such as mechanics or food processing. In 2006, Sonangol and other oil companies launched an initiative called "Formação di Fornecedores" (training of suppliers), aiming at increasing SMEs' capacity to participate in the oil industry as suppliers of goods and services.

Problems in the TVET system in Angola are manifold. Despite the huge number of recent initiatives, training is inadequate in both quantity and quality. The technical and vocational profiles of those actually receiving training do not match the skills in demand in the economy, private and public sectors alike. There are a number of reasons for this: no market study was done prior to the definition of the TVET strategy; the private sector was not involved in designing the strategy; there is a lack of co-ordination between vocational training centres and the educational system; private and other initiatives are often fragmented. Finally, the quality of basic education is very low, which limits students' ability to learn and take real advantage of the training they undergo. More generally, in order for a TVET strategy to be effective, it must be integrated in an overall long-term development strategy. The government of Angola has only recently begun working on such a long-term vision (known as Angola 2025).

The government has placed human resources development among the priorities of its short-term Government Plan for 2007-08 to achieve national reconstruction and promote economic activities. As a result of this new engagement, overall TVET capacity increased by 6.9 per cent in 2006, from 22 988 students in 2005 to 24 564 in 2006. In particular, public centres increased their capacity by 12.5 per cent for vocational training and by 7.8 per cent for other programmes. Thirty-four per cent of the training programmes delivered were in the field of construction, 30 per cent in information and communication technology and 36 per cent in other areas. Moreover, 16 new itinerant centres for vocational training were created as part of the *Esta é a tua vez* and *Estamos contigo* projects. The aim of these innovative programmes is to bring these kinds of services closer to people inhabiting remote areas. Altogether, almost 16 000 people were trained. Training in public administration has also increased, and 1 716 civil servants were trained through 84 different programmes. In order to build institutional capacity in local communities, the government will rely on the training centres attached to various ministries (fishery, transport, health and industry) as well as on the training programmes provided by the Social Action Fund (Fundo de Apoio Social), a public organisation funded mainly by the World Bank.

In 2006, the MAPESS also implemented a series of measures to promote TVET and employment, in the framework of the overall implementation of the new "First Job" law. To monitor employment and vocational training, the ministry also founded an observatory to collect, process and disseminate statistical data. Helping trainees find work is a prerequisite for successful training schemes. Three other initiatives were launched: *i)* an internship programme in firms, aimed at providing students from technical secondary schools with occupational skills developed in the workplace. After training, the state is expected to contribute 60 per cent of trainees' salaries in order to foster job creation and ease the transition from training to employment; *ii)* a programme to foster the creation of micro and small enterprises, including training in business management; and *iii)* a programme to develop self-employment, mainly targeting former soldiers (*desmobilizados*).

These TVET initiatives are financed by the government, by the private sector (for initiatives involving extractive industries) and by donors. The latter – in particular, the World Bank and the European Union, together with national co-operation agencies (through NGO projects) – are involved in many activities conducted by both the MAPESS and IRSEM that target vulnerable groups (disabled war veterans, former soldiers, war victims, etc.).

Political Context

The first elections since the war ended will be held in 2008. The only previous time that multi-party elections were held, in September 1992, they led to

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further strife. At that time, the ruling party, the Movimento Popular de Libertação de Angola (MPLA), won the legislative elections, followed closely by the União Nacional para a Indepêndencia Total Angola (UNITA), its opponent in the election and in the war. In the subsequent presidential elections, however, neither José Eduardo dos Santos, Angola's president since 1979, nor UNITA leader Jonas Malheiro Savimbi (since deceased) won a majority, and a fierce conflict erupted.

In the forthcoming 2008 legislative elections and the 2009 presidential election, the ruling party and the incumbent president are widely expected to retain power. There are 126 political parties, but most of them are small and little known. Consequently, the real contest will be between the two traditional rivals, the MPLA and UNITA. The MPLA has access to public resources (including the press), limiting the opposition's ability to reach the electorate. Social unrest following the results of the elections is thought to be highly unlikely, due to the population's strong desire to live in peace, but the widespread mistrust of the political system could result in massive abstention.

Angola today is a country at peace, apart from sporadic fighting in the Cabinda enclave between the remaining separatist guerrillas of the Frente de Libertação do Enclave de Cabinda (FLEC) and the Angolan Armed Forces. The resettlement process has also come to an end, with the 4 million formerly displaced people having decided either to remain in their host communities or to return to their original communities or farms.

Social Context and Human Resources Development

When the latest estimates of income poverty were made in 2001, 68 per cent of the population was living below the poverty line and inequality was rising. Income remains highly concentrated in the oil sector and in Luanda, and the Gini coefficient is one of the world's highest (0.64 in 2005).

The impact of recent growth on poverty has probably been favourable. The living conditions of the Angolan people have probably improved due to the increase in employment (stemming from an expansion of private and public investment), the reintegration of displaced people into the workforce and a renascent agricultural sector. The unemployment rate is estimated to have fallen from 39.8 per cent in 2002 to 25.2 per cent in 2006[3]. The public sector remains the largest source of jobs, particularly in the education and health sectors, and 3 million new jobs are to be created in 2007 and 2008. Growing employment has tended to raise incomes and reduce food insecurity and malnutrition. On the other hand, the purchasing power of those in employment has been decreasing during the last few years, as wage increases have not kept pace with inflation. In the public sector, for example, real wages suffered a cumulative loss in purchasing power of around 30 per cent over the 2004-06 period.

Opportunity is concentrated in Luanda. For the majority of the city's estimated 4 million residents, however, living conditions in the capital are difficult, with very high prices and poor access to basic services, including water and sanitation. This situation is due in part to the rapid and unmanaged increase in the urban population fuelled by the war. Most inhabitants of Luanda are very poor and hold no formal title to their house or land. The country's housing shortage has been estimated at 800 000 dwellings, which corresponds to about 4 million people without adequate housing, most of whom are in Luanda. The government has approved plans to build 200 000 houses, including 120 000 in Luanda. Recently, 20 000 poor Luandan residents were forcibly evicted without appropriate compensation on the grounds that the land was needed for development projects in the public interest.

The poverty reduction strategy paper adopted in 2005, more widely known as the Strategy to Combat Poverty (ECP), has had little actual influence on policy. It is supposedly the basis for an extension of a medium-term development plan covering the 2005-09 period, but it is not clear to what extent it has been used for

3. According to calculations performed at the Centro de Estudios et Investigacao Centifica, Catholic University of Luanda.

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this purpose. The key sectors of action for poverty reduction in the ECP are social reintegration, de-mining, food security, rural development, HIV/AIDS, education, health and basic infrastructure. They correspond to the priorities laid down in the government plans of the last few years.

Progress has been achieved in terms of construction and rehabilitation of basic infrastructure: in 2007, 112 primary schools, 7 secondary schools, 4 hospitals and 32 health centres were built. Moreover, 55 per cent of public jobs are allocated to the education sector (50 000 teachers have been hired since 2002), while health, which is the second-highest priority, accounts for 20 per cent of public sector jobs. Access to both health and education services remains problematic, however, because of high costs and poor quality. Although improving slightly, indicators for health and basic education remain low – certainly below those of the other countries in the region. According to local sources, in 2005, the net primary and secondary school enrolment rates were 56 per cent and 12.5 per cent respectively, with an illiteracy rate of almost 30 per cent of those aged 15 years or older. In the health sector, maternal mortality was extremely high (1 700 deaths per 100 000 live births), with only 35 per cent of births assisted in hospitals. Thirty per cent of children under five years of age were undernourished. More generally, only 30-40 per cent of the population had access to health services, 30 per cent to treatment and 40 per cent to vaccination coverage.

Multinational oil companies are also involved in the social development of the country. They are obligated, according to the terms of their concessions, to promote social and economic development by providing training directed at developing human capital or by building infrastructure such as roads. Within this framework, the government of Cabinda concluded an agreement in 2006 with the firms of the Oil Association for Block Zero for a social bonus of USD 35 million. Overall, oil companies contributed USD 400 million to the government to finance social projects in 2006. However, they can undoubtedly do more, especially in the light of the high profits they are earning.

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Benin



key figures

• Land area, thousands of km²	113
• Population, thousands (2007)	9 033
• GDP per capita, USD at constant 2000 prices (2007)	345
• Life expectancy (2007)	57.6
• Illiteracy rate (2007)	54.7

Benin


NIGER
Niamey
Niger
BURKINA FASO
Pendjari
Ouagadougou
Kandi
Natitingou
Djougou
Parakou
TOGO
NIGERIA
Okpara
Savalou
Savé
Dassa
Kétou
Abomey
Bohicon
Pobé
Ouémé
Lokossa
Allada
Ouidah
Mono
PORTO NOVO
Lagos
Lomé
Cotonou
ATLANTIC OCEAN
town > 1 million inhabitants
500 000 - 1 000 000
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railway
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main airport
secondary airport
commercial port
petroleum port
fishing port
0
50 km

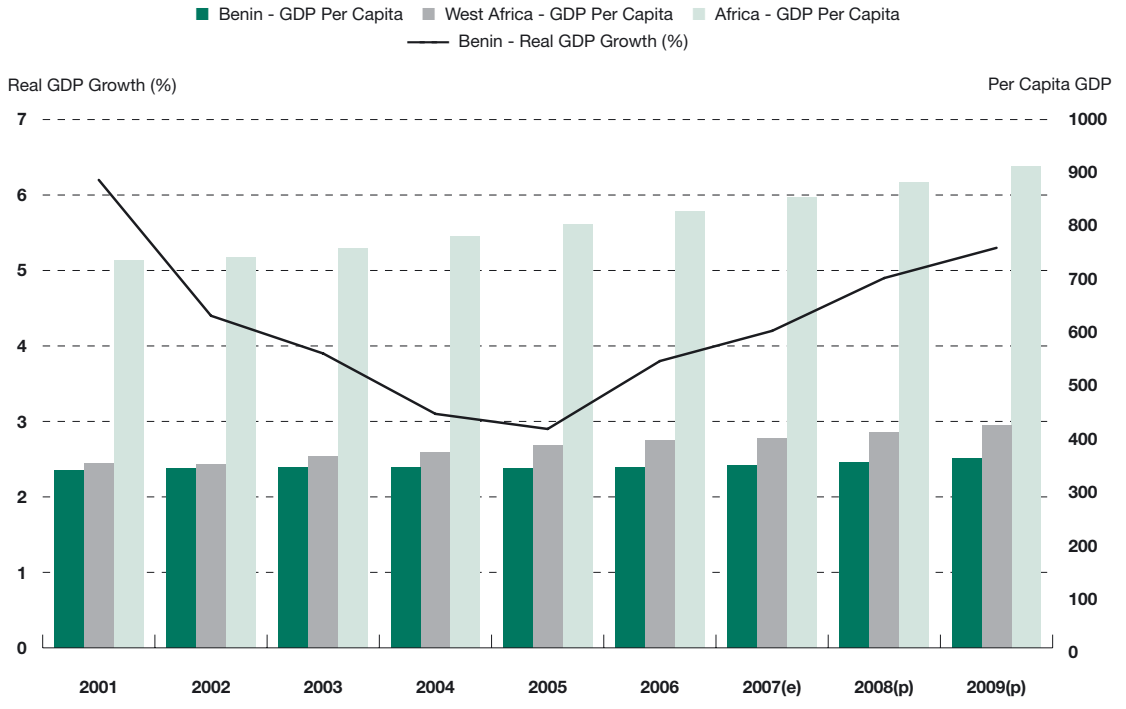
Benin

BENIN'S SOCIAL AND POLITICAL SITUATION has been peaceful for over a decade. The wide-ranging national consultation held between 19 and 28 February 1990 brought an end to the profound socio-political and economic crisis that the country suffered during the late 1980s. This consultation, known as the "Conférence nationale des forces vives" (National Conference of Dynamic Forces) was the first of its kind in Africa, and brought different strands of opinion, development organisations from various parts of the country, business and trade organisations, and religious communities together around the same table. It resulted in a number of important resolutions, notably *i)* to establish a liberal democracy based on respect for fundamental human liberties, *ii)* to promote the rule of law and *iii)* to adopt free-market principles.

The first legislative and presidential elections under this revival of democracy were held in February and March 1991 respectively, and brought President Nicéphore Soglo to power. Democracy has since continued to gain strength in Benin. The election of Dr Thomas Yayi Boni in April 2006 under conditions of transparency was simply the conclusion of the process begun in 1990, which paved the way for the orderly changeover of political power, as President Soglo was followed by President Mathieu Kérékou, who held office from March 1996 to March 2006. The legislative elections of April 2007 also went smoothly and allowed the new president, Thomas Yayi Boni, to establish a

A return to growth was held back by late implementation of structural reforms in the cotton, energy and telecommunications sectors.

Figure 1 - **Real GDP Growth and Per Capita GDP**
(USD at constant 2000 prices)



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

StatLink http://dx.doi.org/10.1787/316155305683

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majority in the parliament, thus facilitating the implementation of his programme of government.

Recent Economic Developments

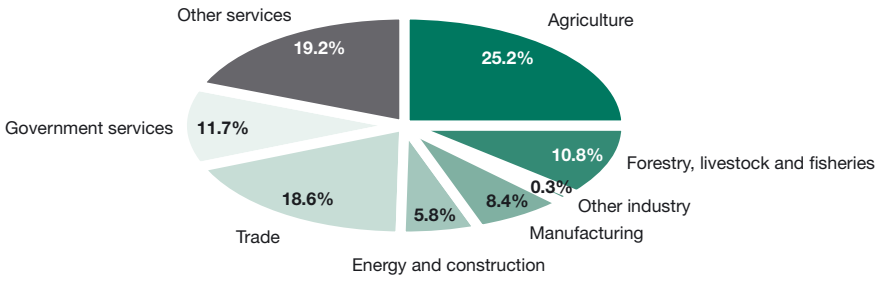
After a four-year slowdown, Benin's economy began to pick up in 2006 and the recovery continued in 2007 as a result of the improvement in cotton production, the re-establishment of trade relations with Nigeria and the upturn in port-related activities.

Real growth increased from 2.9 per cent in 2005 to 3.8 per cent in 2006 and 4.2 per cent in 2007. However, growth was lower than projected as a result of the energy crisis, which had a significant impact on productive activities in early 2007, and delays in implementing structural reforms, particularly in the cotton industry. The energy crisis began in March 2006 when the Volta River Authority (VRA), a Ghanaian company that is the main energy supplier to Communauté électrique du Bénin (CEB), significantly reduced its energy exports. The crisis deepened in 2007, when production stopped at the hydroelectric power plant on the Nangbéto dam and energy exports by the two companies that operate it, Compagnie ivoirienne d'électricité and VRA, were drastically reduced. The government has embarked on reforms in the electricity sector that should in time bring more efficient management and satisfactory power distribution in both qualitative and quantitative terms. It has also granted tax breaks to private operators to encourage them to invest in independent power plants until the generation capacity of the Société béninoise d'eau et d'électricité (SBEE) has increased.

The government has also made a commitment to speed up the implementation of structural reforms in the cotton industry, telecommunications and port-related activities. Together, these measures should raise the growth rate to 4.9 per cent in 2008. Inflation, which rose sharply in 2005 (5.4 per cent) as a result of the pressure on the price of food and oil products, fell back to 3.1 per cent in 2006 as plentiful rainfall allowed an increase in the production of food crops in the sub-region. The inflation rate in 2007 is estimated at 1.5 per cent, in line with the convergence criteria of the West African Economic and Monetary Union (WAEMU), and should rise very slightly to 2 per cent in 2008.

Benin's economy shows a marked lack of diversity and is largely focused on agriculture. This sector generates around 22 per cent of GDP and employs almost 60 per cent of the working population. Apart from food crops (manioc, beans, yams, sorghum, maize, millet and rice), farmers primarily grow cotton, the main export crop. The country is one of Africa's leading producers of cotton, which provides livelihoods for 2 million of Benin's inhabitants and accounts for about 80 per cent of its exports. Other export crops – palm oil, cashews and pineapples – make up only around 10 per cent of exports. Cotton production for the 2006/07 growing season did not match up to initial expectations (350 000 tonnes), but is nonetheless estimated to have reached 240 618 tonnes, up 21.5 per cent compared with the previous year (198 000 tonnes).

Figure 2 - **GDP by Sector in 2006** (percentage)



Source: Authors' estimates based on National Institute for Statistics and Economic Analysis data.

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Agriculture is the main driver of growth in Benin, but this sector is highly dependent on the level of rainfall and is not competitive due to the high cost of agricultural inputs and the low level of mechanisation. Benin has huge potential in terms of farmland that is well suited to the needs of diversified agriculture. Efforts to diversify into other export sectors are under way and should in time mitigate the fragility of the agricultural sector.

Benin also has considerable potential underground, with gold, offshore oil, marble, limestone, phosphate and iron deposits, but these resources are not extensively exploited. The primary sector's contribution to growth fell from 2.1 percentage points in 2006 to 1.3 in 2007 while that of the secondary sector increased, mainly as a result of the upturn in cotton.

Nonetheless, the secondary sector in Benin is still in its infancy, contributing only 13 per cent to GDP. Industrial production is dominated by the food, textile and cement industries. Construction and energy, which are essential to industrial development, contribute very little to GDP, at 4.4 per cent and 1.1 per cent respectively. The shortage of entrepreneurial and managerial skills, the lack of investors in the sector, the limited exploitation and development of local resources, and the unsuitability of the institutional and regulatory environment are the main problems holding back the country's industrial development. Over 80 per cent of the 400 formal-sector companies covered by an investment climate survey felt that corruption, flaws in the justice system, and customs and tax procedures constituted a major obstacle to their development. In addition, investors have difficulty in obtaining secure, improved land at reasonable prices. Land prices in Benin are the highest in the entire sub-region, and the ownership of many plots is in dispute (a high proportion of litigation is concerned with land). The industrial sector's contribution to GDP growth fell in 2006 as a result of the drop in manufacturing output. The upturn in cotton production in the 2006/07 growing season enabled ginning factories to recover somewhat in 2007, bringing the secondary sector's growth contribution to 0.7 percentage point. This upward trend is expected to strengthen in 2008.

The tertiary sector accounts for almost half of GDP. Benin's geographical location in relation to countries in the hinterland such as Niger, Burkina Faso and Mali offers extensive opportunities in transport, transit and tourism. Where tourism is concerned, the country has a rich cultural heritage, reflected in numerous historical and ethnographic museums. Benin is home to a "slave route" site and the country was also the place of origin of voodoo worship, practised by over 50 million followers throughout the world, particularly in Africa, Haiti, Brazil and various countries in the Americas. Benin celebrates its national religious festival on 10

Table 1 - **Demand Composition**

	Percentage of GDP (current prices)		Percentage changes, volume			Contribution to real GDP growth		
	1999	2006	2007(e)	2008(p)	2009(p)	2007(e)	2008(p)	2009(p)
Gross capital formation	**18.3**	**20.6**	**13.5**	**8.8**	**5.0**	**2.5**	**1.8**	**1.0**
Public	5.2	4.6	44.5	20.0	3.8	1.8	1.1	0.2
Private	13.1	15.9	4.5	4.3	5.5	0.6	0.6	0.8
Consumption	**87.7**	**88.8**	**2.9**	**3.9**	**4.8**	**2.5**	**3.3**	**4.1**
Public	13.0	9.3	3.4	3.5	3.6	0.3	0.3	0.3
Private	74.7	79.5	2.8	3.9	4.9	2.2	3.0	3.8
External demand	**-6.1**	**-9.3**				**-0.8**	**-0.2**	**0.2**
Exports	29.1	16.7	7.2	8.1	7.0	1.5	1.7	1.5
Imports	-35.1	-26.0	9.0	7.2	4.9	-2.3	-1.9	-1.3
Real GDP growth						**4.2**	**4.9**	**5.3**

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

StatLink http://dx.doi.org/10.1787/320701282554

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January each year, bringing together thousands of people from around the world.

Tertiary activities are primarily based on trade, which is highly dependent on the state of Benin's relationship with its bigger neighbour Nigeria. The sector faces difficulties such as inappropriate and/or inadequate legislation and regulations; smuggling, which is growing at a disturbing pace; and a lack of co-ordination among the country's various trade development bodies.

On the demand side, growth continues to be driven by private consumption (estimated to have contributed 2.2 percentage points to growth in 2007) and public investment (1.8 percentage point). The external sector, which is still in deficit despite the revival in cotton exports, makes a negative contribution to GDP growth. Benin's exports are dominated by the re-export of goods to Nigeria. According to an estimate by the Cotonou-based Laboratoire d'analyse régionale et d'expertise sociale (Centre for Regional Analysis and Social Studies), at least 75 per cent of consumer goods unloaded at the port of Cotonou are re-exported to the Nigerian market. The goods concerned are primarily cotton or synthetic fabrics, second-hand clothes, rice and used vehicles. Re-export businesses have faced many difficulties over the last three years due to trade restrictions imposed by Nigeria. The latter, with a population of over 130 million, is determined to develop its local industries, and in pursuing this policy has regularly taken measures to restrict imports from Benin. In August 2003, Nigeria went so far as to close the border, arguing that Benin was not doing enough to combat cross-border crime. Following negotiations, the two heads of state signed a memorandum committing their countries to co-operation in the fight against cross-border smuggling and insecurity. Determined to increase the flow of goods, the two countries established a joint Benin-Nigeria trade committee in June 2004.

One result of the improved trade relations with Nigeria was the creation in February 2007 of a co-prosperity area made up of Benin, Nigeria, Togo and Ghana – an initiative of President Thomas Yayi Boni of Benin and Olusegun Obasanjo, at the time president of Nigeria. The aim of this scheme is to integrate the four countries' markets in sectors such as energy, telecommunications and transport infrastructure; agreements have actually been reached in energy and telecommunications. As a result, trade should contribute more to Benin's GDP growth in 2008 and 2009.

Macroeconomic Policies

On 5 August 2005, Benin agreed to a second three-year economic and financial programme with the IMF under the Poverty Reduction and Growth Facility (PRGF). (The first was agreed in 2000 and covered the 2000-03 period.) The principal aim of the programme was to help Benin pursue the reforms needed to strengthen its economy and achieve lasting poverty reduction. In September 2007, the third review of the PRGF concluded that Benin had met all the quantitative implementation criteria and indicative goals laid down in the programme for end-June 2007. However, the country was behindhand in implementing important structural reforms, such as privatising the industrial plants of the state-owned cotton company Société nationale pour la promotion agricole (Sonapra). In addition, the continuing rise in oil prices is increasingly hurting the country: according to a study by the Central Bank of West African States (BCEAO), it cost Benin 0.24 of a percentage point of GDP over the 2004-06 period. As in all other WAEMU member states, the increase in oil prices has also affected public finances. The impact on the fiscal deficit has grown steadily worse, from 0.46 of a percentage point of GDP in 2004 to 0.62 in 2006.

Fiscal Policy

The measures adopted by the government in 2006 to secure its revenue and rein in expenditure have taken the basic primary balance from a deficit of 1.4 per cent in 2005 to surpluses of 0.4 per cent in 2006 and 1 per cent in 2007. On the revenue side, the tax and customs authorities have stepped up their measures to control and combat fraud, and customs clearance procedures have been streamlined and computerised. These measures have made it possible to take advantage of the

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

	1999	2004	2005	2006	2007(e)	2008(p)	2009(p)
Total revenue and grants[a]	**18.7**	**18.3**	**18.4**	**19.2**	**19.4**	**19.8**	**19.7**
Tax revenue	13.1	14.6	14.5	15.4	15.4	15.6	15.5
Grants	3.3	1.9	1.7	2.3	2.5	2.6	2.6
Total expenditure and net lending[a]	**16.8**	**20.1**	**21.3**	**19.6**	**21.4**	**22.6**	**22.3**
Current expenditure	10.5	13.9	15.0	14.9	15.0	15.2	15.1
Excluding interest	*9.6*	*13.6*	*14.7*	*14.6*	*14.6*	*14.7*	*14.6*
Wages and salaries	4.3	6.8	6.8	5.5	5.4	5.4	5.3
Interest	0.9	0.3	0.3	0.3	0.4	0.5	0.5
Capital expenditure	6.1	6.1	6.3	4.6	6.4	7.4	7.3
Primary balance	**2.7**	**-1.4**	**-2.6**	**0.0**	**-1.6**	**-2.3**	**-2.2**
Overall balance	**1.8**	**-1.7**	**-2.9**	**-0.4**	**-2.0**	**-2.8**	**-2.7**

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

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upturn in activity and have increased tax revenue from 14.5 per cent of GDP in 2005 to 15.4 per cent in both 2006 and 2007. In addition to the increase in tax revenue, in 2006 and 2007 the government raised considerable funds (XOF 141.6 billion [CFA francs BCEAO]) on the WAEMU financial market to finance productive infrastructure. On the expenditure side, the government has returned to better budget execution procedures. The rather unorthodox practice of executing expenditures via payment orders from the Treasury, which had led to budget overruns, has been replaced by greater use of standardised procedures under the Integrated System for Public Finance Management (SIGFIP). In addition, in 2007 the government enacted a supplementary finance bill that substantially increased spending on health, education, agriculture and infrastructure. Total expenditure reached 21.4 per cent of GDP in 2007, compared with 19.4 per cent in 2006. The wage bill (5.4 per cent of GDP in 2007) was kept quite close to its 2006 level (5.5 per cent of GDP).

The aim of fiscal policy in 2008 is to give more weight to expenditure aimed at reducing poverty and supporting growth, and at the same time to improve the medium-term viability of public finances. The government intends to maintain the basic primary balance at a surplus of 1 per cent of GDP, and the overall budget balance is projected to show a deficit of about 2.8 per cent of GDP.

Monetary Policy

The money supply expanded strongly in 2006 (16.5 per cent), in line with the improvement in the banking system's net external assets, which was largely due to the increase in private and public transfers. In 2007, monetary expansion was held to 7.6 per cent, as net external assets increased less rapidly. The government's net position in relation to the banking system further improved in 2007 due to the good tax take. Net credit to the state declined in 2007 by an estimated 8.2 per cent of the money supply, while credit to the private sector increased by 9.8 per cent.

Monetary policy will remain in the hands of the BCEAO, with a view to maintaining WAEMU's external position by keeping international reserves at a satisfactory level and inflation below 3 per cent. The money supply in Benin is expected to increase by 8.2 per cent in 2008, with credit to the private sector rising by 7.7 per cent and net credit to the state dropping slightly (-1.8 per cent).

External Position

Benin's trade balance and current account are structurally in deficit. The country's external position deteriorated during the 2000-05 period owing to the combined effects of falling revenues from cotton exports and the rising cost of imported oil products. The current

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

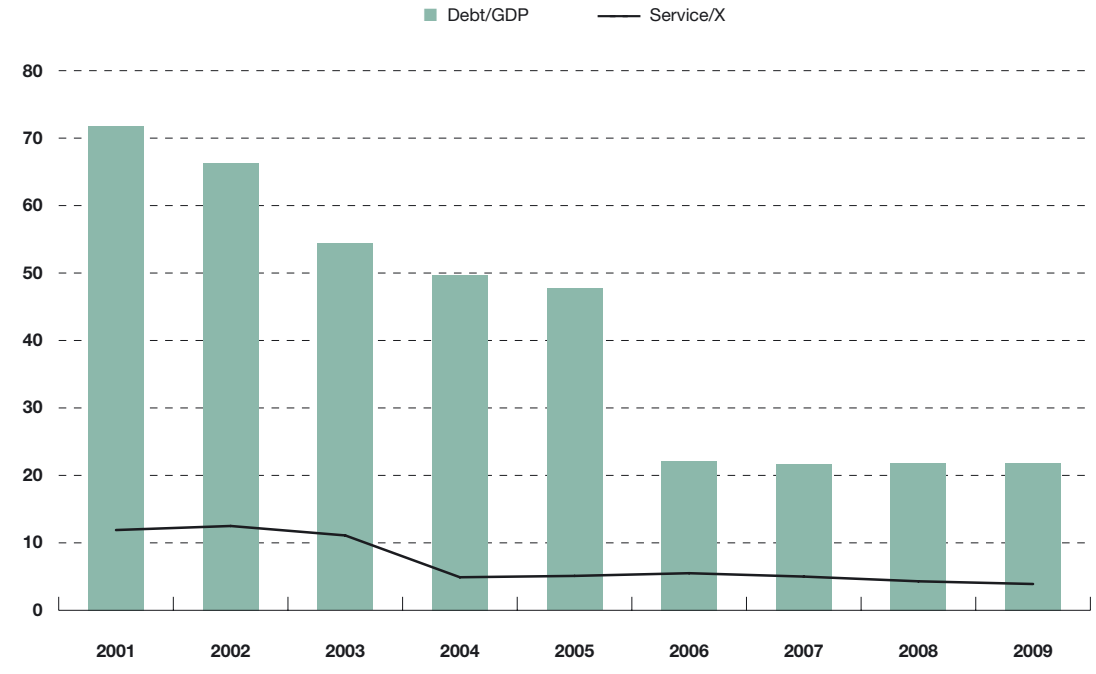
	1999	2004	2005	2006	2007(e)	2008(p)	2009(p)
Trade balance	-8.6	-11.0	-9.3	-10.8	-10.7	-11.1	-10.7
Exports of goods (f.o.b.)	16.9	8.5	7.5	5.3	5.5	5.6	6.0
Imports of goods (f.o.b.)	25.5	19.5	16.8	16.1	16.2	16.8	16.7
Services	-1.6	-1.2	-1.1	-0.8	-0.6	-0.6	-0.5
Factor income	-0.6	-1.0	-0.9	-0.4	-0.5	-0.5	-0.6
Current transfers	5.5	6.0	4.8	5.7	6.5	5.6	5.6
Current account balance	**-5.3**	**-7.2**	**-6.5**	**-6.3**	**-5.4**	**-6.6**	**-6.2**

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

StatLink http://dx.doi.org/10.1787/322341757774

account deficit excluding official transfers levelled off at 6.3 per cent of GDP in 2006, then shrank to 5.4 per cent of GDP in 2007 with the increase in cotton exports and the continued high level of current transfers. Benin reached the completion point of the Heavily Indebted Poor Countries Initiative in 2003 and obtained debt relief of USD 265 million in January 2006, as well as further debt reduction of USD 1.112 billion under the Multilateral Debt Relief Initiative. In 2007, the country also benefited from the cancellation of its debts to China and Russia. Outstanding foreign debt in 2007 is estimated at 12 per cent of GDP, compared with 36.9 per cent in 2005. With international reserves estimated at 13 months of import cover in 2007 and the continuing increase in cotton exports, Benin's external position could strengthen in 2008, but it remains fragile owing to the country's high degree of vulnerability to fluctuations in cotton prices, the uncertainties of its trade relations with Nigeria and the appreciation of the euro (and therefore of the CFA

Figure 3 - **Stock of Total External Debt** (percentage of GDP) **and Debt Service** (percentage of exports of goods and services)



Source: IMF.

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franc) with respect to the US dollar. The government will therefore maintain its cautious approach to indebtedness.

Structural Issues

Recent Developments

The reforms undertaken in Benin in recent years stem from its 2003-05 Poverty Reduction Strategy, which sets out four priorities: *i)* strengthening the macroeconomic framework in the medium term; *ii)* human capital development and environmental management; *iii)* strengthening of governance and institutional capacity; and *iv)* promotion of long-term employment and building the capacity of the poor to contribute to the decision-making and production processes. Structural reforms have concentrated primarily on the privatisation of state-owned enterprises, particularly Sonapra, SBEE, the post and telecommunications office and the Autonomous Port of Cotonou (PAC). Benin has fallen behind schedule in implementing these reforms, particularly as regards the liberalisation and privatisation of state-owned enterprises in the basic infrastructure and cotton sectors. The government had committed to partial privatisation of Sonapra's cotton ginning factories with the aim of permanently restoring the integrated nature of the sector in a context of private management. It initiated the privatisation process in August 2007 through an invitation to tender that resulted in the appointment of Société commune de participation (SCP) to adjudicate the share of Sonapra's capital to be privatised. In October 2007, it created Société de développement du coton (Sodeco), a semi-public company owned primarily by the state and SCP, to take over the Sonapra factories. However, on 2 November the government called a halt to the entire privatisation process, citing irregularities in the adjudication procedure and in the creation of Sodeco. It intends to restart the process once an overall reform strategy for the cotton sector has been developed with the support of external partners. The future strategy will taken into account the problem of agricultural inputs, fairer compensation for farmers and the need to provide support and information to farmers. Preparation of the reforms is scheduled to begin before June 2008, but the solutions may not be implemented for some time as the government plans to review the sector in its entirety.

Where port-related activities are concerned, the government has embarked on reforms to enhance competitiveness with the support of the Millennium Challenge Account (MCA). The aim of this reform is to improve safety conditions at the PAC and to involve the private sector in managing port facilities. After a delay in implementing these reforms, the government has set up a single billing system for all services provided by operators to the users of the PAC. A limited company made up of port community actors, including public bodies, is now in charge of managing this system. Moreover, the government has outsourced management of the information system for the one-stop shop for foreign trade (SIGUCE) to a private company that will act as the interface between port operators and the users of port services. These initiatives significantly improved the performance of the port in 2007. The government is planning to contract out the management of the port to a foreign company with an international reputation.

It has also embarked on other reforms with the support of the MCA, in particular the improvement of the land tenure system and the judicial system in order to facilitate access to credit for small and medium-sized enterprises.

Over the last three years, the authorities have also initiated a series of reforms to foster transparency in public finance management. In particular, they have sought to strengthen the role of all institutions involved in improving governance and fighting corruption. The public finance inspectorate and the general government inspectorate (IGE) have been allocated additional resources in order to tighten their control over public expenditure. The IGE has already embarked on audits which, on 12 November 2007, resulted in the dismissal of the managing directors of the PAC and Société de gestion des marchés (Sogema), which maintains market infrastructure. Further IGE audits are planned for the national water company Soneb, the Benin national

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lottery and Sonapra. In addition, the government has undertaken to reform public procurement contracts and is planning to convert the Chamber of Accounts of the Supreme Court into an Audit Office with greater independence and more resources. Benin is one of the countries that signed up to the African Peer Review Mechanism, a body set up to promote good governance.

Despite all these initiatives, the popular perception is still one of widespread corruption. A survey carried out in 2005 and 2006 with the support of the African Development Bank (AfDB) and the World Bank found that 58 per cent of Benin's population regards corruption as a serious problem. The government bodies receiving the worst ratings in this respect were customs, the justice system, the highway patrol force and the tax authorities. The government is planning to update the national anti-corruption plan on the basis of this survey.

In 2007, the government adopted a new Growth Strategy for Poverty Reduction for the 2007-09 period that continues and reinforces the main priorities of the previous strategy, putting the emphasis on reforms to support the private sector and economic growth.

Benin possesses some real advantages for the development of the private sector, namely political stability, a viable commercial banking sector, and port and airport infrastructure. In the government's strategy for private-sector development, particular emphasis has been placed on the settlement of land tenure issues. To secure land rights in rural areas, a law reforming the rural land tenure system has been enacted. Secure access to land is recognised as one of the main production factors needed to increase investment. In addition to the land question, Benin has initiated various programmes to develop micro-finance, industry and commerce. Oversight of micro-finance institutions has been strengthened and a micro-credit programme has been launched for the poorest segments of the population. In the industrial sector, the government has endeavoured to make economic agents more aware of property rights.

The level of dynamism in Benin's private sector remains low, however, in line with the slow pace of implementation of structural reforms. One of the major constraints remains the high cost of energy, particularly electricity. Frequent power cuts have had a significant impact on business productivity. In 2006, the government adopted an Energy Plan designed to increase energy production capacity in the medium term in order to reduce costs. The completion of CEB's joint project with Nigeria's National Electric Power Authority will contribute to this objective.

The authorities are also concerned with environmental issues. Benin has significant ecological potential, as around 65 per cent of its land area is covered by shrubs or trees. The country boasts one of the most famous parks in sub-Saharan Africa, the Pendjari Biosphere Reserve, offering a wide variety of plant and animal species. At national level, however, forests and wildlife are still in decline. The need for land and firewood has increased rapidly with population growth, exerting greater pressure on forests: over 60 000 hectares are destroyed each year by agriculture, livestock farming, uncontrolled timber felling and bush fires. The efforts made to develop these ecosystems have not been successful in limiting this process of deterioration. With the adoption of a law on rural land ownership, the government is trying to improve the legal framework with a view to sustainable management of natural resources.

Technical and Vocational Skills Development

Benin's education system comprises preschool education, primary education, general secondary education, technical and vocational education and training, higher education and adult literacy and education. Of these sub-sectors, primary education is given the highest priority. The main objective is to provide equitable schooling for all children between the ages of six and 15. As a result, primary education absorbs over 60 per cent of the education budget.

Technical and vocational education and training (TVET) are delivered in both the formal and informal sectors. Formal training is provided by both public and private sector organisations, in areas such as farming, mechanics, building, plumbing and building electrics.

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There is a total of seven courses of study for 29 trade associations. Training in the informal sector, which is primarily based on traditional apprenticeship, is more varied than in the formal sector. It covers 201 trades grouped into 42 trade associations.

The supply of formal TVET is very low in quantitative terms. In 2005, 10 717 students were enrolled in the public sector (this number fell to 9 913 in 2006) and 19 268 in the private sector. In 2005, the informal sector provided training to some 180 000 people through traditional apprenticeship schemes.

Girls make up 33 per cent of the total student population in technical and vocational schools. Children from underprivileged backgrounds are practically excluded from public sector TVET.

The current TVET system does not meet the needs of the national economy. It puts too much emphasis on delivering diplomas that allow people to continue their studies, and not enough on training that gives people the skills they need to enter the labour market with a chance of finding work. The system's poor performance in this respect may be attributed in part to the fact that most establishments (except the most recent) are under-equipped, to the lack of workpieces and to the inadequate qualifications of teachers.

Over the last five years, agricultural sciences and technology have attracted less than 7.5 per cent of students, compared with 63 per cent in administrative and management sciences and skills. The supply of training is also unevenly distributed geographically: 56 per cent of schools and over 65 per cent of all trainees are concentrated in areas on the Atlantic coast. The diplomas awarded are less and less credible due to the poor quality of instruction and persisting biases in the evaluation system.

An analysis of registrations for the competitive entrance examinations for TVET institutions shows that the demand for training is still not being satisfied. Training needs and the supply of jobs are greatest in the 21 largest occupational categories in the market, notably in the food-processing industry, hotels and tourism, the crafts sector, electronics and telecommunications, international transport, health care, trade, and social and family economics. There are as yet few skilled foreign workers in these areas, although in recent years there has been a slight influx as a result of the social and political crises in Togo and Côte d'Ivoire. Benin should therefore not count on importing much labour from elsewhere in the sub-region. Companies in Benin occasionally recruit Ghanaians and Nigerians.

Benin's education system is funded primarily from the national budget. On average, the government spends XOF 378 000 per pupil during the year. Contributions from beneficiaries amount to around XOF 80 000 per pupil. External funding for TVET serves primarily to finance investment in infrastructure and provision of technical assistance. The resources provided for operation of TVET institutions increased by an average of 20 per cent between 2003 and 2006. Over the period, the rate of consumption of these funds remained close to 90 per cent, while the resources allocated to investment fell by over 50 per cent, from XOF 7 245 billion in 2003 to XOF 3 049 billion in 2006.

The current policy for the TVET sector follows the line laid down after the consultation carried out in 1997, which led to the drafting of a policy paper on the sector. This paper, which was finalised during a "reform plan validation workshop", was adopted in October 2001. The objectives it sets out are to: *i)* prepare students for advanced technical education (senior technicians and engineers); *ii)* provide people with the qualifications needed to join the workforce as clerical staff, workers and technicians; *iii)* open up the formal system to its economic and social environment; *iv)* develop and streamline informal education; and *v)* establish linkages between initial training and in-service vocational training and between different types of education and training. In the Growth Strategy for Poverty Reduction approved by the government in 2007, building a stronger vocational training system geared to the needs of the labour market is designated as a priority area for action.

To achieve these objectives, the authorities have consulted with their technical and financial partners,

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who have helped to prepare the technical, pedagogical, financial and administrative tools needed to ensure vocational training of good quality. The AfDB has contributed to these efforts by financing a number of initiatives, including the development of a TVET master plan.

In 2001, TVET had made significant progress, particularly in *i)* teacher training; *ii)* refurbishing and equipping TVET institutions; and *iii)* establishing a Development Fund for Continuing Education and Apprenticeship (Fodefca). The government has also begun construction of a dozen agricultural and industrial colleges in several administrative districts. Two establishments opened their doors in 2006: the Vocational Training Centre in Djouba and the Coulibaly Technical College's annex in the Kpondéhou district of Cotonou.

TVET in Benin is supported by the AfDB, the World Bank, the Islamic Development Bank, the Organisation of Petroleum Exporting Countries and several bilateral partners (France, Germany, Switzerland, Belgium, Denmark, the Netherlands and Canada).

The success of the current reforms will depend on *i)* the establishment of an efficient decision-making system, *ii)* the development of skills-based programmes, *iii)* cost control and *iv)* support from the private sector for improvements in teaching methods. In the agricultural sector, the major challenge for technical and vocational training is to increase agricultural productivity and output, particularly of food crops.

Political Context

Following the presidential elections held in April 2006, the transparency of which was applauded by the international community, the results of the April 2007 legislative elections gave the president a majority in parliament. He has nonetheless reshuffled his cabinet several times. Municipal elections are scheduled for April 2008.

The fight against corruption is an important component of the poverty reduction strategy in Benin. The authorities have decided to give priority to stepping up the pace of administrative reform and strengthening the rule of law and individual freedoms. A number of initiatives have been implemented to date, notably the establishment in September 2004 of a corruption monitoring body (Observatoire de lutte contre la corruption), the tabling of an anti-corruption bill and various initiatives to raise awareness and campaign against corruption organised by organisations such as the National Organisations for the Fight against Corruption Front, the "Morality in Public Life Unit" and other civil society organisations. These initiatives have to some extent reduced corruption.

An integrated programme to reinforce the legal and judicial systems has been adopted and is being implemented. To strengthen the justice system, the government has stepped up hiring of magistrates and court clerks. It has also provided training to improve the skills of those working in the sector and increased magistrates' pay.

Social Context and Human Resources Development

In education, the government's objective is to ensure that all school-age children have access to education, to raise the quality of education available and to increase provision. Primary school enrolment increased by 2.9 per cent between the 2004/05 and 2005/06 school years. According to local sources, the gross enrolment rate (GER) rose from 92.7 to 93 per cent, slightly below the target of 94 per cent. The proportion of girls in school also improved, with a GER increasing from 84 to 86 per cent, slightly below the target of 87 per cent. The pupil/teacher ratio has improved overall due to the increase in the number of teachers hired and paid by local communities. No significant progress has been made in terms of literacy. The literacy policy has been approved but the details of its implementation have yet to be decided.

Improving the population's state of health is officially considered to be a social and economic objective supporting development and poverty reduction. The

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government has taken steps to upgrade health care facilities, promote maternal health and reduce infant mortality. Health conditions improved somewhat over the 2003-06 period. The population's use of health services has increased considerably, as the average rate of use rose from 37 per cent in 2005 to 44 per cent in 2006, exceeding the target of 38 per cent. Similarly, use of health services by children under five years of age increased from 76 per cent in 2005 to 79 per cent in 2006, exceeding the target of 77 per cent. The morbidity rate remains high, however, and tropical diseases (notably malaria) continue to strike a significant proportion of the population. HIV/AIDS prevention is another official concern, given its social impact. The number of people infected every day in Benin rose from 35 in 2003 to 52 in 2006. To halt this trend, the authorities have focused not only on prevention but also on treatment and on caring for AIDS orphans. Cases of tuberculosis are treated as well, using the Directly Observed Therapy Short Course protocol.

Only three of the Millennium Development Goals have some chance of being met by 2015. These are: reducing by half the proportion of people suffering from malnutrition, achieving universal primary education and reducing by half the proportion of people without sustainable access to safe drinking water.

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Botswana



key figures

• Land area, thousands of km²	582
• Population, thousands (2007)	1 882
• GDP per capita, USD at constant 2000 prices (2007)	4 439
• Life expectancy (2007)	50.7
• Illiteracy rate (2007)	17.2

Botswana


ZAMBIA
ANGOLA
Caprivi Strip
Chobe
Kasane
Windhoek
Okavango
ZIMBABWE
NAMIBIA
Bulawayo
Nata
Maun
Lake Ngami
Sua
Francistown
Ghanzi
Lake Xau
Shashi
Selebi- Phickwe
KALAHARI DESERT
Limpopo
Sekoma
GABORONE
Jwaneng
Kanye
Johannesburg
Tshabong
Cape Town
SOUTH AFRICA
0
100 km
town > 1 million inhabitants
500 000 - 1 000 000
100 000 - 500 000
< 100 000
major road
secondary road
railway
track
main airport
secondary airport
commercial port
petroleum port
fishing port

Botswana

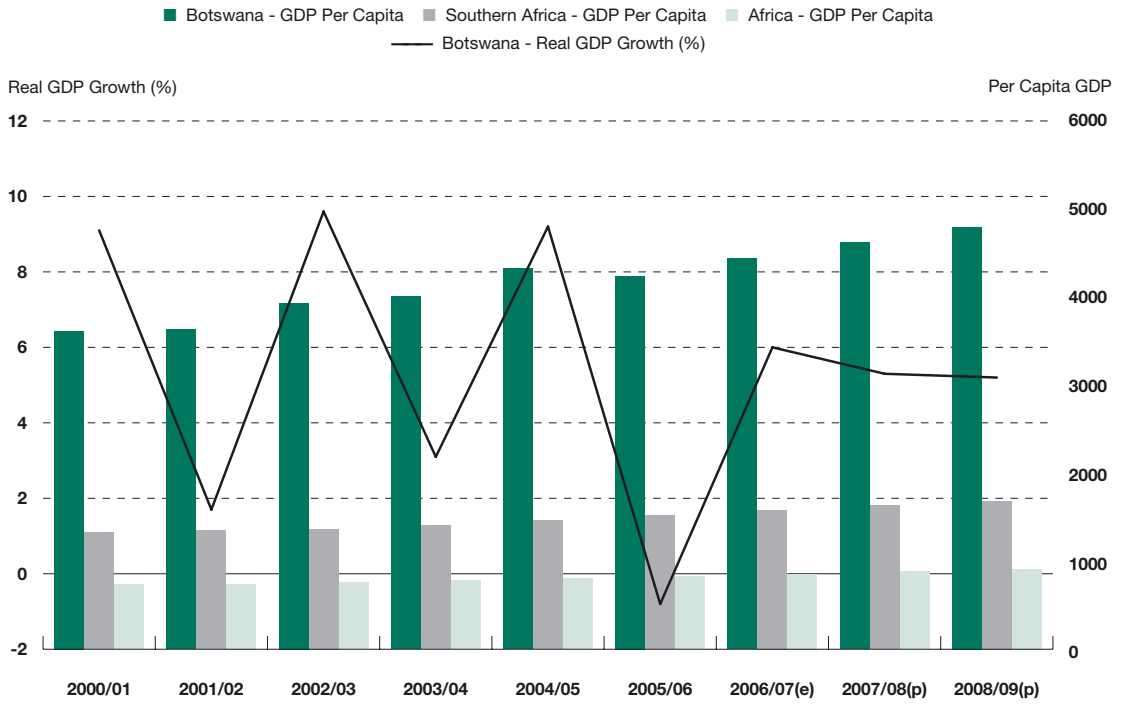
BOTSWANA HAS BEEN AMONG the fastest-growing economies in Africa over the past 40 years. Sound macroeconomic policies and good governance have parlayed the country's diamond resources into a remarkable transformation from one of the poorest countries in the world at independence to upper middle-income status. These impressive achievements have earned Botswana the highest sovereign debt ratings and best Transparency International anti-corruption rank in Africa. GDP growth is estimated to have been 6.0 per cent in 2006/07 and is expected to remain buoyant at over 5 per cent in 2007/08 and 2008/09.

Botswana's development process has been guided by the six-year National Development Plans (NDP), which set the government's development strategy. The current plan is NDP 9, covering the period 2003-09; preparations are already under way for NDP 10, which will cover the period 2009-15. The country continues to enjoy political stability, and in 2008 Vice President Ian Khama Seretse Khama is expected to take over the reins from the incumbent President Festus Mogae.

Diversification of the economy is an urgent imperative.

In recent years, however, economic growth has slowed considerably due to the erratic performance of the diamond mining sector, which is the main driver of the economy. To date, Botswana has been unable to achieve significant diversification in exports, despite considerable efforts.

Figure 1 - **Real GDP Growth and Per Capita GDP**
(USD at constant 2000 prices)



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

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Although limited progress has been achieved in privatisation, the government remains committed to making the private sector the main engine of growth. The latest Business Expectations Survey by the Bank of Botswana also shows a high level of optimism about business conditions in the country. Progress on privatisation is expected to unleash private sector initiatives and further promote economic growth.

Like many countries in southern and eastern Africa, Botswana continues to suffer from high HIV/AIDS infection rates, unemployment (including among university graduates) and poverty. Although the official unemployment rate has fallen from 21.5 per cent, it remains high at 17.6 per cent. It is currently estimated that 30 per cent of the population is living on less than USD 1 a day.

Recent Economic Developments

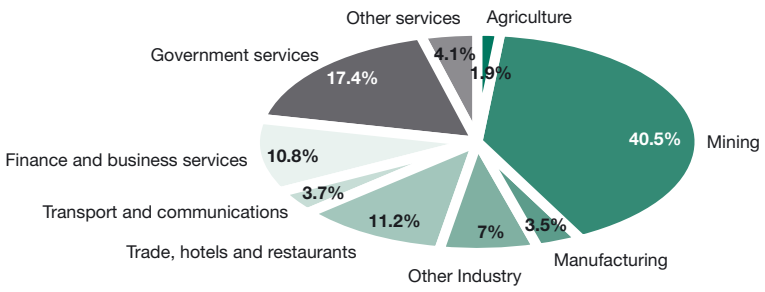
After slightly negative growth in 2005/06, real GDP is estimated to have grown by 6.0 per cent in 2006/07, thanks to massive government investment in mining, power generation and irrigation. Total investment, which had declined in 2005/06, picked up in 2006/07, growing by 18 per cent. In the mining sector, the diamond beneficiation project, aimed at polishing diamonds locally, is expected to boost diamond exports and add impetus to economic growth. The Mmamabula Export Power Station is expected to increase exports of electricity and reduce the country's dependence on imported power from South Africa. The Glen Valley irrigation project is intended to boost horticulture and fodder production. Real GDP is projected to grow by 5.3 per cent in 2007/08 and by 5.2 per cent in 2008/09.

The mining sector is estimated to have increased by 5.2 per cent after a decline of 3.8 per cent in 2006. In 2005/06, it remained the largest contributor to GDP at 40.5 per cent. Growth in the non-mining sectors surged to 6.8 per cent in 2006/07, up from 3.9 per cent in the previous fiscal year. The impressive performance of the non-mining sector augurs well for the country's diversification efforts. The non-mining sectors that recorded significant growth rates are transport and communications (20.3 per cent); trade, hotels and restaurants (16.3 per cent); manufacturing (12.0 per cent); and banks, insurance and business services (6.6 per cent). The rest of the non-mining sectors registered real growth rates of less than 2 per cent.

During the first three years of NDP 9, the economy has grown at an average annual real rate of 4.7 per cent, which is less than the average growth rate of 5.5 per cent set out in the plan. The mid-term review of NDP 9 had envisaged a growth rate of 6.3 per cent for the last three years of the plan, subject to the implementation of a number of reforms. The reforms will need to be scaled up, however, if the target for real per capita income set in Botswana's Vision 2016 policy paper is to be achieved.

Tourism (trade, hotels and restaurants) is the third-largest sector in the economy. Although it currently

Figure 2 - **GDP by Sector in 2005/06** (percentage)



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

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Table 1 - **Demand Composition**

	Percentage of GDP (current prices)		Percentage changes, volume			Contribution to real GDP growth		
	1998/99	2005/06	2006/07(e)	2007/08(p)	2008/09(p)	2006/07(e)	2007/08(p)	2008/09(p)
Gross capital formation	**34.7**	**26.2**	**18.0**	**12.9**	**9.6**	**5.0**	**4.0**	**3.2**
Public	14.0	7.7	19.6	15.0	8.8	1.6	1.4	0.9
Private	20.7	18.5	17.3	12.0	10.0	3.4	2.6	2.3
Consumption	**64.9**	**46.9**	**4.0**	**4.3**	**4.4**	**2.0**	**2.1**	**2.1**
Public	27.7	20.6	4.8	5.7	7.2	1.0	1.2	1.5
Private	37.2	26.3	3.4	3.2	2.3	1.0	0.9	0.6
External demand	**0.4**	**26.9**				**-0.9**	**-0.7**	**-0.1**
Exports	42.3	56.2	2.9	2.2	1.1	1.6	1.1	0.6
Imports	-41.9	-29.3	8.0	5.9	2.0	-2.5	-1.9	-0.7
Real GDP growth						**6.0**	**5.3**	**5.2**

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

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generates only 11.2 per cent of GDP, tourism remains one of the most important avenues for achieving Botswana's somewhat elusive diversification goals. The Botswana Tourism Board, which is now in place, will be crucial in achieving a globally competitive tourism sector. While government retains the regulatory functions, the Board is responsible for all operational functions of the sector such as marketing, investment promotion and grading of tourism facilities.

In recent years, Botswana's finance and business services sector has been increasing in importance. In 2005/06 its share of GDP was 10.8 per cent. The performance of the sector has been boosted by the establishment of the Non-Bank Financial Institutions Regulatory Authority, whose aim is to ensure the soundness, sustainability and global competitiveness of the non-bank financial sector.

The share of manufacturing in GDP was estimated to be 3.5 per cent in 2005/06. Although there is considerable scope for expansion, the contributions of the sector remain low in comparison to other middle-income countries. It is expected that the share of manufacturing would increase with a successful diversification effort.

The agricultural sector continues to play a vital role in Botswana and retains the potential for economic diversification. Unfortunately, it also continues to be plagued by its dependence on rainfall. In 2005/06, its share of GDP was less than 2 per cent, and the drought of 2006/07 reduced the total area planted by 51 per cent and seriously affected yields. The substantial deficit for domestic consumption was met by food imports. However, the National Master Plan for Arable Agriculture and Dairy Development, in particular the Glen Valley irrigation scheme, is expected to boost the sector's performance. The projects being implemented under the programme are expected to increase commercial horticulture and fodder production.

As may be seen from Table 1, GDP growth in 2006/07 was mainly driven by public and private investment, which increased by 19.6 per cent and 17.3 per cent respectively. The projections for 2007/08 and 2008/09 indicate that this will continue to be the case, although these very high growth rates will moderate to some extent.

Macroeconomic Policies

Botswana is generally praised for its pursuit of sound economic policies, which have enabled it to use its diamonds wisely. Its policy stance has been guided by Vision 2016, which sets a broad policy agenda for poverty reduction and macroeconomic stability.

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Fiscal Policy

The key objective of fiscal policy in Botswana is careful management of expenditure to achieve social objectives without crowding out the private sector. The fiscal strategy for NDP 9, which comes to an end in March 2009, is to ensure budget sustainability and restrain the growth of government expenditures. The budget outturn for the 2006/07 financial year was an overall surplus of BWP 7.66 billion (Botswana pula). This substantial budget surplus was due to a combination of slightly higher than anticipated revenue and significant under-spending of the total budget. The under-spending was due to capacity constraints in project implementation.

For fiscal year 2007/08, mineral revenues are expected to account for 40 per cent of revenue; customs revenue, 27 per cent; non-mineral income tax revenue, 13 per cent; value added tax revenue, 9 per cent; and other sources, 11 per cent. During 2006, the government made several changes to the income tax and value added legislation. The amendments to the income tax include tax deductions and allowances for businesses that offer unemployed youth approved training in formal institutions or that provide on-the-job training to their staff.

The share of tax revenue in GDP continued its upward trend. Although the increase was marginal in 2006/07, to an estimated 39.6 per cent as against 39.4 per cent in 2005/06, it is projected to maintain this level in 2007/08 and increase again in 2008/09. The upward trend in the share of tax revenue can be attributed largely to the efforts of the Botswana Unified Revenue Service in tax collection and to a reduction in tax arrears.

Total expenditure has also continued its upward trend from 31.3 per cent of GDP in 2005/06 to an estimated 32.6 per cent in 2006/07. In 2007/08 and 2008/09, it is projected to rise to 34.2 per cent and 37.9 per cent respectively. Current expenditure is estimated to have been about 24.6 per cent in 2006/07, slightly lower than the 24.7 per cent recorded in 2005/06. Capital expenditure is estimated at 8 per cent of GDP in 2006/07, up from 6.7 per cent in the previous year.

The prudent management of Botswana's budget is reflected in the overall budget profile. The primary balance as a percentage of GDP is estimated to have been a surplus of 7.5 per cent in 2006/07, a slight decline from the 8.7 per cent recorded during the previous year. The surplus is projected to decline to 5.4 per cent and 3.3 per cent in 2007/08 and 2008/09 respectively. The overall balance is estimated to be a 7.1 per cent surplus in 2006/07, a decline of one percentage point from the previous year. The surplus is projected to continue its decline for the next two years.

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

	1998/99	2003/04	2004/05	2005/06	2006/07(e)	2007/08(p)	2008/09(p)
Total revenue and grants[a]	**32.3**	**37.9**	**35.9**	**39.4**	**39.6**	**39.6**	**41.2**
Tax revenue	23.7	33.2	32.7	35.2	35.4	35.9	37.5
Grants	0.6	0.1	0.7	0.5	0.5	0.0	0.0
Total expenditure and net lending[a]	**37.7**	**38.2**	**35.0**	**31.3**	**32.6**	**34.2**	**37.9**
Current expenditure	25.9	30.4	27.7	24.7	24.6	25.2	27.2
Excluding interest	*25.5*	*29.9*	*27.1*	*24.1*	*24.2*	*25.2*	*27.2*
Wages and salaries	9.1	9.7	10.3	9.2	8.4	8.0	7.9
Interest	0.4	0.5	0.6	0.6	0.4	0.0	0.0
Capital expenditure	12.4	10.0	7.9	6.7	8.0	9.0	10.7
Primary balance	**-5.0**	**0.1**	**1.5**	**8.7**	**7.5**	**5.4**	**3.3**
Overall balance	**-5.4**	**-0.4**	**0.9**	**8.1**	**7.1**	**5.4**	**3.3**

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

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Despite the prudent management of the budget, inadequate capacity is the biggest problem hindering project implementation. This lack of capacity manifests itself as annual under-spending of the budget.

Monetary Policy

The principal objective of monetary policy in Botswana is to achieve a low and stable level of inflation that will spur growth and competitiveness. A burst of inflation in early 2006 was due to the reintroduction of school fees in government schools as well as a large increase in the price of meat products. In the first half of 2007, inflation continued the downward trend begun later in 2006, falling to 6.4 per cent for the 12-month period ending in June 2007. The Bank of Botswana reduced the bank rate in June by 50 basis points, from 15 to 14.5 per cent, reflecting the country's positive outlook for its inflation path.

Inflation rose in the second half of the year, however, mainly due to a combination of higher world prices for petroleum and some food products, which have a high weighting in the consumer price index basket. Nevertheless, it fell within the target range by September. Overall, inflation averaged 7.1 per cent in 2007, compared to 11.6 per cent in 2006.

External Position

During 2007, stability of the real exchange rate was achieved through the introduction of a crawling band exchange framework. The pula appreciated in nominal terms by a little over half a percentage point against the US dollar and by less than 2 percentage points against the South African rand. The new exchange rate mechanism is clearly supporting Botswana's international competitiveness, which is essential for accelerating progress towards the Vision 2016 targets through NDP 10.

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

	1998/99	2003/04	2004/05	2005/06	2006/07(e)	2007/08(p)	2008/09(p)
Trade balance	0.0	4.9	10.8	20.7	17.8	13.6	6.1
Exports of goods (f.o.b.)	36.0	33.3	39.4	45.0	44.2	42.3	40.2
Imports of goods (f.o.b.)	36.1	28.4	28.7	24.3	26.4	28.6	34.0
Services	-3.6	-0.3	0.0	0.7	0.4	-0.2	-0.3
Factor income	-1.5	-9.8	-9.0	-7.0	-5.5	-4.8	-4.6
Current transfers	**4.6**	**4.6**	**6.0**	**6.3**	**5.5**	**4.9**	**4.8**
Current account balance	**-0.5**	**-0.7**	**7.7**	**20.7**	**18.1**	**13.6**	**6.0**

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

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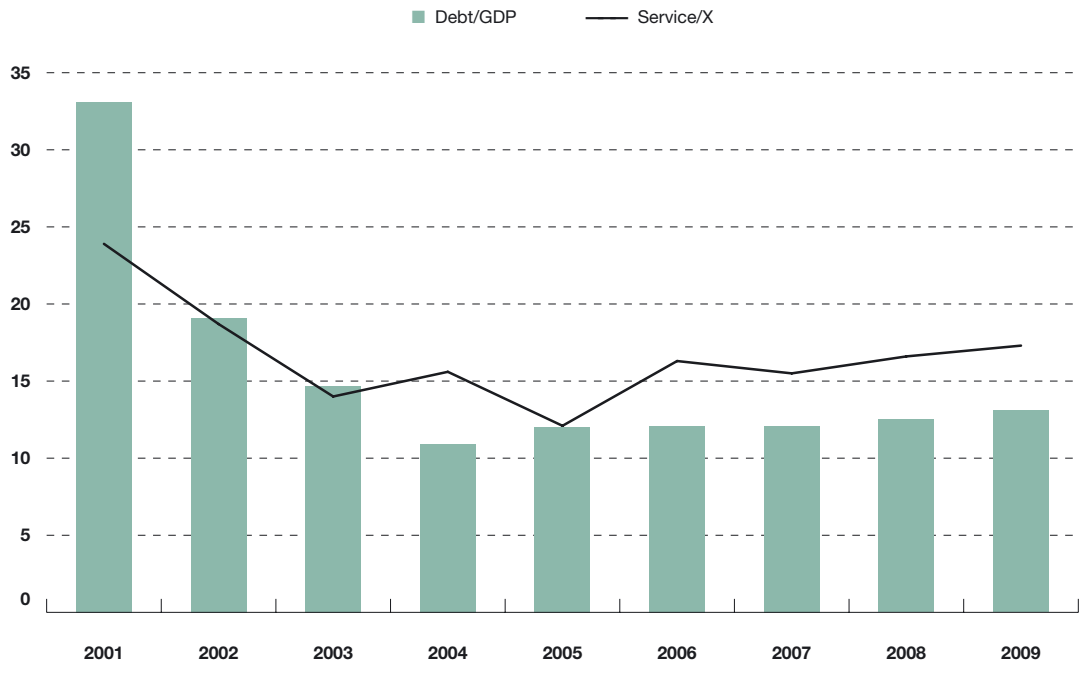
Diamond exports continued to have a favourable impact on the trade balance. The trade surplus for 2006/07 is estimated at 17.8 per cent of GDP, and the resulting current account surplus at 18.1 per cent. These surpluses are projected to decline in the next two years as a result of the projected fall in exports and surge in imports. The balance on capital account is estimated to have increased from a surplus of BWP 142 million in 2005/06 to BWP 493 million in 2006/07. The overall balance of payments is expected to show a surplus of about BWP 11.3 billion in 2006/07, compared to a surplus of BPW 10.3 billion in 2005/06.

Foreign exchange reserves increased from USD 2.3 billion to USD 10.2 billion between November 2006 and November 2007. Reserves represent 28 months of cover for imports of goods and services in 2007, a one-month decrease from 2006.

The total external debt as a percentage of GDP was 12.1 per cent in 2007, far below the important benchmark of 50 per cent. The ratio of debt service to goods and services exports was 15.5 per cent in the same year, which is also well below the HIPC threshold of 30 per cent. This impressive debt record coupled with international reserves amounting to USD 7.8 billion has been facilitated by a cheaper loan portfolio, proper management of the debt and use of domestic resources where cheaper financing cannot be procured to finance development. As a result, the country is projected to

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Figure 3 - **Stock of Total External Debt** (percentage of GDP) **and Debt Service** (percentage of exports of goods and services)



Source: IMF.

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enjoy a comfortable cushion against external shocks in the near to medium term despite its high structural dependence on diamonds.

Structural Issues

Recent Developments

Unemployment has been persistently high and is rising both for the unskilled and for university graduates. According to the 2005/06 Labour Force Survey, total employment grew at an annual rate of 4.7 per cent between 1995/96 and 2005/06. The annual Formal Sector Employment Survey also showed that formal sector employment grew by 2.2 per cent in 2007, up from 1.8 per cent over the 2002-06 period. The government is the largest formal employer of labour, accounting for 40 per cent of employment. The informal sector is also important in Botswana, having contributed about 33 per cent of GDP in 2002, although this is a lower share than in countries such as Zimbabwe, Tanzania and Nigeria. In terms of employment, it is estimated that about 60 000 enterprises in Botswana operate mostly in the informal sector, employing one or two people. More than 80 000 people (about 5 per cent of the population) are self-employed or work in the informal sector. Most informal sector enterprises are in retail trade.

Government strategy for employment creation is part of a larger National Poverty Reduction Strategy, which emphasises, among other things, economic diversification, export growth and private sector development. In terms of implementation, the government has established the Multi-Sectoral Sub-Committee on Poverty Reduction to co-ordinate implementation of the poverty reduction strategy and to carry out the relevant monitoring and evaluation of poverty alleviation programmes. The sub-committee also monitors social safety nets and other social security systems, links district- and community-level poverty reduction initiatives with national-level initiatives, and analyses options that can provide employment opportunities to address the needs of the poor and enable them to engage in sustainable livelihoods.

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In order to ensure that all citizens share in the fruits of economic growth, the government provides a number of social safety nets, which include the destitutes' allowance, orphan care programme and old age pension scheme. A review of the social safety net programme has been carried out, and the government has accepted most of its recommendations. The latter include creation of a risk and vulnerability database and accelerated outsourcing of the provision and distribution of food commodities.

One of the goals of Vision 2016 is to eradicate absolute poverty by 2016. To this end, implementation of the 2003 National Poverty Reduction Strategy is continuing in earnest with a review of the selected programmes to establish their consistency with the overall poverty reduction strategy, institutionalisation of an improved poverty reporting mechanism and the development of core welfare indicators as part of a comprehensive monitoring system.

Despite the country's stable macroeconomic environment and its place among the top third in the global competitiveness ranking, foreign direct investment (FDI) is low and largely confined to mining. In 2005/06, FDI accounted for about 10 per cent of GDP, down from 28 per cent in the previous year. In this respect, Botswana has lagged behind other Southern African countries such as South Africa, Angola and Lesotho, pointing to the need to improve the business climate.

A number of initiatives have been undertaken to attract FDI, such as the review and enactment of new laws, regulations and policies with a view to promoting investment, employment generation and wealth creation. It is expected that the Industrial Development Bill, which was approved by Parliament in 2006, will reduce the time required for registration of industrial licenses from the current one month to about a week. The computerisation of the Office of the Registrar of Companies is nearing completion and will facilitate the implementation of the Companies Act regulation. Although these measures are aimed primarily at boosting domestic private investment, to the extent that they improve the general climate for investment, they could also facilitate FDI inflow.

In 2006, the Botswana Export Development and Investment Authority started co-ordinating the development of a new strategy to promote the country at both local and international levels. In early 2007, the Ministry of Trade and Industry finished drafting a Foreign Direct Investment Strategy to enhance Botswana's attractiveness as an investment location. As part of its efforts to attract FDI, the government has signed six bilateral investment agreements which will protect the investments of citizens and/or companies originating in the contracting state parties. Two of these agreements were signed in 2006, with Belgium-Luxembourg and Mauritius.

In July 2006, a Southern African Customs Union-European Free Trade Area (SACU-EFTA) Agreement was signed which will enable free trade between SACU and EFTA (comprising Iceland, Liechtenstein, Norway and Switzerland). In 2006, the members of the Southern African Development Community (SADC), including Botswana, also signed the Protocol on Finance and Investment to foster harmonisation of financial and investment policies. The protocol will facilitate regional integration, co-operation and co-ordination in the areas of finance and investment, with a view to diversifying and expanding productive sectors. It is expected to enhance trade within the region and strengthen Botswana's ability to compete regionally and globally.

In view of the limitations resulting from heavy reliance on diamonds for both export earnings and revenue, the government has embarked on strategies to diversify the production base of the economy. To this end, the Local Enterprise Authority (LEA) was set up in 2006 to spearhead the development and growth of small, medium and micro-enterprises (SMMEs). The LEA has formulated its strategic plan for implementation during 2007/08. Through this plan, the LEA will target SMMEs in agriculture, manufacturing, tourism and services in pursuit of the government's overall strategy of economic diversification. As part of its support and advisory service package, the LEA will open one-stop service centres in various locations in the country, through which standardised services will be provided to SMMEs.

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Both NDP 9 and Vision 2016 attach considerable importance to diversification of the economy. Macroeconomic policies and policies relating to ownership, regulation and control are being made more investor-friendly. A number of initiatives have recently been taken to promote non-traditional exports such as garments, textiles, tiles and crafts, to introduce national brands, to address issues of standards and packaging, and to boost value added in the diamond industry by introducing local polishing of diamonds. The government is also looking into the recommendations contained in studies by the African Development Bank and the Business and Economic Advisory Council, both of which focus on diversification.

As a landlocked country with a small economy, Botswana has much to gain from regional integration. In July 2007, Botswana assumed the chairmanship of SACU. This development comes at a time when SACU members are poised for the implementation of the 2002 SACU Agreement, which envisaged more democratisation of SACU decision-making institutions, such as the Tariff Board, Secretariat and the management of the SACU Common Revenue Pool, as well as the adoption of common policies and strategies.

The provisions of the Cotonou Agreement ended in December 2007, but an interim agreement was reached with the European Union (EU) while negotiations on Economic Partnership Agreements (EPAs) are extended for another year. During this period there will be no duty or quota on Botswana's beef exports to the EU. Successful completion of the negotiations will accord African, Caribbean and Pacific (ACP) countries favourable treatment in trade with the EU.

The Southern African Development Community Free Trade Area (SADC-FTA) will be launched in August 2008. The FTA will allow free movement of goods and services produced within SADC, but each SADC member will still have its own external tariff with respect to non-members. The FTA will offer local producers of goods and services access to a larger SADC market with no internal tariffs. However, local producers will face competition from other SADC members. Botswana can enjoy the benefits of free trade under SACU as well. Opportunities for exports are also being enhanced through the African Growth and Opportunity Act, passed in 2000 by the United States Congress. Botswana can also take advantage of technology and capital flows as well as labour movements to push forward policies such as the diversification agenda.

Botswana faces serious problems as a SACU member, however. SACU currently requires common policies and strategies on industrial development and industrialisation, which leads to stiff competition on the industrial goods sector from the more industrialised South Africa and other countries within SACU or even SADC. Botswana is less competitive than South Africa in terms of transaction costs, cost of utilities and availability of manpower. The differing levels of development from one member state to another make it difficult to develop the manufacturing sector. Thus, consideration will systematically have to be given to the regional dimensions of any economic initiative in Botswana.

In December 2007, the financial sector received a major boost with the establishment of the Non-Bank Financial Institutions Regulatory Authority as part of the reform effort in this sector. By bringing the supervision of all non-bank financial institutions and services under one hat, this move is expected to improve the performance of the sector, enhance sustainable economic diversification and help achieve the goals of Vision 2016. The Botswana Stock Exchange continues to play a key role in the development of the financial sector. The value of the shares traded on the exchange in 2006 was PWB 414.7 million, a substantial increase over 2005 (PWB 238.6 million). The price of domestic shares grew by 74 per cent in 2006 compared to 22 per cent in 2005.

Historically, the government has played a leading role in the economic and social development of Botswana. It is the single largest employer of labour and a major driver of economic growth. Its share of capital formation in 2007 is estimated at 9.1 per cent of GDP, while its share of total consumption is estimated to have been 22.2 per cent in the same year (Table 1). It is now

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being recognised, however, that the government should gradually reduce its role and influence, transforming itself from a key participant in the economy to that of a facilitator. A step towards that end is the privatisation of enterprises hitherto managed by the government. The newly created Public Enterprise Evaluation and Privatisation Agency (PEEPA) is charged with the responsibility for developing a privatisation implementation strategy for Botswana. Although the Agency has since prepared a master plan for privatising state-owned enterprises, little progress has been achieved.

Plans to privatise Air Botswana, the first of the parastatals earmarked for privatisation, failed during 2007. The plan stalled after the breakdown of negotiations with the preferred bidder, Airlink of South Africa. To resuscitate its privatisation plan, PEEPA is exploring the possibility of having a management firm run the national airline on a contract basis. Another possibility is that of a franchise, whereby a company is given exclusive rights to provide an air transport service in Botswana. Other parastatals earmarked for privatisation include Botswana Telecommunication Corporation, Botswana Post, Botswana Agricultural Marketing Board and Botswana Building Society.

The main difficulty facing PEEPA is its lack of statutory authority to drive the privatisation process. This lack of authority enables public enterprises and certain government departments to ignore requests and initiatives made by PEEPA to jump-start the process. The other difficulty is the absence of an effective regulatory framework to protect consumers from the monopolistic tendencies of some enterprises.

Technical and Vocational Skills Development

The development of technical and vocational education and training (TVET) in Botswana has been influenced by the country's economic history. Before independence, the economy had very little formal economic activity, and most of its unskilled labour was exported to South African mines. At independence, there were few schools and few educated Batswana as a result of the colonial government's neglect of education. The few schools that existed were a result of local and missionary initiatives. Given the low level of human capital inherited from the colonial era, the Botswana government had to invest heavily in education, but severe shortages persisted, mainly due to the long time lags inherent in education and to rapid economic growth, which increased the demand for educated people. As in most countries without skilled manpower, TVET was neglected in favour of producing a workforce that could take over the white-collar jobs being vacated by foreigners. The first TVET centres in Botswana were community-based work crews which combined training with production. Their aim was initially to impart skills to primary school leavers who could not be admitted to secondary school due to their poor academic performance. There was therefore a perception, which has persisted over time, that TVET was for those less intelligent students who could not complete an academic education that would allow them to secure a white-collar job. As a result, there was no unified TVET policy and the provision of training was fragmented and of uneven quality. Co-ordination between the various bodies involved was minimal; curricula and teaching staff were weak.

Structured Work-based Learning: Botswana's Approach to Skills Acquisition

Structured work-based learning (SWBL), the vocational training system being developed and implemented in Botswana, represents a new concept of skills, knowledge and attitude acquisition for this country. This system has been benchmarked against the best in the world and includes quality assurance as a cornerstone. SWBL is vocational training that is based on requirements in the workplace and uses the workplace as a learning context. In this context, industry determines what learners and prospective employees need to know in order to be suitable for the working world. This involves various pathways employing mixes of on-the-job and off-job learning and assessment.

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Following the recommendations of a 1993 national commission on education, the Botswana Training Authority (BOTA) was established in 2000 to oversee vocational training in Botswana. This organisation provides quality assurance, accreditation, policy advice, monitoring and evaluation within the National Vocational Qualifications Framework. There are no comprehensive data on private technical and vocational education.

Government vocational training centres known as "technical colleges" were first established in 1997 to operate alongside the numerous private vocational training institutions that had emerged earlier. The number of public vocational training institutions was estimated at 51 in 2004, with an enrolment of 12 780, an estimated 2.5 per cent of total enrolment in educational institutions. By 2005 there were about 202 vocational training institutions in the country.

Botswana's poverty reduction strategy has little to say about TVET, which therefore has not been given high priority. Before the establishment of BOTA, most private vocational institutions handled quality assurance through affiliation with external bodies. For most of these institutions, quality assurance is now being provided by BOTA. By July 2007, 62 training institutions were registered by BOTA, with a total of 331 programmes accredited.

The Botswana National Vocational Qualifications Framework (BNVQF) is an integrated system of nationally recognised qualifications and nationally endorsed standards for the recognition of vocational skills, knowledge and competencies. The Vocational Training Act of 1998 set out broad plans for a three-tier vocational qualifications framework (which will eventually link to a broader National Qualifications Framework). The BNVQF also facilitates the co-ordination of TVET provision in Botswana, assessment of learning outcomes and the awarding of credits and certificates. It sets quality standards for TVET provision in Botswana and provides modernisation across fields of learning and levels of qualifications. Following assessment based on unit standards, learners are awarded certificates of achievement. There are about a dozen broad fields of specialisation under the BNVQF: agriculture and nature conservation, business and commerce, culture, arts and crafts, education, engineering and manufacturing, health and social services, law and security, information and communications technology, services, planning and construction, generic skills, and mining and quarrying. Each field is further divided into sub-fields.

Botswana's TVET system is largely focused on the acquisition of certificates and diplomas. Until recently, there was no clear system of linkages that would provide for lifelong learning and progression beyond TVET. This is not surprising given that TVET was regarded as a dumping ground for failing students.

According to the results of the 2005/06 Botswana Labour Force Survey, more than 80 per cent of the unemployed had no training; similarly, the unemployment rate is highest (24.5 per cent) among those with no training. The unemployment rate among TVET graduates stands at 9.9 per cent. Government-funded vocational training centres focus mainly on pre-employment, technician and craft-level skills training for predominantly male primary and secondary school leavers. In the absence of any systematic human resource planning, the training system has been essentially supply-driven, with relatively limited involvement of employers in the development of course content and training standards. Some new initiatives, especially structured work-based learning (SWBL – see Box 1), are attempting to make training more relevant to employers' demand for skills.

Further efforts, such as doing tracer studies and providing apprenticeships, are required to make TVET relevant to the labour market. A BOTA tracer study in 2005 concluded that the vocational training system does not produce readily employable people mainly because of the absence of practical experience in the training programmes.

In Botswana, the government is the largest single source of TVET funding, through its support to public training institutions. It also subsidises some private institutions and provides tax incentives such as the double tax deduction scheme, which provides for a

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deduction of 200 per cent of the expenses incurred by an employer in providing approved training to Batswana employees. The incentive system is ineffective, however, because the information available to potential users is insufficient and because the system is complicated and cumbersome. To address some of the limitations, BOTA is establishing a Vocational Training Fund, with the aim of generating sufficient funds to support skills training by employers and increase skills in the workplace. Other objectives are:

- to motivate enterprises to train their staff;
- to share the financial burden of training activities more equally among enterprises;
- to help match the supply of training to the demand;
- to create new opportunities in the training market;
- to support the goal of cost sharing in skills development in Botswana.

One of the major challenges for TVET in Botswana is how to make TVET graduates employable. Steps taken include structured work-based learning, tracer studies and the implementation of the just-completed Botswana National Resources Strategy, which emphasises lifelong learning. Another challenge is how to encourage the private sector to participate in the financing of education, especially in the light of the new government policy of cost sharing.

Political Context

Botswana continues to enjoy a stable political environment, with peaceful general elections held every five years. The ruling Botswana Democratic Party (BDP) continues its dominance, as the opposition has failed to present itself as a credible alternative in the last few general elections. The most recent general elections, held in October 2004, returned President Festus Mogae and his party to power. The next elections are due in 2009, but Festus Mogae is expected to step down as president in March 2008 after two terms, as mandated by constitutional limits. The transition of power is expected to be peaceful. Vice President Ian Khama Seretse Khama was brought into the BDP to quell the growing rivalry between various factions within the party. In many political quarters, the rise of Khama to the presidency is expected to boost project implementation and productivity within government.

In recent years, opposition parties have been trying, with no visible progress, to join forces so as to form a credible opposition. The main opposition party, the Botswana National Front, has repeatedly failed to unite with other parties, particularly with the Botswana Congress Party, the second strongest opposition party. It remains to be seen whether any progress on collaboration will be made before the next general election in 2009.

Female participation in politics remains well below the 30 per cent target set by SADC, although some progress has been made. Of the 57 elected members of parliament, only four are women, which is about 7 per cent of the total. Significant strides are being made in establishing women in leadership positions in parastatals and government departments, with an average female representation of about 20 per cent.

Social Context and Human Resources Development

The latest Millennium Development Goals (MDGs) status report for Botswana indicated that reducing poverty levels was contingent on employment creation and fighting HIV/AIDS. Employment creation has been very sluggish, however, with an increasing number of unemployed university graduates. According to the report, HIV/AIDS has also made the battle against poverty very difficult, as it erodes the capacity to work, reduces savings and creates new groups of vulnerable people, at both the individual and household levels. The report further predicts that by 2011 the proportion of people living below the poverty line will have risen by 6 per cent owing to HIV/AIDS, and that by 2021 output will be 33 per cent less than it would have been without HIV/AIDS.

The 2005 Botswana AIDS Impact Survey estimates the national HIV prevalence rate at 17.1 per cent

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(19.8 per cent for females and 13.9 per cent for males). People living in towns had a higher prevalence rate (21.3 per cent) than those living in cities (20.2 per cent) and in rural areas (15.6 per cent). Although prevalence rates remain high, there are indications that they are on the decline. Prevention of new HIV/AIDS infections remains the cornerstone of the government's strategy to combat HIV/AIDS. Significant progress has been made in terms of enrolling HIV/AIDS patients in anti-retroviral therapy (ART) programmes. As of October 2006, nearly 76 000 patients were enrolled in ART programmes, up from 54 000 in 2005, but still 39 per cent short of the government's target of 85 000 by the end of 2006. The Prevention of Mother to Child Transmission programme also continues to show high uptake, as about 90 per cent of women who are known to be HIV/AIDS-positive receive treatment at the time of delivery, while 91 per cent of HIV/AIDS-exposed babies receive infant formula (rather than breast feeding) and drug therapy.

Botswana has also made considerable progress on the other MDGs. The adult literacy rate increased from 69 per cent in 1993 to 83 per cent in 2007, and the school enrolment rate of girls is now at par with that of boys. The 2006 Demographic Survey indicates a slowdown in the population growth rate since 2001, with an estimated population in August 2007 of about 1.8 million people. Botswana has achieved universal primary education and continues to improve the relevance and quality of basic education.

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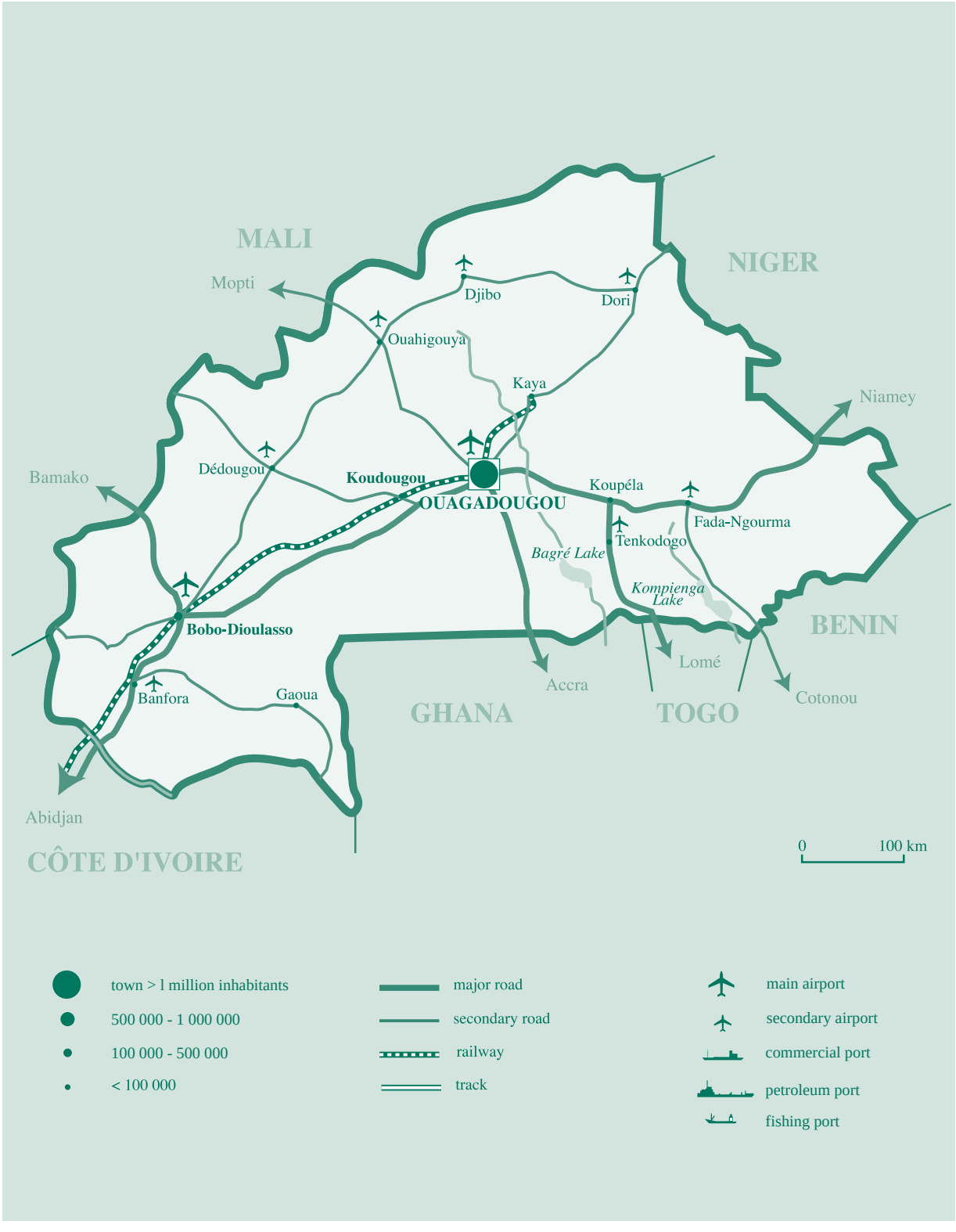
Burkina Faso



key figures

• Land area, thousands of km²	274
• Population, thousands (2007)	14 784
• GDP per capita, USD at constant 2000 prices (2007)	268
• Life expectancy (2007)	52.3
• Illiteracy rate (2007)	69.6

Burkina Faso



Burkina Faso

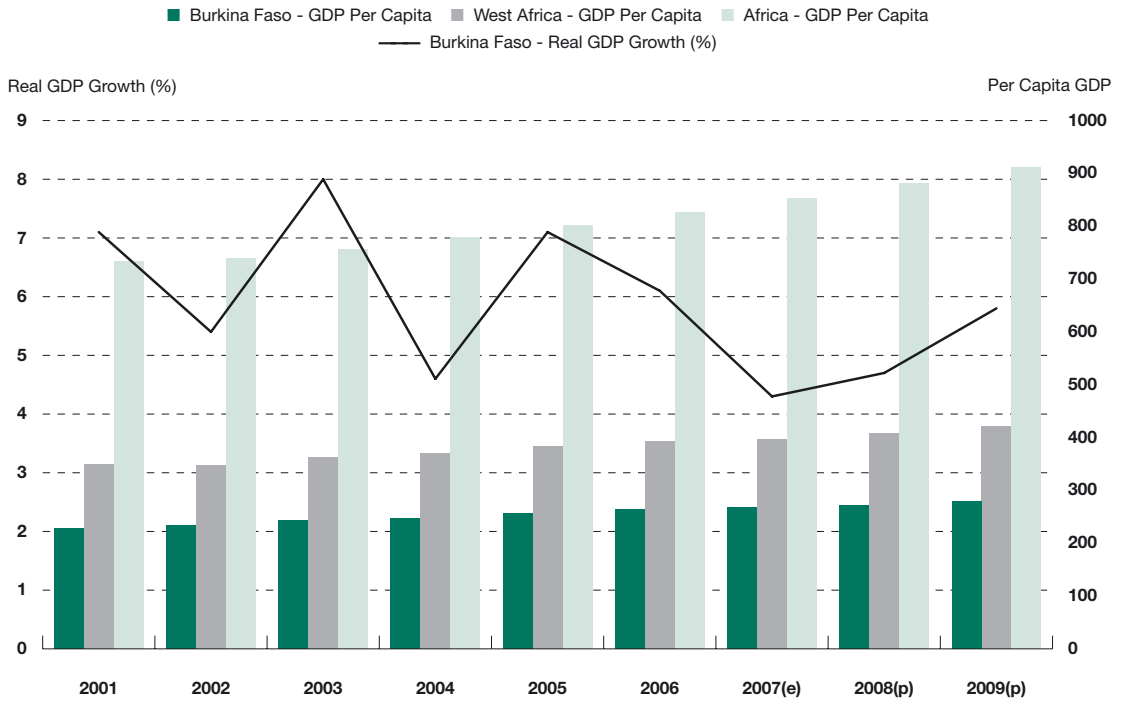
BURKINA FASO REMAINS ONE of the poorest countries in the world, with 44.8 per cent of its population living on less than USD 1 per day. Nevertheless, economic activity has taken a qualitative leap over the past ten years, showing average growth of 5.9 per cent between 1997 and 2006. The growth rate reached 6.1 per cent in 2006, compared to an average of 3.1 per cent in the West African Economic and Monetary Union (WAEMU). These very positive results are due to the pursuit of structural reforms and of steady investment. In 2007 growth nevertheless slowed down to a rate of 4.3 per cent, due to the fall in cotton production. It is expected that there will be a progressive recovery, with projections of 4.7 per cent growth for 2008 and 5.8 per cent for 2009.

Inflation slowed, to 2.3 per cent in 2006 and -0.2 per cent in 2007: these rates are distinctly lower than 2005 (6.4 per cent). Good food-crop production and sufficient supply to the markets slowed the rise in food prices. Projections predict an inflation rate of 2 per cent in 2008 and 2009. It is worth noting that the fall in inflation resulted in a 4.7 per cent increase in per capita income in 2006.

Cotton remains the mainstay of the economy but there are promising developments in the mining sector.

Since 2004 the economy of Burkina Faso has remained resilient to the crisis in Côte d'Ivoire. The conflict in this neighbouring country in fact came to a halt with the signature of the Ouagadougou Political

Figure 1 - **Real GDP Growth and Per Capita GDP**
(USD at constant 2000 prices)



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

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Agreement on 4 March 2007. Burkina Faso's economic growth remains nevertheless uncertain, for four main reasons: poorly diversified agriculture, an inadequate road network, limited energy resources, and the fact that it is a landlocked country. This geographical situation results in high goods transport costs, so penalising the competitiveness of the economy as a whole.

Public finances are under strain, in spite of substantial support from lenders. The continued rise in public expenditure has led to a worsening of the primary deficit, which increased from 4.7 per cent of GDP in 2006 to 5.7 per cent in 2007. Fighting effectively against poverty implies control of public expenditure, the maintenance of the debt at a supportable level and a more rapid expansion of the tax burden.

Recent Economic Developments

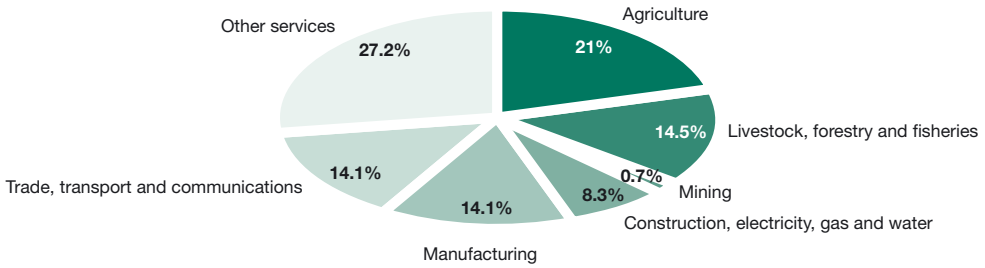
In 2007 economic activity made little progress, with a growth rate of 4.3 per cent. Held back by the fall in cotton production, growth was led only by industry and services, at rates of 1.7 and 1.2 per cent respectively. Agriculture's contribution to growth was only 0.14 per cent in 2007, owing to an unresolved crisis in the cotton sector. Furthermore, the downward trend in cotton prices has led to a review of economic forecasts. Growth is predicted not to exceed 4.7 per cent in 2008, instead of 6 per cent as initially expected. It is expected to reach this target only in 2009, with a rate of 5.8 per cent, due to a general recovery, including agriculture.

In the meantime, the primary sector, which is one of the pillars of the national economy, (35.5 per cent of GDP) has been badly affected. Between 2006 and 2007, cotton production fell from 649 400 to 434 000 tonnes, owing to several factors: bad weather; a fall of 14 per cent in producer prices (XOF 145 CFA franc BCEAO per kg, instead of XOF 165 in 2006); price increases of inputs; delays in payments to farmers for the previous season's crop; and finally, the late announcement of minimum producer prices. Farmers reduced the acreage given over to cotton and expanded planting of subsistence cereal crops, such as maize, millet and sorghum.

Cereal production increased by 1.5 per cent in 2007, also boosted by the development of new low-lying and irrigated areas. Production, which is supposed to cover the needs of the domestic market, went up from 3.68 to 3.73 million tonnes between 2006 and 2007. Nevertheless, 15 out of the country's 45 provinces were in deficit. The surpluses from some regions failed to arrive in the provinces affected by the shortage of cereals, because of the poor state of the roads, weak information circulation and lack of organisation. This situation led to inflationary tensions, and in order to curb these, in November 2007 the government launched a programme for selling cereals at reduced prices.

Exports of livestock products have gradually picked up, thanks to the reopening of the border with Côte d'Ivoire and improvements in the organisation of trade flows with other neighbouring countries, such as Ghana and Togo. Livestock production contributed 0.33 per

Figure 2 - **GDP by Sector in 2006** (percentage)



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

StatLink http://dx.doi.org/10.1787/317415348832

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cent to GDP growth in 2007, as against 0.46 per cent in 2006.

Industry, which represents 23.1 per cent of GDP, grew by 8.2 per cent in 2007, led by mining and major works projects. The rapid growth in construction is largely due to the Commercial and Administrative Zone (ZACA) plan for redeveloping the centre of the capital Ouagadougou. Various monuments, sports stadiums and infrastructure are under construction, and there are also several private property developments.

The drop in cotton production led to a decline in ginning activities in 2007. This fall affected the performance of the whole manufacturing and mining sub-sector. Nevertheless, mining was strengthened by the active exploitation of the Taparko gold mines and improved organisation of gold panning. The production of gold, the country's largest export product, increased from 7.4 to 9 tonnes between 2006 and 2007. The provisions set out in the new mining regulations adopted in 2003 are expected to bear fruit in 2008/09. Works leading to the exploitation of the Mana and Kalsaka gold mines were started in 2007. Three other gold mines, Essakane, Inata and Bayildiaga are under construction, as is Perkoa zinc mine. In addition, two exploitation licences have been granted to small mines, one a gold mine at Banouassi, and the other a manganese mine at Kiere.

Industry is expected to grow by 2.7 per cent in 2008 and 5.96 per cent in 2009. Manufacturing, along with ginning, should benefit from the expected upturn in cotton production. Mining is predicted to experience new momentum, with growth of 3.89 per cent in 2008 and 6.39 per cent in 2009.

The tertiary sector, representing 41.3 per cent of GDP, grew an estimated 5 per cent in 2007, as against 6.2 per cent in 2006. This slowdown was caused by the weak contribution of non-tradable services and the fall in tradable service activity. Postal services and telecommunications, trade, transport and financial services were more dynamic. Telecommunications, which grew by 6.6 per cent in 2007, are flourishing due to the boom in the mobile phone sector. In 2007, the privatisation of the national telecommunications bureau, ONATEL, went well, with Maroc Telecom buying 51 per cent of the shares. Furthermore, Celtel, a mobile phone company, became a full service provider, following the liberalisation of access to Internet. Trade also improved, thanks to retailing. Transport benefited from the resumption of rail traffic between Ouagadougou and Abidjan. The services sector is expected to grow by 5.8 per cent in 2008 and 7 per cent in 2009, due to trade, telecommunications and financial services. Tourism, which is growing rapidly, shows great potential. The accommodation capacity

Table 1 - **Demand Composition**

	Percentage of GDP (current prices)		Percentage changes, volume			Contribution to real GDP growth		
	1999	2006	2007(e)	2008(p)	2009(p)	2007(e)	2008(p)	2009(p)
Gross capital formation	**18.5**	**17.1**	**38.4**	**10.9**	**13.1**	**6.4**	**2.4**	**3.1**
Public	9.8	8.1	9.0	9.1	9.9	0.7	0.7	0.8
Private	8.7	9.1	64.5	12.0	15.0	5.7	1.7	2.2
Consumption	**96.3**	**96.0**	**2.2**	**3.4**	**4.0**	**2.1**	**3.1**	**3.6**
Public	18.0	21.1	1.0	3.0	3.0	0.2	0.6	0.6
Private	78.3	74.9	2.5	3.5	4.2	1.9	2.5	3.0
External demand	**-14.8**	**-13.1**				**-4.1**	**-0.9**	**-0.9**
Exports	9.6	11.4	-9.8	6.8	7.5	-1.2	0.7	0.8
Imports	-24.4	-24.5	13.1	6.6	6.7	-2.9	-1.6	-1.7
Real GDP growth						**4.3**	**4.7**	**5.8**

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

StatLink http://dx.doi.org/10.1787/320783310150

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stands at over 10 000 beds. The promotion of Burkina Faso as a destination is beginning to show results: over 400 000 visitor arrivals were registered in 2007, and this expected to reach 447 000 in 2008 and 500 500 in 2009.

Investment increased by 38.4 per cent in 2007, owing to the improvement in the business climate. Mining, telecommunications and real estate boosted private investment, which rose by 64.5 per cent in 2007. Public investment increased by 9 per cent, due to the growth in grants and the expenditure on telecommunications prior to the privatisation of ONATEL. The slowdown in growth in 2007 was partly caused by the downturn in private consumption (2.2 per cent of GDP). There are two main reasons for this phenomenon: the fall in producers' incomes, and inflationary pressures in world food-product markets.

Investment is forecast to grow by 10.9 per cent in 2008 and 13.1 per cent in 2009. Private investment is expected to slow down, while public investment is expected to increase by 9.1 per cent in 2008 and 9.9 per cent in 2009. Estimates predict a consumption rate of 3.1 per cent in 2008 and 3.6 per cent in 2009, linked to weak income growth.

Macroeconomic Policies

Fiscal Policy

In 2003 Burkina Faso concluded agreements on low-interest rate loans with the International Monetary Fund (IMF). The first agreement, as part of the Poverty Reduction Strategy Framework (PRSF), ended in September 2006. A new agreement was reached in February 2007.

Public revenue represented 18 per cent of GDP in 2007; this was similar to the 2006 level (18.1 per cent). The reforms aimed at improving the performance of tax authorities failed to have the hoped-for impact. The tax burden ratio, which was never higher than an average of 12 per cent of GDP during the 2000-06 period, remains lower than the present WAEMU community norm of 17 per cent of GDP. These results reflect the delays that have occurred in the implementation of some parts of the budget reform. Since June 2007 the Syntax software has enabled reminder letters to be sent automatically to late and non-declarant taxpayers. Nevertheless, they have not all been contacted, owing to difficulties with data entry into the Large Enterprise Division databases. The government has moreover been unable to respect its commitment to reduce the time limit for reimbursing value added tax credits. Also, the Sydonia distant data-entry modules for declarations by authorised customs agents have not become operational. Despite the marked rise in international oil prices, protests by trade unions forced a postponement of the application of the automatic adjustment mechanism for petroleum product prices. Grants were slightly lower than in 2006, representing 5.3 per cent of GDP in 2007, compared to 5.6 per cent in 2006.

Expenditure and lending represented 24 per cent of GDP in 2007, as against 23.3 per cent in 2006. Their growth remained moderate, although it was led by the increase in capital expenditure required for implementing the PRSF, a priority programme aiming to achieve the Millennium Development Goals (MDGs). The authorities have continued their efforts of budgetary discipline, but were obliged to incur new expenditure. For example, there was some recruitment in the public service. It was also necessary to repair the damage caused by the flooding in the Centre-Est Region in June 2007. In addition, a substantial subsidy was granted to the national electricity company of Burkina Faso (SONABEL), because of the leap in oil prices. This subsidy did not exceed the ceiling of XOF 22 billion set by the authorities in 2006. Interest due in accordance with the framework of the Multilateral Debt Relief Initiative (MDRI) fell by over 60 per cent. This curbed the rise in current expenditure. Resources released by the Heavily Indebted Poor Countries (HIPC) Initiative increased by 36 per cent, rising from XOF 24.8 billion in 2006 to XOF 33.7 billion in 2007. Their strict use enabled the funding of social development (education, primary health care, social action), in conjunction with the application of a results-based policy.

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

	1999	2004	2005	2006	2007(e)	2008(p)	2009(p)
Total revenue and grants[a]	**20.6**	**17.1**	**16.8**	**18.1**	**18.0**	**17.8**	**17.7**
Tax revenue	12.1	11.8	11.4	11.5	11.7	11.9	12.0
Grants	7.7	4.3	4.4	5.6	5.3	4.9	4.8
Total expenditure and net lending[a]	**22.4**	**21.4**	**21.7**	**23.3**	**24.0**	**24.9**	**25.2**
Current expenditure	9.8	10.5	11.2	12.3	11.6	11.7	11.4
Excluding interest	*9.0*	*9.8*	*10.6*	*11.7*	*11.4*	*11.3*	*11.0*
Wages and salaries	4.5	4.4	4.8	5.1	4.8	4.8	4.6
Interest	0.7	0.7	0.6	0.6	0.2	0.4	0.5
Capital expenditure	12.6	11.0	10.9	11.5	12.4	13.2	13.8
Primary balance	**-1.0**	**-3.6**	**-4.3**	**-4.7**	**-5.7**	**-6.6**	**-7.0**
Overall balance	**-1.8**	**-4.3**	**-4.9**	**-5.2**	**-6.0**	**-7.1**	**-7.5**

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

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As a member of WAEMU, Burkina Faso has an obligation to respect the criteria of the Convergence, Stability, Growth and Solidarity Pact that came into force on 1 January 2000. The objective of this Pact is to maintain stability in the macroeconomic framework of WAEMU member countries; this relates to the fiscal balance as well as the tax burden, inflation, debt stock and outstanding debt. Three criteria were not respected by Burkina Faso in 2007: the average tax burden ratio (which was lower than the Community norm), the fiscal balance (because of continuing public expenditure) and the current account of the balance of payments.

In order to reinforce the fight against poverty, priority will be given in 2008 to increasing own-source resources and to the rationalisation of public expenditure. It is predicted that expenditure will rise by 0.9 per cent of GDP between 2007 and 2008. The end of the recapitalisation of the Burkina Faso textile fibre company SOFITEX, the country's main cotton company, is expected to boost investment. A similar effect is expected from the actual start of Millennium Challenge Account (MCA) activities. Burkina Faso has been eligible since 2005 for this bilateral aid fund, which was created by the United States in 2004. Investments are expected to total 13.2 per cent of GDP in 2008, compared to 10.9 per cent in 2005.

Monetary Policy

Burkina Faso's monetary policy, which is defined by the Central Bank of West African States (BCEAO), has a priority aim of controlling inflation. This policy is strongly influenced by the policy conducted in the euro zone, since the CFA franc (the currency of the BCEAO), is pegged to the euro. Net external assets increased by 21.3 per cent in 2007, as against 8.4 per cent in 2006. On the other hand, domestic assets fell sharply, by 12.2 per cent in 2007, compared to a slight rise of 1.8 per cent in 2006, as a direct consequence of the poor cotton crop. This drop has in fact been caused by the recapitalisation of the SOFITEX cotton company, as well as by the difficulties financial institutions encountered working with operators in the cotton sector. The growth in net external assets was due in part to debt relief in the framework of the MDRI. Government borrowing was -6.4 per cent in 2006 and -20.9 per cent in 2007. The stock of domestic credit has risen mainly due to an increase of net lending to the economy, which increased by 11.2 per cent in 2006 and by 8.7 per cent in 2007. This evolution is the result of ordinary credit granted to cotton companies and to companies in the energy, telecommunications and construction sectors.

The money supply increased by 9.1 per cent in 2007. The harmonised consumer price index (HCPI)

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was estimated at -0.2 per cent in 2007, owing to a good harvest in 2006/07, which resulted in a fall in the price of food products. An annual average rate of inflation of 2 per cent is expected for 2008/09. This forecast is based on the assumption that there will be a less rapid rise in oil prices and a fall in the price of cereals.

External Position

The balance of payments surplus improved: excluding exceptional funding, it was estimated at XOF 160 billion in 2007, as against XOF 35.4 billion in 2006. This new surplus is mainly due to the privatisation of ONATEL, a transaction amounting to XOF 144.3 billion.

The deficit in the current account was estimated at 13.6 per cent of GDP in 2007. This is expected to deteriorate in 2008 (15.2 per cent) and 2009 (14.9 per cent). Cotton exports, which earned XOF 44 billion in 2007, fell, and this is expected to widen the trade deficit. Imports, which have been increasing, consist of products that are becoming more and more expensive, such as oil and gas, wheat and rice. The current account deficit is not in conformity with the norm of WAEMU's Convergence Pact, which requires that member countries show a surplus of at least 5 per cent of GDP.

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

	1999	2004	2005	2006	2007(e)	2008(p)	2009(p)
Trade balance	-11.0	-9.1	-10.1	-8.1	-11.7	-13.0	-13.0
Exports of goods (f.o.b.)	8.5	9.4	8.3	9.8	7.3	7.0	7.1
Imports of goods (f.o.b.)	19.5	18.5	18.5	17.9	19.0	20.1	20.1
Services	-3.9	-4.5	-4.7	-4.5	-5.1	-4.9	-4.8
Factor income	-0.6	-0.6	-0.9	-0.3	-0.4	-0.6	-0.4
Current transfers	4.8	3.7	4.2	4.4	3.5	3.3	3.3
Current account balance	**-10.6**	**-10.4**	**-11.5**	**-8.5**	**-13.6**	**-15.2**	**-14.9**

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

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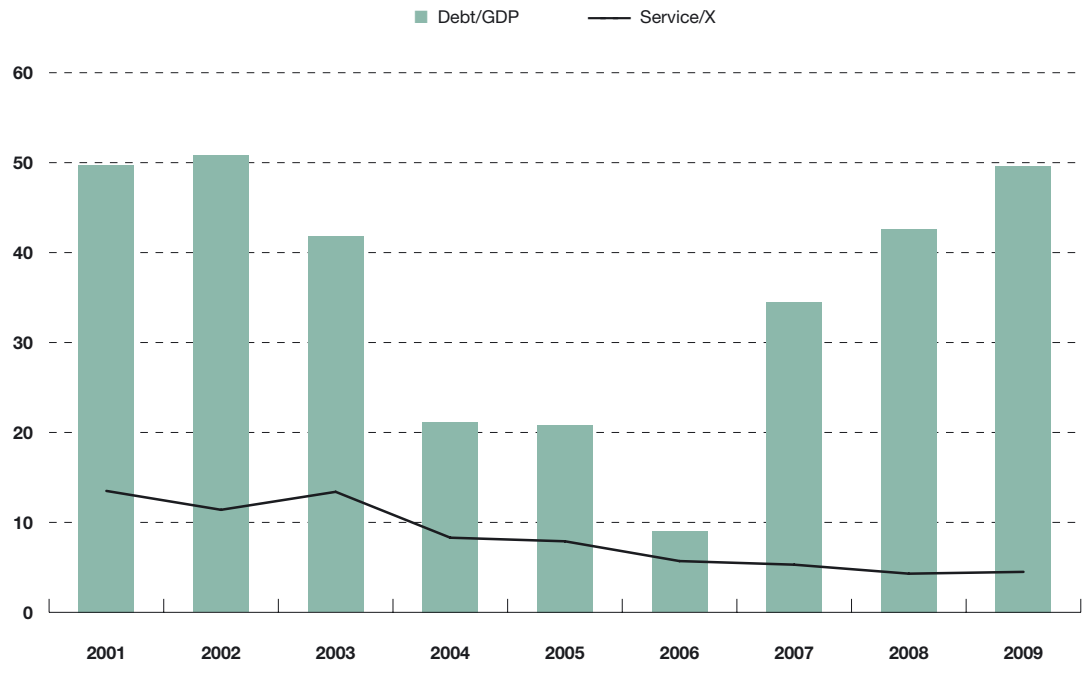
The deficit in the services balance was 5.1 per cent of GDP in 2007, as against an average of 4.3 per cent for the 1996-2006 period. This deficit is expected to fall slightly, to 4.9 per cent in 2008 and 4.8 per cent in 2009. This trend demonstrates the country's strong dependence on external aid. Current transfers have fallen: following an average of 5.2 per cent of GDP for the 1996-2006 period, they reached only 3.5 per cent in 2007. This trend is expected to continue in 2008 and 2009 (3.3 per cent) as a result of reductions in private transfers, which are expected to reach 1.2 per cent of GDP in 2007 and 0.9 per cent in 2009.

The European Union (EU), the country's main trade partner, accounts for 40 per cent of Burkina Faso's imports and 60 per cent of its exports. France, the former colonial power, represents 20 per cent of Burkina Faso's imports and 40 per cent of its exports. The country also depends on its WAEMU neighbours for 25 per cent of its imports and 20 per cent of its exports; Côte d'Ivoire plays a major role, with 15 per cent of Burkina Faso's imports and 10 per cent of its exports. In line with other member countries of the Economic Community of West African States, Burkina Faso advocates the continuation of negotiations on upgrading the economies of West Africa, in order to benefit as much as possible from Economic Partnership Agreements with the EU.

External debt represented 34.5 per cent of GDP in 2007, as against 9 per cent in 2006. In terms of net present value, it corresponded to 104.7 per cent of exports in 2007, as against 88.1 per cent in 2006, due to the depreciation of the US dollar and the fall in exports resulting from the drop in cotton prices and the poor crop in 2007. This trend is expected to continue; reinforced by the increase in expenditure linked to the PRSF and MDGs.

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Figure 3 - **Stock of Total External Debt** (percentage of GDP) **and Debt Service** (percentage of exports of goods and services)



Source: IMF.

StatLink http://dx.doi.org/10.1787/318423138371

According to forecasts, external debt in terms of net present value will equal 124.2 per cent of exports in 2008, and 132.8 per cent in 2009. There is thus an urgent need to reduce the budget deficit; it is planned to strengthen the capacity of the National Public Debt Committee through the adoption of a new policy that conforms to international standards. Debt stock, which is increasing, is expected to equal 23.6 per cent of GDP in 2008, and 27.5 per cent in 2009. In 2006, in the framework of the MDRI, Burkina Faso benefited from the cancellation of its multilateral debt. This constituted a major buttress, in that this debt amounted to XOF 700 billion. The bilateral aid expected from the US Millennium Challenge Account ought to reduce external debt even further.

In March 2005 Burkina Faso approved the Paris Declaration on Aid Effectiveness, and in the same year, concluded an agreement with its major lenders on the organisation of budget support. These partners include the African Development Bank (AfDB), the World Bank and the EU. The Burkinabè authorities have developed an action plan for the 2007-10 period that lays emphasis first on aid appropriation in 2007. Efforts have centred on the development of strategy documents, and on the reinforcement of follow-up capacities and budgetary control systems. It is also planned to integrate into the PRSF measures of performance and disbursements from the PRSF General Framework for Budget Support. These efforts will continue in 2008, the year in which Burkina Faso is to attend the conference to review progress made in implementing the principles of the Paris Declaration. This conference will be held in Ghana under the aegis of the Organisation for Economic Co-operation and Development (OECD). The priority for 2009 will be that of aid harmonisation: this will involve promoting joint financing and defining simplified procedures.

Structural Issues

Recent Developments

In 2007, the reform of public administration led to the gradual decentralisation of services and to a

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more accessible and effective justice system. Reforms aimed at the transparency, reliability and effectiveness of budgetary management are continuing to be implemented. A strategy for strengthening public finance has been defined, as well as an action plan to improve budgetary execution.

Energy supplies are the subject of special attention. The country depends on oil and gas for 70 per cent of its requirements, on hydraulic resources for 25 per cent, and on imported electricity for about 5 per cent. This gives an indication of how vulnerable Burkina Faso's economy remains. Nevertheless, the country anticipated the rise in oil prices better than was done elsewhere in the sub-region. The shock was absorbed due to a reform that was implemented from 2000 onward with the support of the World Bank. A mechanism to set prices as a function of costs was launched. Within the framework of this programme, subsidies covered 70 per cent of the country's supplies of oil and gas in 2007. Electricity prices have gradually increased, rising by 12.5 per cent between 2004 and 2006. In the longer term, this sector will be deregulated, in order to improve productivity. SONABEL is expected to be privatised by end-2009 at the latest. In the meantime, the public companies require the necessary resources to maintain consumption and the grid interconnection with the Côte d'Ivoire, from where the electricity is imported. The construction of a grid interconnection to link up Burkina Faso with Ghana began in 2007. All of these measures enabled the country to compensate for a break in gas supplies in June and July 2007 caused by the low bottling capacity of the national hydrocarbon company (SONABHY).

Initiatives are presently under way to promote biofuels. An agreement has been signed with a French company for a project that should begin in 2008. Electricity coverage in the country is expected to increase due to two electrification programmes: one is an electrification programme for small urban centres, and the other is the Multifunctional Platform for reducing poverty in rural areas. Moreover, the AfDB has funded a study on rural electrification in the 13 regions of the country, in preparation for a project planned for 2008.

Works on a new road between Yegueresso, Diebougou and the border with Ghana began in 2007. Two roads are under construction, one between Diebougou and Bobo-Dioulasso, and the other between Kongoussi and Ouagadougou. In 2007 the asphalting of streets was under way in the country's two main towns, Ouagadougou and Bobo-Dioulasso. Studies and a search for funding have begun for the construction of a new airport at Ouagadougou and for the development of the present airport.

The privatisation process continues, in spite of delays in the planned schedule. An additional block of 20 per cent of ONATEL's shares is expected to be put up for sale on the regional financial market in 2008. A 6 per cent share of ONATEL's capital is in fact reserved for company staff. Part of the Banque Internationale du Burkina Faso is also being sold. The capital of SONABEL and SONABHY was also to be sold off in 2008, in the framework of the reform of the energy sector. However, delays in auditing these two companies will probably lead to the postponement of the final sale to 2009. Reports on the privatisation of the Bureau of Mines and Geology of Burkina Faso and the Centre for Motor Vehicle Control are under examination. The privatisation of the international airports of Ouagadougou and Bobo-Dioulasso has been suspended.

The business climate has been improving: in the 2007 International Finance Corporation report *Doing Business Better*, Burkina Faso was classed among the five African countries that had implemented the most reforms. Specialised Chambers of Commerce have been set up. The tax for registering legal decisions has been reduced, as have property conveyance and registration costs. The time required to register a business has been brought down to 23 days, thanks to the new business registration centres.

According to the multilateral financial institutions, the difficulty of access of small and medium-sized enterprises (SMEs) to credit remains one of the principal obstacles to development. The difficulties encountered by the banks during the crisis in the cotton sector prompted the authorities to speed up the reform of the financial sector. The government is planning not only

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to facilitate access to credit for SMEs, but also for farmers and prospective homebuyers. It is therefore expected that a housing bank will be set up, and that there will be improvements in the legal procedures relating to credit.

A centre for arbitration, mediation and conciliation has been set up in Ouagadougou to resolve more commercial disputes out of court. An authorised management centre has also been created to help business entrepreneurs draw up balance sheets in accordance with norms. A support fund for young people's initiatives has also been launched. Also, employees in the mining sector should benefit from measures taken to encourage their employers to draw up fixed-term employment contracts. A new High Authority for State Supervision, the only body for fighting corruption, was set up in October 2007; it will become operational in 2008, with a wide jurisdiction that includes the general supervision of the government and the fight against fraud and corruption at all levels.

As regards natural resources, priority has been given to the participatory management of forests and expanses of water. A National Water Council was set up in 2003 to provide improved resources management. In view of the lack of rainfall, with the support of Morocco, a programme to increase precipitation by cloud seeding has been introduced. The national housing policy has adopted two major objectives: rationalise development planning in areas of habitation, and define construction standards.

In the agricultural sector, the reform of the cotton sub-sector enabled the creation of a price-smoothing fund, with the support of the World Bank. Funding was sought from all of Burkina Faso's partners to enable this fund to stabilise producers' incomes. The state settled its contribution in 2007, at the time of the recapitalisation plan for SOFITEX, a cotton company being restructured prior to privatisation.

Technical and Vocational Skills Development

The provision of technical education is very poor, and is concentrated in Ouagadougou and Bobo-Dioulasso. In 2006/07 there were 30 000 registered students in this stream, representing only 8 per cent of the total number of students. There were almost as many girls (49.4 per cent) as boys (50.6 per cent). The former show a marked preference for service-sector occupations and short-term training courses lasting for between two and four years. With 78 per cent of institutions and 80 per cent of students, the private sector largely dominates technical and vocational education. Vocational training is disparate and poorly organised, and is essentially provided by Vocational Training Centres (CFP), which emphasise agricultural occupations. The CFP constitute 38.7 per cent of Technical and Vocational Education and Training (TVET) institutions, but take only 5 per cent of the students. Technical education, on the other hand, represents 18.2 per cent of TVET institutions and over 60 per cent of TVET students.

According to a survey carried out in 2005 by the national observatory for employment and vocational training (ONEF), a total of 401 specialised institutions are involved in TVET. Unlike the CFP, they provide few agronomic courses (6 per cent of the total) and over-concentrate on services and industry (55 per cent of technical education streams and 35 per cent of vocational training streams). Moreover, high registration fees — between XOF 150 000 and XOF 500 000 per year — mean that these training courses are prohibitively expensive for the majority. These institutions, which have no real links with the business world, have been criticised for having too many teachers, poor methodology and insufficient resources.

In 2006 there were 6 200 students taking courses on services and industry occupations. The integration of these graduates into the economy is difficult due to the lack of contact with companies. When they fail to find their first job, some students try to get into colleges specialising in training for jobs in the public service, or else turn to other courses for which they are ill prepared.

The qualifications of those working in the informal sector constitute a major challenge for vocational training. Improving these qualifications constitutes

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part of the priority actions of the third strand of the PRSF, because this can open the door to increased employment opportunities and income-generating activities. Between 2005 and 2007, approximately 30 000 workers in the informal sector undertook training sessions organised by the National Employment Agency and the Vocational Training and Apprenticeship Support Fund (FAFPA). The private sector is also vital, with the involvement of non-governmental organisations in the informal sector in rural areas.

The post of Minister for Technical and Vocational Education was created in 2002, within the Ministry of Secondary and Higher Education and Scientific Research. Vocational training comes under the supervision of the Ministry of Labour, Employment and Youth, which was created in January 2006. The Ministry of Trade, Industry and Crafts Promotion is responsible for strengthening the capacities of business entrepreneurs. The Ministry of Agriculture, Hydraulics and Fishery Resources is responsible for farmer training, while the Ministry of Animal Resources is responsible for training livestock producers. The Ministry of Labour, Employment and Youth, and the Ministry of Public Service and Reform of the State are also involved, as well as the Chamber of Commerce and Industry.

The large number of institutions involved constitutes a handicap for TVET, which is nevertheless recognised to be one of the best ways of fighting poverty. The government therefore decided to draw up a national policy, which has been lacking up to now: this should be adopted in the course of 2008. It is also planned to include a section on vocational training in the national employment policy presently being drawn up.

This new national policy for TVET aims to facilitate access to these educational streams. The objective is to reduce registration fees for the most buoyant sectors: civil engineering, electricity and derived activities, mechanical engineering and maintenance, hotel trades, joinery and plumbing. Efforts made in regard to the training of teachers and the provision of teaching materials are expected to lead to an improvement in the quality of courses. The policy also aims at achieving better planning. Finally, it would be easier to mobilise the funding required if there were more co-operation between the State, the private sector, parents of students and development partners.

Two major five-year training projects were launched in 2007. The first of these aims to train 25 000 students as service contractors, at a rate of 5 000 young people per year. The second has as its objective to train 50 000 young people for different trades (electrician, plumber, etc.), at a rate of 10 000 students per year. The ANPE employment agency was restructured in 2005 in order to better promote employment and vocational training. A national observatory for the synthesis and analysis of statistical information on employment and vocational training has also been set up. A TVET support project, financed by Chinese Taipei, has been prepared for 2008. Two other projects are planned for 2008/09, one on the training of students for trades, and the other on the preparation of students for vocational integration at the end of their courses.

Most of public TVET is financed by the state and funding bodies. Due to the diversity of institutions involved, data to enable the calculation of the level of budgetary resources allocated to the sector are not available. Following the creation in 2006 of the Ministry of Labour, Employment and Youth, the government promised to allocate at least 1 per cent of its budget, or about XOF 10 billion per annum, to this sector. Added to this amount in 2007 will be the XOF 5.8 billion expected from the apprenticeship tax paid by private employers. This tax amounts to 4 per cent of the gross wage for national employees, and 8 per cent for foreigners.

The French Development Agency (AFD) was one of the main sources of support for vocational and craft trades training, contributing XOF 1.18 billion over the period 2004-07. Switzerland and Austria funded the support unit for vocational training, providing XOF 92 and XOF 179 million respectively. Germany, the EU, Chinese Taipei, the World Bank, the Islamic Development Bank (IDB) and the United Nations Development Programme (UNDP) are also involved.

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These developments are all taking place in a context of globalisation and regional integration that demands a constant pursuit of productivity. The need to set up a coherent system for TVET appears even greater when human resource productivity is seen to be too low. This track must also be integrated into the global education system, to enable the co-ordination of all of those involved. For these reasons, the implementation of a national policy in 2008 represents a major challenge for the state and its partners.

Political Context

The Congress for Democracy and Progress (CDP), the party in power, won the general elections in 2007, with 65.8 per cent of votes. The party of the Head of State, Blaise Compaoré, obtained a majority of 73 out of the 111 parliamentary seats. A new government of 35 members was formed, including 5 women. In 2007 Blaise Compaoré became Chairman of ECOWAS and WAEMU. He offered his services as mediator in Côte d'Ivoire and Togo, and contributed to the conclusion of a political agreement in Lomé on 20 August 2006, and to the Ouagadougou Political Agreement signed on 4 March 2007 by the protagonists in the Côte d'Ivoire conflict. Because of this, Burkina Faso received a degree of international recognition. In September 2007, the country was elected as a non-permanent member of the UN Security Council for 2008/09. Two anniversaries were celebrated at the same time in Burkina Faso in October 2007: 20 years of Blaise Compaoré being in power and the anniversary of the death of his predecessor, Thomas Sankara, a young president with revolutionary ideas. His death was commemorated by civil society in particular and by Thomas Sankara's widow, which created the impression of a struggle with the authorities and summoned up the image of an ideal that is still very much alive, especially among young people.

Despite the existence of several agencies to control and fight against corruption, in 2006 the country went down nine places in the ranking of Transparency International. The new High Authority for State Supervision set up in 2007 is to take over the roles of the State Inspector's Office, the High Authority for the Coordination of the Fight against Corruption and the National Coordination for the Fight against Fraud. This new institution will publish its reports, and will have the power of instituting legal proceedings. Finally, it should also be mentioned that from 24 to 26 October 2007, the country hosted the Seventh African Governance Forum (FAG VII) on building the capacities of the State in Africa.

Social Context and Human Resources Development

The fight against poverty is beginning to show results. The proportion of the population living below the poverty line went down from 46.4 per cent in 2003 to 44.8 per cent in 2006. Nevertheless, average real income fell by 1.1 per cent in 2007, due to the fall in incomes in the cotton sector, flooding, cereal deficits in some provinces and energy price rises. This fall is expected to lead to a rise of 0.3 per cent in the incidence of poverty as compared to 2006, with 45.1 per cent of the population living on less than USD 1 per day in 2007. The UNDP's 2007/08 Human Development Index (HDI) places Burkina Faso in 176th position out of 177 countries. Forecasts nevertheless suggest that there will be a fall in the incidence of poverty, with rates of 43.9 per cent predicted for 2008 and 42.1 per cent for 2009. This fall is expected to occur owing to a rise of 5.5 per cent of incomes from food crop production in 2008/09. The incomes of cash crop farmers are also expected to improve, by 7.7 per cent in 2008 and 9.4 per cent in 2009.

According to a 2007 survey based on the Questionnaire on Basic Indicators of Well-Being (QUIBB), the access of households to basic social services has been improving. In 2007, 79 per cent of the population had physical access to drinking water, as against 74 per cent in 2005. Clean water was used for drinking by 74.3 per cent of households, although only 6.3 per cent possessed their own inside tap. The overall rate of access to drinking water in terms of physical and economic accessibility was 62.3 per cent in 2007, as against 40 per cent in 1990. The country seems

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therefore to be moving in the right direction in order to attain its objective of reducing the proportion of the population that has no access to drinking water by half.

A new education act setting out a general policy for action was passed in 2007: this aims to introduce free schooling up to the age of 16. The principle of free education was tested at the start of the 2007/08 academic year in 45 of the country's *départments*: one *département* per province. The free distribution of schoolbooks to primary school pupils was begun in August 2007.

The results of the Ten-Year Basic Education Development Plan for 2001-10 appear satisfactory. In primary education, the gross enrolment ratio went up from 30 to 66.5 per cent between 1990 and 2006. This rate was 67.9 per cent in 2007, according to the QUIBB survey. The enrolment rate in secondary schools is also improving, and went up from 19.1 to 25.9 per cent between 2005 and 2007. These results are due to a proactive policy, through a programme entitled "One *département*, one secondary school". The number of institutions has increased, along with the number of students. In higher education, the University of Koudougou was opened in October 2005. This is the third public university in the country, but it has not resolved the overcrowding problems in Ouagadougou: there are over 1 000 students in some classes at the University of Ouagadougou. The opening of a second university in the capital in 2008 ought to reduce the strain on the existing infrastructure.

Steps have been taken to encourage girls' enrolment. The inequality between girls and boys has decreased: between 2005 and 2007, the enrolment rate for girls increased by 9.8 per cent, as against 7.3 per cent for boys. Overall, 59.9 per cent of girls are enrolled and 67.7 per cent of boys. In spite of this improvement, there is still a wide gap, and the gender parity index is 0.88. If observed trends continue, the gross enrolment ratio will be 85 per cent in 2015: it appears difficult to attain the aim of universal education in 2015.

Improvements in these various indicators have often been at the cost of quality. In some primary schools, there are over 100 pupils in the first-year infants class. The free distribution of schoolbooks has not gone smoothly in some towns and villages: two months after the start of the school year, some pupils still had no books.

Owing to the national policy adopted in 2000, great progress has been made in health. Infant and child mortality went down from 219 to 151 per thousand between 2000 and 2006. Infant mortality went down from 105 to 81 per thousand over the same period. Health services have become more accessible: their average theoretical range fell from 9.4 km to 7.8 km between 2000 and 2006. Construction works for the teaching hospital (CHU) of Ouagadougou were started in 2007, with the support of Chinese Taipei. This new hospital will have 600 beds, and will aim to train future doctors according to criteria of excellence and to offer a high standard of medical care.

A regular follow-up of trends in contagious diseases has led to improvements in the fight against meningitis. A reduction in the mortality rate has been observed for all diseases of this type. For meningitis, the mortality rate went down to 8.5 per cent in 2006, compared to 21 per cent in 2005; also, 0.57 per cent of patients with measles failed to survive in 2006, against 2 per cent in 2005.

A strategic framework for the fight against HIV/AIDS has been developed. The prevalence of HIV/AIDS has gone down over the last ten years, from 7.17 to 2.03 per cent between 1997 and 2006. The country is moving in the right direction to stabilise and invert trends.

In spite of all these advances, forecasts indicate that Burkina Faso will not be able to reach the MDGs without a redoubling of efforts. Poverty reduction remains weak, and the school enrolment rate has not yet gone over the 70 per cent line. Infant and child mortality also remains high. The authorities have decided to develop an acceleration strategy in 2008 for reaching the MDGs: this will include seven priority areas: accountability of stakeholders, education, gender equality, energy, infrastructure, water and HIV/AIDS.

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The financial cost of the actions to be undertaken has been evaluated at over XOF 10 000 billion.

A study carried out in 2005 showed that the employment market was characterised by its lack of unity, and that it was broken up into three different pools. On the one hand, agriculture employs 85 per cent of the working population. "Modern" employment is concentrated in the towns, and includes the public service and the formal sector; it employs a total of not more than 200 000 persons. Lastly, the informal sector employs 70 per cent of non-agricultural workers. According to the 2007 QUIBB survey, the unemployment rate is 7.8 per cent of the working population in rural areas and 17.7 per cent in urban areas. The 15-24 year-old age group is the most affected, particularly in urban areas, where the unemployment rate for this age group is 29.4 per cent, as against 21.4 per cent for 25-29 year olds.

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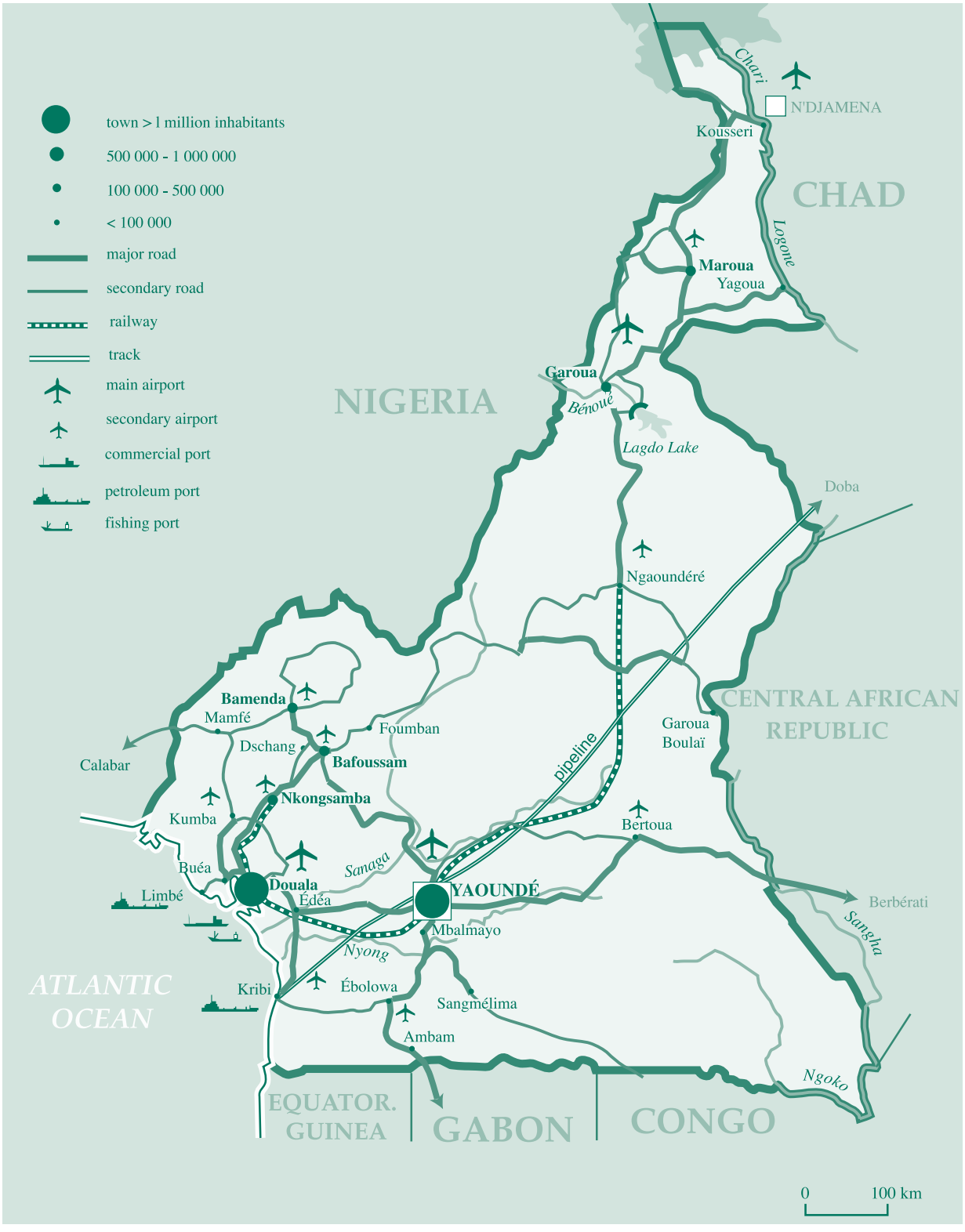
Cameroon



key figures

• Land area, thousands of km²	475
• Population, thousands (2007)	18 549
• GDP per capita, USD at constant 2000 prices (2007)	642
• Life expectancy (2007)	50.4
• Illiteracy rate (2007)	21.2

Cameroon


town > 1 million inhabitants
500 000 - 1 000 000
100 000 - 500 000
< 100 000
major road
secondary road
railway
track
main airport
secondary airport
commercial port
petroleum port
fishing port
Chari
N'DJAMENA
Kousseri
CHAD
Logone
Maroua
Yagoua
Garoua
NIGERIA
Bénoué
Lagdo Lake
Doba
Ngaoundéré
CENTRAL AFRICAN REPUBLIC
Garoua Boulaï
pipeline
Bamenda
Mamfé
Foumban
Dschang
Bafoussam
Calabar
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Kumba
Bertoua
Buéa
Sanaga
Douala
Édéa
YAOUNDÉ
Limbé
Berbérati
Sangha
Mbalmayo
Nyong
ATLANTIC OCEAN
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Cameroon

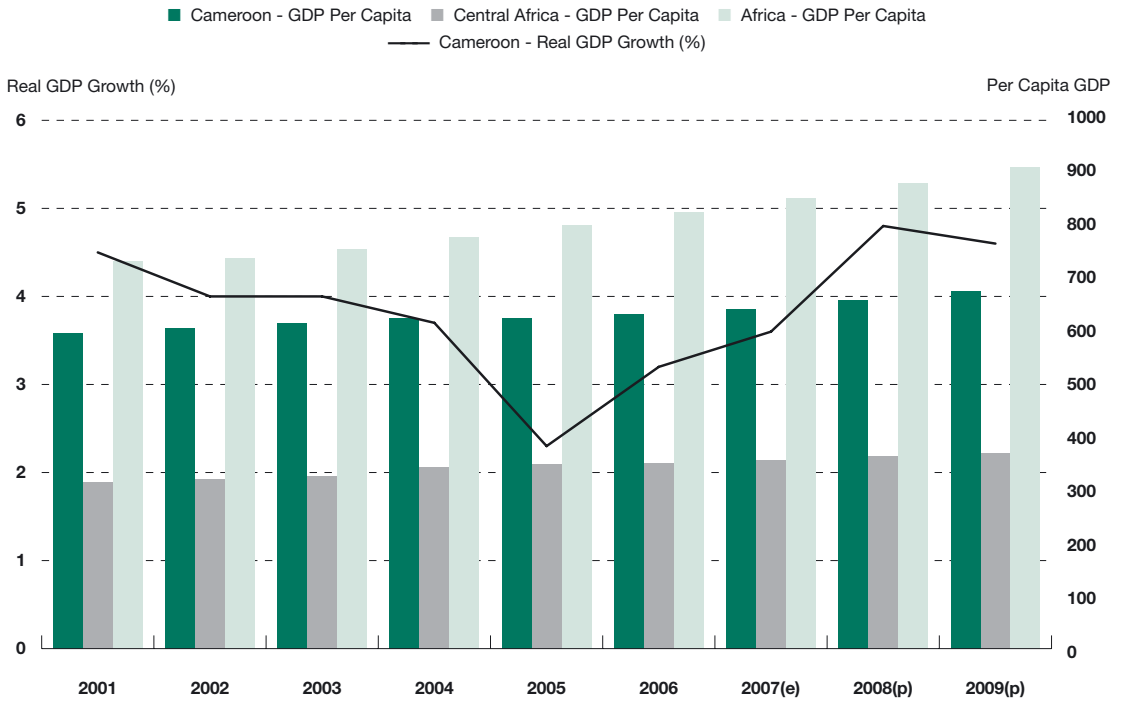
THE ECONOMY PICKED UP IN 2007 despite the continued decline in oil production, which has been undermining growth since 2005. Growth was estimated at 3.6 per cent in 2007, as against 3.2 per cent in 2006. This trend should continue in 2008 and 2009, with 4.8 and 4.6 per cent growth projected respectively. Public investment should be the main driver, fuelled by substantial resources liberated through debt reduction. The implementation of fiscal reform in 2008 should reduce the country's dependence on diminishing oil revenues.

In 2007, large-scale structural reforms continued, including privatisation, a decentralisation programme and efforts to improve governance. A preliminary agreement was also signed with the European Union (EU), aimed at liberalising trade.

Growth has restarted but is hampered by the poor performance of the oil industry and a shortage of skilled labour.

In the social sphere, access to basic services – sanitation and drinking water, health, education and roads – has improved. Politically, the electoral system has been improved and efforts have been made regarding human rights. The fight against corruption, however, has produced mixed results, despite measures taken to encourage transparency.

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.

StatLink http://dx.doi.org/10.1787/316264332484

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Recent Economic Developments

Economic growth, which stood at 3.2 per cent in 2006, is estimated at 3.6 per cent in 2007 and is projected to reach 4.8 and 4.6 per cent in 2008 and 2009. Some of the most dynamic sectors of the Cameroonian economy are agriculture, forestry, telecommunications and construction.

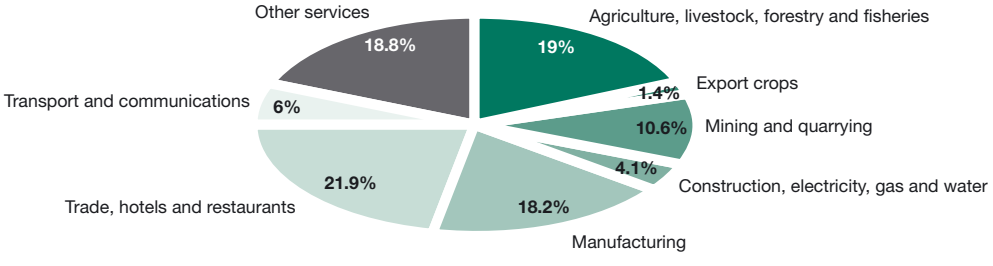
Agriculture and forestry, which account for 20.4 per cent of GDP, grew by 3 per cent in 2006. The sector should continue to expand, with 3.8 per cent growth forecast in 2007 and 4.5 per cent in 2008. Activity is primarily driven by the forestry and food crops sub-sectors, which have benefited from extension programmes and the opening of cross-border roads. Log production, up 13 per cent in 2006, increased by 7 per cent in 2007 and should rise by 5 per cent in 2008. Fourteen new forestry management units were opened in 2007, and four main priorities for the sector were identified: forestry management, product upgrading, promotion of new species and local processing of timber.

Food crop production grew by approximately 4 per cent in 2007 and should increase by 4.5 per cent in 2008 if weather conditions are favourable. This level of growth is below the potential of the sector, which is hampered by four major structural constraints: lack of financing, isolation of some producing areas, lack of extension services and the low level of fertiliser use. Several projects and programmes aimed at boosting production are being undertaken with financing from the Heavily Indebted Poor Countries (HIPC) initiative: two national programmes, one supporting the maize sector and the other aimed at developing production of roots and tubers, as well as two projects to revive rice and plantain production.

In 2007, performance of cash crops (which account for 1.4 per cent of GDP) was highly variable. Cocoa production increased by 4.5 per cent, as new plantations reached maturity and world prices recovered. Coffee production stagnated, however, with farmers abandoning it in favour of short-cycle crops, which they regard as offering a better return. Rubber production rose by an estimated 6.9 per cent in 2007. Weather conditions were good and world rubber prices rose by 43.2 per cent in 2007 to XAF 986.3 (CFA franc BEAC) per kilogram, but Cameroon does not benefit fully from this favourable situation because of its ageing plantations and limited supply. Cotton output fell substantially in 2007, by an estimated 21.2 per cent, owing to the fall in world prices, which has reduced the earnings of cotton producers and led them to reduce the area under cultivation. Banana production has also been in decline since 2004, falling by 6.2 per cent in 2007. Some growers have switched to pineapples owing to uncertainty over the opening of the European market to "dollar bananas", produced by three US multinationals having a dominant 60 per cent share of the world market.

With regard to livestock farming, in 2007 the national herd comprised approximately 5.6 million cattle, 7 million small ruminants (sheep and goats), 1.2 million pigs and 20 million poultry. The poultry

Figure 2 - **GDP by Sector in 2006** (percentage)



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

StatLink http://dx.doi.org/10.1787/317426036273

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sector suffered from the impact of avian flu. A number of programmes are seeking to increase production and improve food security. This includes the Smallholder Dairy Development Project, a pig production development programme and a support project for alternative livestock breeding (hedgehogs).

The performance of the industrial sector (32.9 per cent of GDP) was uneven in 2007. Industrial production of palm oil increased by 8.3 per cent. Apart from good weather conditions, two factors underlie this increase: production from new plantations, both small and large, and good performance of production facilities. The agro-food industry experienced slower growth (1.1 per cent in 2007) than other manufacturing industries (2.1 per cent). Cameroonian food products, notably edible oils, chocolate, pasta and tinned foods, are subject to strong competition from Asian products. Sugar production dropped by 6.2 per cent in 2007, and both cocoa and cottonseed oil production fell by 4.1 per cent. In contrast, beers and carbonated beverages gained (up 3.5 per cent in 2007) after two consecutive years of downturn. Aluminium production fell by 3 per cent in 2007 due to a low-water period that restricted electrical power supply to the national aluminium factory Alucam to 118 MW. Production should recover in 2008, rising by 6 per cent, due to better energy supply.

Textile production is estimated to have increased by 10.1 per cent in 2007. Increased demand for cloth was linked to the electoral campaigns of various political parties, leading up to the legislative elections of 22 July 2007. Cement production increased by 8.7 per cent in 2007, stimulated by construction and the recovery of residential real estate. The growth in construction was estimated at 6 per cent in 2007, thanks to large-scale infrastructure projects and to resources liberated through debt reduction. Manufacturing, however, continues to be hampered by inadequate power generation, which increased by only 2.2 per cent in 2007. A new 86 MW thermal power plant is under construction.

The output of extractive industries (10.6 per cent of GDP) fell by 4.3 per cent in 2007 owing to the depletion of hydrocarbon reserves. Oil production dropped by 3.1 per cent, in sharp contrast to the 5.6 per cent increase recorded in 2006. The latter was linked to the fact that the Bakingili oilfield, which contains 40 million barrels of reserves, came on stream in August 2005. The government intends to diversify the mining sector. According to official figures, proven gas reserves amount to 156 billion m^3, with potential reserves of 270 to 300 billion m^3. In 2006, the national oil and gas company Société nationale des hydrocarbures (SNH) and its partner Perenco obtained authorisation to extract gas from the Sanaga Sud field to supply the future thermal power plant in Kribi. SNH also signed a co-operation agreement with Equatorial Guinea's national gas company Sonagaz to export natural gas from Cameroon to a liquefaction plant in Equatorial Guinea. A number of studies have proven the existence of deposits of approximately 30 mineral ores in Cameroon, which have yet to be exploited. Cobalt reserves are estimated at 52.7 million tonnes (25 years' worth of production), located in a mountain range of 300 square kilometres. The Lomié cobalt-nickel project, scheduled to start production in 2009, should provide 4 000 tonnes of cobalt and 3 000 tonnes of nickel from the first year. It is managed by Geovic Cameroon, a limited company incorporated under Cameroonian law, with 60.5 per cent of its capital held by US investors, 19.5 per cent by a group of private Cameroonian shareholders and 20 per cent by Cameroon's national investment company SNI.

The services sector (47 per cent of GDP) is driven by mobile telephony and transport. Its growth should increase from 3.5 per cent in 2006 to 3.9 per cent in 2007 and 4.8 per cent in 2008. The customer base for telecommunications is growing fast, with the total number of subscribers increasing by 34 per cent in 2007. The fixed and mobile telephone networks have expanded and the laying of fibre-optic cables has continued. In contrast, air transport has suffered because of operational problems in Cameroon Airlines (Camair). Passenger numbers decreased by 2.1 per cent in 2007 and freight transport by 4.4 per cent. These decreases are forecast to continue in the same proportions in 2008. The hotel business estimates that overnight stays increased by 4 per cent in 2007, as against 7 per cent

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Table 1 - **Demand Composition**

	Percentage of GDP (current prices)		Percentage changes, volume			Contribution to real GDP growth		
	1999	2006	2007(e)	2008(p)	2009(p)	2007(e)	2008(p)	2009(p)
Gross capital formation	**14.9**	**16.7**	**5.8**	**8.8**	**4.5**	**1.0**	**1.5**	**0.8**
Public	4.0	2.7	12.8	26.8	2.7	0.3	0.8	0.1
Private	10.8	14.0	4.5	5.0	5.0	0.6	0.7	0.7
Consumption	**80.8**	**81.2**	**3.0**	**4.2**	**4.8**	**2.5**	**3.5**	**4.0**
Public	9.5	9.6	5.0	4.9	5.0	0.4	0.4	0.4
Private	71.3	71.6	2.7	4.1	4.8	2.0	3.1	3.6
External demand	**4.3**	**2.1**				**0.1**	**-0.3**	**-0.2**
Exports	21.5	23.0	5.0	4.1	3.9	0.9	0.8	0.7
Imports	-17.2	-21.0	4.3	5.3	4.9	-0.8	-1.0	-0.9
Real GDP growth						**3.6**	**4.8**	**4.6**

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

StatLink http://dx.doi.org/10.1787/320788780416

in 2006. Several projects were undertaken in 2007 to make Cameroon an attractive tourist destination. Work has begun on developing Dipikar Island in the Campo Reserve, and a similar project on Damans Island in Lagdo has been completed. Various tourist sites have been identified: the Lobé waterfalls in Kribi, Mile Six Beach in the southwest, and Petpenou and Monoun lakes in the Noun region.

Domestic demand should contribute 3.5 percentage points to real growth in 2007. Consumption accounted for 81.2 per cent of GDP in 2006, as against 16.7 per cent for investment. Consumption, the main driver of growth in Cameroon, rose by 3 per cent in 2007 and is projected to grow a further 4.2 per cent in 2008. Private consumption, which is on the rise, contributed an estimated 2 percentage points to growth in 2007 and is projected to contribute 3.6 percentage points in 2009. Public consumption should increase by 4.9 per cent in 2008, for three main reasons: hiring in the education and health sectors, the resumption of pay advances for civil servants and the revision of base civil service salaries.

Total investment is estimated to have grown 5.8 per cent in 2007. Public investment grew more strongly than private thanks to the XAF 90 billion freed up through external debt relief. These resources have been earmarked for large-scale public projects to build roads and schools, upgrade health infrastructure, develop electrical and hydraulic networks, modernise communication systems and upgrade ports and airports. The resources freed by debt reduction will drive even higher growth (projected at 26.8 per cent) in public investment in 2008.

Net external demand continues to hinder growth. Imports are increasing faster than exports. Although a slight improvement was observed in 2007, with external demand contributing 0.1 percentage points to growth due to the rise in oil prices, its contribution is projected to be negative in 2008 (-0.3 per cent) and in 2009 (-0.2 per cent).

Macroeconomic Policies

Fiscal Policy

Fiscal policy in 2006 and 2007 has aimed at improving revenue mobilisation while also ensuring good quality in public spending. Its objective has been to achieve strong and sustainable growth. The 2007 budget was balanced, with both spending and revenue set at XAF 2 251 billion. Of this sum, the Account Settlement Bill recognises XAF 2 118.7 billion in

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revenue and XAF 1 529. 8 billion in spending. In 2006, budget execution rates stood at 113.8 per cent for revenue and 82.2 per cent for expenditure.

Budgetary resources, which consist primarily of tax revenue, remained at 18 per cent of GDP, the same level as in 2006. The government is seeking to reduce dependence on oil revenue, which accounted for only 1.1 per cent of GDP in 2007. Improvement in these revenues remains somewhat unpredictable, in light of market fluctuations and the depletion of reserves.

Revenue shortfalls were recorded in non-oil revenues. Taxes on international trade and non-tax revenue were lower than expected, as a result of lower taxation on certain imported staple products, such as frozen fish, rice, sugar, flour and milk, and delays in the payment of state dividends. Oil revenues, despite the slowdown in production, benefited from high world prices. The surpluses obtained were used mainly to pay down public debt.

Spending rose from 14.6 per cent of GDP in 2006 to 14.9 per cent in 2007. This increase reflects investment expenditure in infrastructure, health, education and rural development, in accordance with the poverty reduction strategy paper (PRSP). Current expenditure was marked by lower expenditure on personnel and the reduction of interest payments from 0.9 per cent of GDP in 2006 to 0.5 per cent in 2007; the latter was achieved through the debt cancellation obtained on reaching the completion point of the HIPC Initiative. The overall balance remains positive, as in 2006. This surplus was higher than forecast in 2007, despite lower-than-expected revenue, because expenditure was lower than initially forecast.

In order to achieve Cameroon's growth and poverty reduction objectives, fiscal policy in 2008 and 2009 will give priority to raising non-oil revenue and increasing the efficiency of spending. The aim is to improve public services while at the same time managing public funds efficiently. The 2008 budget, up by 1.11 per cent, balances revenue and expenditure at XAF 2 276 billion, or 19.5 per cent of GDP. Domestic revenue is forecast to be XAF 2 022 billion, comprised of XAF 1 429 billion in non-oil revenue and XAF 593 billion in oil revenue. External revenue is estimated at XAF 254 billion, consisting of XAF 146 billion in project loans and XAF 108 billion in grants.

Where spending is concerned, priority is given to infrastructure, agriculture, education, health, governance and the fight against corruption, as well as payment of domestic debt. Total expenditure should amount to 15.9 per cent of GDP in 2008, as against 14.9 per cent in 2007, due to the rise in public investment, while current spending should increase by 0.3 percentage point of GDP due to an increased wage bill and spending on goods and services.

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

	1999	2004	2005	2006	2007(e)	2008(p)	2009(p)
Total revenue and grants[a]	**15.0**	**15.4**	**18.2**	**19.6**	**19.3**	**19.5**	**18.9**
Tax revenue	12.9	13.2	16.3	18.2	18.0	18.2	17.7
Oil revenue	2.2	2.0	1.4	1.1	1.1	1.1	1.1
Total expenditure and net lending[a]	**13.9**	**16.0**	**14.6**	**14.6**	**14.9**	**15.9**	**16.1**
Current expenditure	11.5	14.0	12.1	11.7	11.7	12.0	12.2
Excluding interest	*9.1*	*12.1*	*10.6*	*10.8*	*11.2*	*11.5*	*11.8*
Wages and salaries	4.6	5.4	4.7	4.5	4.6	4.8	4.8
Interest	2.4	2.0	1.5	0.9	0.5	0.5	0.4
Capital expenditure	1.9	2.0	2.4	2.9	3.2	3.9	3.8
Primary balance	**3.5**	**1.4**	**5.1**	**5.9**	**5.0**	**4.0**	**3.3**
Overall balance	**1.1**	**-0.5**	**3.6**	**5.0**	**4.5**	**3.6**	**2.9**

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

StatLink http://dx.doi.org/10.1787/321565016813

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Monetary Policy

Cameroon is a member of the Economic and Monetary Community of Central Africa (CEMAC) and the Central African Monetary Union. The Bank of Central African States (BEAC) conducts the monetary policy of the six CEMAC member states. The principal convergence criteria are a stable inflation rate, a basic fiscal balance that is positive or null as a percentage of nominal GDP, outstanding domestic and external debt less than 70 per cent of GDP, and no payment arrears. In 2006, Cameroon failed to meet only one criterion, as inflation rose from 2 to 5.1 per cent between 2005 and 2006. The price of food products, beverages and tobacco increased by 6.3 per cent, while the rise in oil prices led to an 8.5 per cent increase in transport and communications costs. In 2007, inflation was held to an estimated 1.7 per cent, due to a more favourable exchange rate for the CFA franc against the dollar.

The BEAC set four main monetary and credit objectives for Cameroon for the 2007 fiscal year: the refinancing of XAF 6 billion, a 4.9 per cent increase in credit to the economy, a 5.2 per cent increase in the money supply and a cash ratio of 82.2 per cent. As of 30 June 2007, XAF 355 million had been drawn from the banking system for refinancing purposes, the money supply had increased by 1.5 per cent and the cash ratio was 80.4 per cent. Credit to the economy had remained constant.

The 2 per cent decrease in Cameroon's international competitiveness in 2007 was due to the world economic situation, marked by the steep rise in crude oil prices and the appreciation of the euro against the US dollar and the yen.

External Position

The trade balance remained in surplus in 2007 at 2 per cent of GDP, the same level as in 2006. The surplus is projected to be 1.7 per cent of GDP in 2008 and 0.8 per cent in 2009. It is attributable not only to high oil prices but also to exports of wood, Arabica coffee, cocoa and aluminium.

The 4 per cent increase in imports in 2007 concerned transport materials, plastics and rubber, machinery and electrical appliances. Imports are projected to be equivalent to 17.8 per cent of GDP in 2008 and 2009, owing to the free trade agreements being prepared with the EU. Cameroon unilaterally signed a first interim agreement with the EU on 1 January 2008.

The deficit in services, estimated at 3 per cent of GDP in 2007, is projected to increase in 2008 and 2009 to 3.4 per cent and 3.5 per cent respectively, due to rising transport costs. In air transport, the reduced services of Camair are not boosting revenues.

The factor income account is structurally in deficit. The deficit was 0.9 per cent of GDP in 2007 and the projections for 2008 and 2009 are 1.0 and 0.8 per cent of GDP respectively. Interest paid on external debt amounted to XAF 35 billion, as against XAF 73.9 billion in 2006. External public debt service for fiscal year 2008 is forecast at XAF 32 billion in

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

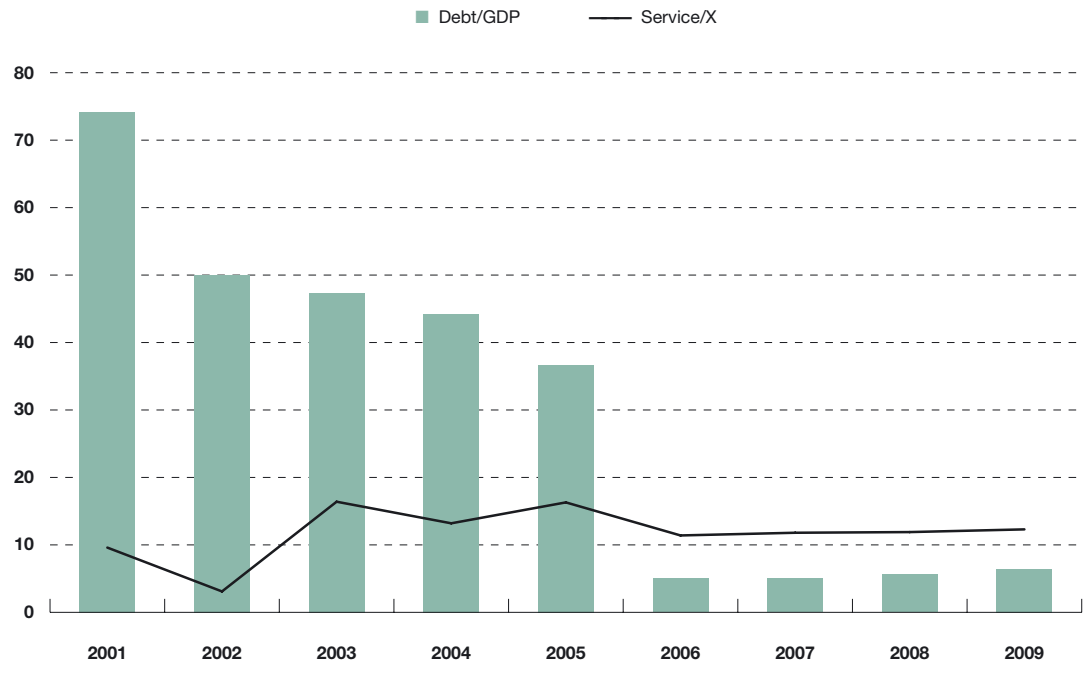
	1999	2004	2005	2006	2007(e)	2008(p)	2009(p)
Trade balance	1.9	-0.4	0.2	2.0	2.0	1.7	0.8
Exports of goods (f.o.b.)	16.0	16.3	17.2	19.5	19.2	19.6	18.6
Imports of goods (f.o.b.)	14.1	16.7	17.1	17.4	17.2	17.8	17.8
Services	-2.2	-1.9	-2.1	-2.8	-3.0	-3.4	-3.5
Factor income	-4.7	-2.5	-2.8	-1.4	-0.9	-1.0	-0.8
Current transfers	1.0	0.9	1.3	1.4	2.1	1.8	1.7
Current account balance	**-4.0**	**-3.8**	**-3.4**	**-0.8**	**0.2**	**-0.9**	**-1.8**

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

StatLink http://dx.doi.org/10.1787/322413312256

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Figure 3 - **Stock of Total External Debt** (percentage of GDP) **and Debt Service** (percentage of exports of goods and services)



Source: IMF.

StatLink http://dx.doi.org/10.1787/318450462334

interest, paid on a principal of XAF 71 billion. The current account shows a surplus of 0.2 per cent of GDP in 2007, due to high oil prices and the reduction of external debt, but is expected to fall back into deficit in 2008 (-0.9 per cent of GDP) and 2009 (-1.8 per cent).

Substantial debt reduction took place in 2006, amounting to XAF 2 589.1 billion, which breaks down as follows: cancellation of XAF 2 452 billion of debts not yet due and XAF 70 billion under the Debt Reduction-Development Contract, remission of XAF 42.7 billion under the HIPC Initiative and remission of XAF 24.4 billion under the Multilateral Debt Relief Initiative (MDRI). In net present value terms, the net public debt (domestic and external) of Cameroon fell from 153 to 54 per cent of GDP.

Net foreign direct investment flows increased from XAF 70 to XAF 107.2 billion between 2006 and 2007. The EU holds the largest stock of foreign investment (direct and portfolio) in Cameroon, with 66 per cent of the total in 2003. China is increasing in importance.

Structural Issues

Recent Developments

Privatisation continues to make slow progress. The process of breaking up, liquidating and privatising Camair is still at the call for tender stage. In October 2007, a leasing (*affermage*) contract to operate the national water supply company SNEC was awarded to a consortium consisting of Morocco's national water company ONEP, the finance company Delta Holding and the civil engineering company Ingema. Little progress has been made in the privatisation of the cotton company Sodecoton; a call to tender for a full audit was issued in 2007. The financial subsidiary of Cameroon Postal Services (Campost) was not launched in 2007, as the preparatory work had not been

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completed. Only the draft business plan for financial activities has been prepared. At the national refining company Sonara, a feasibility study is under way to determine the size of the investment required to improve the production system.

Demand for water continues to outstrip supply, owing to the dilapidated state of the network and the rapid growth of urban populations. Numerous households are not supplied. In 2008, an agreement was signed with China for a preferential loan of XAF 11 billion to finance a project to supply drinking water to Douala. Insufficient energy production and the cost of electricity also detract from industrial competitiveness. As a long-term solution to these energy shortfalls, a gas-fired power plant is to be built in Kribi during 2008. The rehabilitation of the hydroelectric power stations of Edea and Song Loulou should be completed in 2009, as should the new Nachtigal hydroelectric dam and the reservoir dam of Lom Pangar.

Cameroon still suffers from the isolation of its rural areas, despite a dense and extensive road network of around 50 000 kilometres, of which 4 000 kilometres are paved and 25 000 kilometres have been given maintenance priority. A number of projects are under way to link Cameroon to neighbouring countries. The resources freed up by the HIPC Initiative are allocated in priority to the rehabilitation and development of road infrastructure and rural tracks.

Improving the business climate has become a matter of urgency. Cameroon occupies 154th position in the 2007 World Bank *Doing Business* rating of 178 countries' business environments. Various consultative bodies have been set up, such as the Cameroon Business Forum's Competitiveness Regulation Council and the Tax Reform Commission, with the task of implementing the investor support structures set out in the Investment Charter. They are also supposed to take measures to make Cameroon's private sector more competitive, mobilise domestic resources and attract foreign investment. Stimulating the private sector will require an increase in the resources allocated to small and medium-sized industries and enterprises, as well as a stronger legal and regulatory framework.

The financial sector is characterised by a low rate of access to banking services, overliquidity and certain banks' failure to comply with management standards. Access to financial services remains limited, particularly for small and medium-sized enterprises. Cameroon had no more than 35.5 bank accounts per 1 000 inhabitants as of June 2007, compared to an average of 423 accounts per 1 000 inhabitants in other countries at the same level of development. Three large banks share 86 per cent of the market. The launch of the Union Bank of Africa/Cameroon (UBAC) in 2007 brought the number of active banks in the country to 12. A national financial investigation agency (ANIF) was set up to combat fraud and money laundering. The micro-finance sub-sector comprises 490 accredited establishments, having a total of 850 000 customers as of 1 January 2007. Despite an increase in 2007, the level of micro-finance deposits (XAF 162.4 billion) and loans (XAF 104.2 billion) amounts to only one-tenth of the level found in the traditional banking system. Where financial markets are concerned, the Douala Stock Exchange started operating on 30 June 2006 with the flotation of Société des eaux minérales du Cameroun (Cameroon Mineral Water Company). As of 31 December 2007, however, the exchange had only one listed company.

Cameroon's forests contain 300 marketable species, only 60 of which are harvested on a significant scale. Current reforms aim to promote the auctioning of concessions, both for forest management units and timber sales. To enhance the transparency of the bidding process, these auctions are to be overseen by an independent observer. The authorities are also trying to develop local processing of logs before export. A third objective consists in calling on specialised international organisations to oversee logging operations.

In the environmental sector, a new policy on access to genetic resources was formulated in 2007. The implementing measures focused on safety in the use of modern biotechnology. Three measures were drafted on appropriate management of solid, liquid and gaseous

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waste, with a view to the sustainability of urban environments and of industrial development.

Technical and Vocational Skills Development

Technical and vocational education and training (TVET) are largely undeveloped. In 2007, only 20 per cent of 605 500 secondary students and 13 per cent of 140 000 students in public higher education attended technical education institutions. The gross TVET enrolment rate is only 4.9 per cent in secondary technical education and 7.68 per cent in higher education.

Fewer than 200 engineers and 1 000 technicians are trained every year by Cameroon's TVET institutions. The latter include the National Polytechnic Institute (ENSP) in Yaoundé, the National Agro-Food Institute (ENSIA) in Ngaoundere and the university-level technology institutes (IUT) of Douala, Ngaoundere and Bafoussam. On average, 85 doctors are awarded degrees every year. The curriculum is still essentially scientific or technical in nature, with no real contact with the working world.

Boys are more numerous than girls in TVET, with a gender parity index of 0.63 at secondary level. Female representation is increasing, however, in the clothing, secretarial, social and family economics, and accounting segments. The gender parity index in higher education varies widely from one institution to the next: 0.10 at ENSP, 0.60 at the Faculty of Medicine, 1.47 at the School of Journalism and 0.28 in the IUTs. The authorities are endeavouring to make the public more aware of the gender issue in order to promote more equal access to TVET.

Although the resources allocated to education are increasing strongly (by more than 158 per cent), vocational training is still the "poor relation" of the education system, receiving only 1 to 2 per cent of the total budget for primary and secondary education and 15.9 per cent of the resources allocated to higher education.

TVET, designated as a priority in the PRSP, is considered a cross-cutting sector because it concerns both education and employment. The ministries for employment and vocational training, basic education, secondary education and higher education all have responsibility for TVET. In 2006, these four ministries developed a sectoral strategy that is supposed to serve as a frame of reference for all of them. Other institutions are also involved: some other ministries and certain companies operate vocational training centres. The Ministry of Public Works, for example, is responsible for civil engineering schools.

There is some co-operation with the private sector in the formulation and implementation of strategies, but each private TVET institution develops its own training programmes. At institutional level, the centralisation of power prevents appropriate and timely decision-making and the development of real partnerships with towns or regions. Furthermore, technical education does not provide the qualifications required by the labour market. In the oil and mining industries in particular, the country is obliged to use foreign labour, although it is not known exactly to what extent. Owing to poor statistics collection, no precise data on such movements of people are available. It is clear, however, that Cameroon will undertake major construction projects to boost growth in 2008 and 2009. The aluminium plant will be enlarged, as will shipbuilding yards. Gas projects will be developed, along with the Lomié cobalt-nickel project, and two hydroelectric dams will be built. Many of these activities require high-level technical training and a sizeable labour force. Ultimately, it is still the informal economy that offers the most opportunities, despite the insecurity of informal employment. Informal businesses and family-owned production units offer on-the-job training to many young people. This is the most widespread and accessible method of training in Cameroon, as it does not exclude uneducated or illiterate people.

The education system has hitherto lacked the resources required to deliver high-quality education. On the contrary, the trend has been to reduce expenditure per pupil, as a result of many unanticipated factors. The diminution of resources has detracted from quality, including in secondary technical education. Vocational training in particular suffers from a structural financing

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problem. Its budgets have been reduced without an overhaul of the system, resulting in severe cuts in training institutions' operational and maintenance expenditure.

Improving quality and expanding the range of TVET provision to include new branches are now among the government's priorities. An action plan has been developed for vocational training, with reform of the rural artisan and household branches and the construction of new training centres. According to simulations carried out by the government in 2007, approximately XAF 39 billion will be needed between 2007 and 2015 to build an efficient TVET system. Financing can come from several sources: the central government budget, bilateral and multilateral aid, HIPC funds, registration fees paid by trainees and private providers' own funds. The 2007 budget for secondary education was XAF 166.7 billion, an increase of 10.9 per cent. Of this amount, XAF 4 billion was contributed by the HIPC Initiative, the Debt Reduction-Development Contract and MDRI. The higher education budget increased by 42 per cent in 2007.

Several reforms were launched in 2006 and 2007 to improve educational quality and adapt provision to the needs of the labour market. Universities have adopted the bachelor's-master's-doctorate degree system and their curricula have been revised with a view to the development of occupational skills. Vocational training streams have been introduced in all faculties. An assessment of vocational training in 2007 concluded that there was a mismatch between training and employment, as well as a lack of unity, co-ordination and co-operation within the system. It also pointed to the limited supply of continuing education, as well as a shortage of resources and capacity, infrastructure that is already obsolete and major geographical, gender and sectoral imbalances (agriculture, for example, is neglected). A reform was proposed in 2007 and ambitious national objectives were defined for the entire TVET sector. These objectives relate to intake of at least 50 per cent of students who leave the school system up to 2015 (not including those who go on to university) and the establishment of apprenticeship programmes at all levels. The TVET system must improve accessibility (to young people, women, the unemployed, the disabled) and suitability with regard to labour market requirements in the broadest sense.

Political Context

Paul Biya, who has been in power since 1982 and was re-elected in 2004, will be 78 in 2011 at the end of his second presidential term. Following parliament's adoption of bill to revise the constitution, he ratified an amendment to Cameroon's Basic Law on 15 April 2008 extending the number of sequential seven-year presidential terms beyond two. President Biya, whose RDP party holds 153 of the 180 parliamentary seats, has made public his intention to run again. Riots in February 2008 against the constitutional amendment and the rising cost of living resulted in significant loss of life (40 deaths, according to official sources) in Yaoundé and Douala.

The main political development of 2007 was the creation of Elections Cameroun (Elecam), an independent electoral oversight body. It replaces the Observatoire national des élections (ONEL), which was under the authority of the Ministry of Territorial Administration. Elecam controlled and supervised the legislative and municipal elections of 22 July 2007. The victory of the incumbent Cameroon People's Democratic Rally (RDPC) was contested by the opposition. In total, 103 appeals were lodged with Elecam after the results were published. A new vote was therefore organised in five electoral districts, relating to a total of 17 seats in Parliament. The final results gave a crushing majority to the RDPC, which won 153 seats. The various opposition parties won 27 seats, apportioned as follows: 16 for the Social Democratic Front, six for the National Union for Democracy and Progress, four for the Cameroon Democratic Union and one for the Progressive Movement.

A National Commission for Human Rights and Freedoms was created in 2004. The report published in 2007 by this monitoring body shows a certain degree of recognition for political liberties. The cancellation

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of certain results during the 2007 elections also testifies to this. Similarly, freedom of expression seems to have improved. Some 40 radio and television stations transmit freely, as do about 100 private press organisations.

The fight against corruption, however, has had mixed results. The country's ranking in the Transparency International index fell once again between 2004 and 2007, from 129th to 138th out of 180 countries. The National Commission for the Fight against Corruption started operating in 2007, with a chairperson and members appointed in the same year. An audit office was also established to monitor the financial management of government bodies. In 2006, the audits conducted by the Audit Office and tighter control by the state led to the arrest of four directors of public enterprises (the Douala port authority, the real estate company Société immobilière du Cameroun, as well as two companies operating in real estate financing and inter-community capital development funds). In 2007 these directors were sentenced to prison terms of 10 to 50 years and their assets were confiscated.

The government continued its efforts to improve transparency in 2007. Cameroon had signed up to the Extractive Industries Transparency Initiative (EITI) in 2005, and in 2007 it was one of 15 countries that succeeded in fulfilling the first four conditions laid down by the EITI, out of a total of 18. Every month, SNH publishes the oil industry figures for Cameroon on its website. Other oil companies operating in Cameroon are required to declare their revenues and the volumes produced.

The authorities have set up a sectoral technical committee on decentralisation as part of the national governance programme, which was concluded under the aegis of the United Nations Development Programme.

Social Context and Human Resources Development

Cameroon is committed to halving poverty by 2015, in accordance with the Millennium Development Goals. Poverty has certainly receded, falling from 41.4 to 37.5 per cent of the population between 2003 and 2007, but major efforts are still required. The PRSP defined the actions to be taken in three priority areas: education, health and infrastructure. Substantial financial and material resources have been allocated to them since 2003.

The health system was allocated 4.4 per cent of the central government budget in 2007, as against 4.5 per cent in 2006. Some 273 health centres and 90 stand-by lodgings for doctors were built in the first quarter of 2007. Since 2003 the pharmacy sector has benefited from XAF 1.2 billion in financing from the HIPC Initiative to improve access to medication throughout the country, and medicine prices have fallen by around 42 per cent over the period.

The HIV/AIDS prevalence rate was 5.4 per cent in 2007. More than 30 000 people were screened in mobile units during the first quarter of 2007. The number of patients receiving antiretroviral (ARV) drugs increased from 11 800 to 37 100 between July 2005 and June 2007. The cost of treatment and examinations has fallen since 2001, improving patients' access to treatment. Free ARV treatment, available since 1 May 2007, has made access universal. HIPC funds contributed XAF 2.2 billion for the Multisectoral Anti-HIV/AIDS Project.

In 2007, education obtained XAF 323.6 billion, equivalent to 15.6 per cent of the central government budget. Of this amount, XAF 39 billion was allocated to investment and used to build classrooms and workshops in the primary and secondary sectors. In higher education, lecture halls, seminar rooms, instructors' offices and student housing were constructed. The gross enrolment rate in junior secondary technical education is estimated to be between 6 and 7 per cent on average. This corresponds to a quarter of those enrolled in general education. At the senior secondary level, the enrolment rate is lower, between 3 and 4 per cent. The pupil/teacher ratio is around 43 in primary education, 12 in secondary technical, 28 in secondary general and 54 in higher education. In this bilingual country, the pass rate for

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official examinations in French-language general secondary education fell in 2006. The pass rate for examinations for junior secondary certificates dropped by 0.2 per cent, while that for the *baccalauréat* school-leaving exam fell by 9.4 percentage points, from 59.3 per cent to 49.9 per cent of secondary school students, between 2006 and 2007. In general technical education, pass rates improved in 2007.

According to official estimates, the unemployment rate in 2007 was 6.2 per cent overall, and 14.1 per cent in urban areas. The under-employment rate was 75.8 per cent, while the informal sector remained by far the largest provider of employment (90 per cent of the total). More men are unemployed or under-employed than women, while young people face unemployment levels two to three times the national average. The government began to formulate an employment policy in 2007, aiming to make it a national priority. In 2008, employment will become one of the priority areas of the revised PRSP, in accordance with one of the principal recommendations of the national conference on unemployment in 2005.

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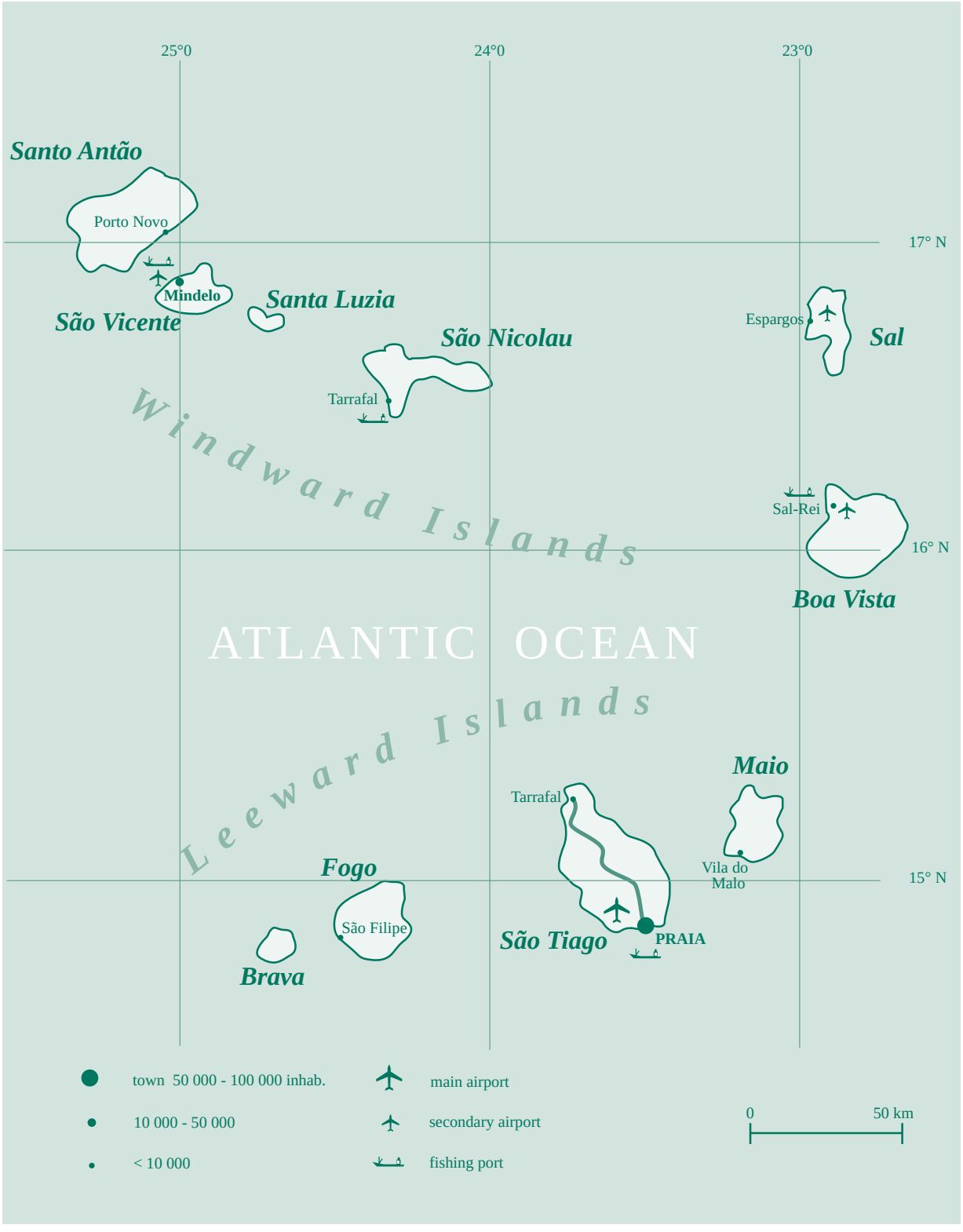
Cape Verde



key figures

• Land area, thousands of km²	4
• Population, thousands (2007)	530
• GDP per capita, USD at constant 2000 prices (2007)	1 602
• Life expectancy (2007)	60.8
• Illiteracy rate (2007)	20.6

Cape Verde


25°0
24°0
23°0
17° N
16° N
15° N
Santo Antão
Porto Novo
Mindelo
São Vicente
Santa Luzia
São Nicolau
Tarrafal
Espargos
Sal
Windward Islands
Sal-Rei
Boa Vista
ATLANTIC OCEAN
Leeward Islands
Maio
Tarrafal
Vila do Maio
Fogo
São Filipe
Brava
São Tiago
PRAIA
town 50 000 - 100 000 inhab.
10 000 - 50 000
< 10 000
main airport
secondary airport
fishing port
0
50 km

Cape Verde

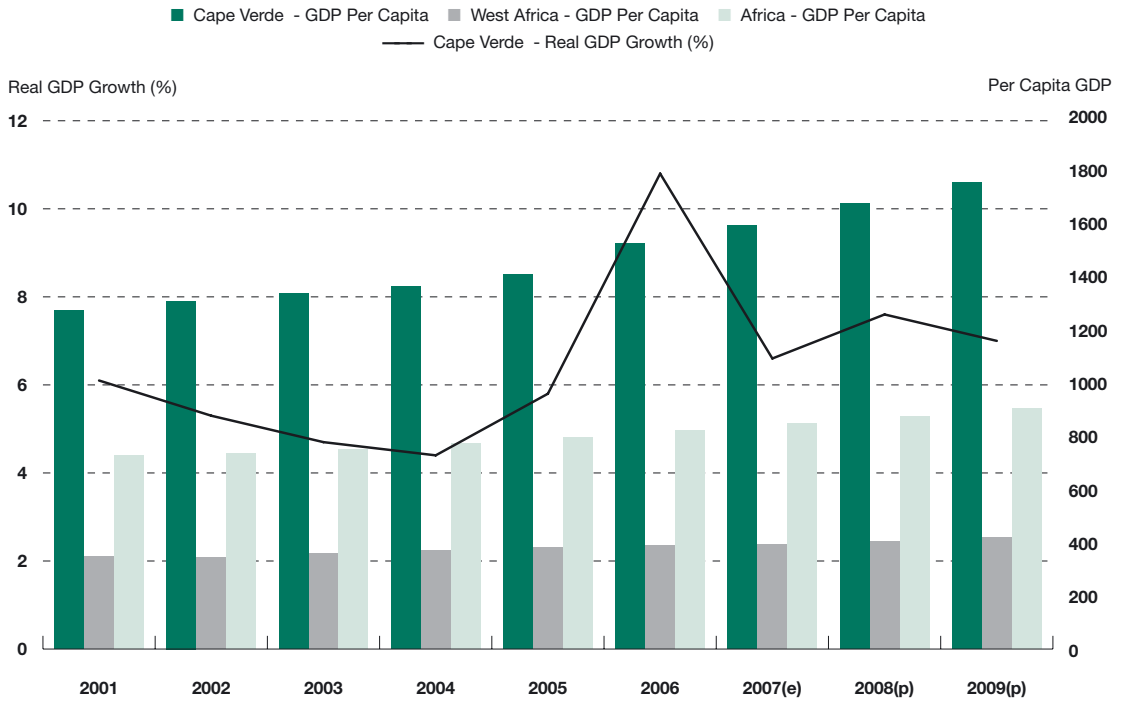
CAPE VERDE'S ECONOMY IS ESTIMATED to have grown by 6.6 per cent in 2007, down from 10.8 per cent in 2006. This strong growth reflects a relatively high rate of execution of the public investment programme (PIP) and a dynamic private sector, supported by a substantial increase in domestic credit and private investment, including large inflows of foreign direct investment (FDI). In 2008 and 2009, real GDP is expected to grow by 7.6 per cent and 7.0 per cent respectively. The annual average inflation rate fell to 4.5 per cent in 2007, from 6 per cent in 2006, and it is projected to drop further to under 3 per cent in 2008.

Cape Verde's small, open "archipelago" economy continues to outperform the average sub-Saharan real GDP growth rate. Since 2004, when the economy experienced difficulties in the agricultural sector, the growth rate has been ratcheted upward by a sound policy environment. This solid pace of GDP growth and earlier improvements in human resources development have gradually raised the country's Human Development Index and reduced absolute poverty. As a consequence of its sustained progress, Cape Verde graduated from least developed country (LDC) status in December 2007.

Growth was underpinned by FDI and sustained public investment in infrastructure.

The overall fiscal balance deteriorated slightly as a percentage of GDP in 2006 but improved markedly in 2007, leaving only a small deficit. In 2008 and 2009, the deficit is expected to remain at about the same low level. A large portion of the government's budget

Figure 1 - **Real GDP Growth and Per Capita GDP**
(USD at constant 2000 prices)



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

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continues to be covered by official development assistance (ODA), as Cape Verde enjoys one of the most generous levels of ODA per capita in Africa.

Despite this impressive progress, the country still faces enormous structural challenges: the high, largely structural unemployment rate (18.3 per cent in 2006); the persistence of a relatively high poverty rate; the need to improve delivery of services, both public and private; skill shortages; and inadequate infrastructure. Moreover, the scattering of Cape Verde's territory over ten islands and eight islets and its arid Sahelian climate pose a constant development challenge.

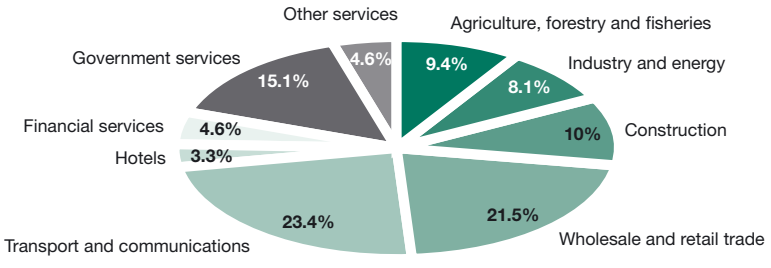
Recent Economic Developments

In 2007, real GDP exhibited growth of 6.6 per cent, as against 10.8 per cent in 2006. The decline was due in part to lower-than-expected public investment execution. The strong growth of the past several years has been mainly driven by the huge inflow of FDI, especially in hotels and other tourism-related construction. Other drivers were the continued inflow of remittances (12 per cent of GDP in 2007), which increased household incomes and private consumption; domestic investment in construction; and public investment in infrastructure, including transport and telecommunications. Support for sustained growth will be provided by the macroeconomic and structural policy measures identified in the 2006-10 Government Programme, the International Monetary Fund's Policy Support Instrument covering the 2006-09 period and the Medium-Term Expenditure Framework (MTEF) for 2008-10. The MTEF allocates public financial resources according to priorities set forth in the two Growth and Poverty Reduction Strategy Papers (GPRSPs) covering the 2005-07 and 2008-10 periods.

Owing to a third successive year of sparse and irregular rainfall, production of rainfed maize, the main staple food, is estimated to have fallen by one-third in 2007 compared to 2006, which was in turn 46 per cent below the average of the previous five years. The poor crop had little impact on overall economic growth, however, since the agricultural sector accounts for less than 10 per cent of GDP. This is largely due to the fact that less than 10 per cent of the country's land area (around 42 000 hectares) is suitable for crop production. In recent years, hydroponics and "drip and trickle" irrigation techniques have raised crop yields significantly on the 7.9 per cent of holdings where they have been applied, for example in Cape Verde's horticultural sector, which yields two harvests per year. However, the small size of farm holdings (the large majority cover less than 0.5 hectare) and the weak legal framework for protecting land property rights, including an insufficient cadastre, continue to discourage private investment.

In contrast to agriculture, the potential for expanding commercial fishing is very high, especially since the European Union lifted its ban on imports of fish from Cape Verde in 2005. Two major international fishing grounds surround the islands, which are scattered across

Figure 2 - **GDP by Sector in 2006** (percentage)



Source: Authors' estimates based on IMF and Central Statistical Office data.

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almost 630 000 square kilometres of ocean containing a wealth of seafood, mostly lobster and tuna. Fishing contributes a large portion of the country's exports, but owing to the continued use of traditional methods it accounts for only about 1 per cent of GDP.

The Cape Verdean economy is service-oriented, with commerce, transport, tourism and public services accounting for more than 74 per cent of GDP in 2006. The services sector, particularly tourism, is by far the leading growth sector and has considerable potential for further diversification. Cape Verde is improving its position as a tourist destination. Its tourist industry is expanding rapidly – by 12.7 per cent between 2000 and 2003 and by 15.6 per cent between 2004 and 2007, according to the Millennium Institute – and this growth looks set to continue. Cape Verde officials expect to reach the benchmark of 1 million tourists annually by 2015. This would mean that the sector could account for as much as 30 per cent of GDP, compared to 18.3 per cent in 2006, and employ 53 000 people.

The sector faces considerable challenges as well. The largest one is the scarcity of drinking water on this volcanic archipelago, which means that relatively expensive desalinated water will have to play an increasingly important role. The second challenge is the relatively weak linkages with local communities due to the concentration of tourism activity in large resorts. This limits spillover to local markets, since the goods consumed by tourists are largely provided by imports.

The construction sector comprises a large number of small companies involved in residential and commercial construction and several larger ones that mainly handle infrastructure projects. The sector's share of GDP increased from 7.7 per cent in 2004 to 9.3 per cent in 2006 as growth in construction led growth in the economy as a whole. Much of this growth was due to development of tourism, but a substantial share was linked to the execution of the PIP.

In 2007, economic growth was broadly based among the components of final demand. Public and private capital formation as well as imports and exports all grew faster than overall GDP, whereas total consumption grew at a much lower rate than GDP. The strong growth of the export sector mainly reflects growth in tourism receipts, whereas private consumption was bolstered by spillover effects on household income of the buoyant growth in construction and tourism. Public sector wage growth of 13 per cent per year from 2001 to 2005 has also been important in underpinning household income. Migrants' remittances have helped to sustain growth both in private consumption and in residential construction and consumer durables. Despite a nominal

Table 1 - **Demand Composition**

	Percentage of GDP (current prices)		Percentage changes, volume			Contribution to real GDP growth		
	1999	2006	2007(e)	2008(p)	2009(p)	2007(e)	2008(p)	2009(p)
Gross capital formation	**35.5**	**40.1**	**11.9**	**12.2**	**8.1**	**4.2**	**4.5**	**3.1**
Public	12.0	9.0	8.0	20.0	5.0	0.6	1.6	0.4
Private	23.5	31.1	13.0	10.0	9.0	3.6	2.9	2.7
Consumption	**103.7**	**95.1**	**4.2**	**5.4**	**4.6**	**3.9**	**5.0**	**4.1**
Public	19.9	19.7	5.6	3.7	5.7	1.0	0.7	1.0
Private	83.9	75.4	3.8	5.8	4.4	3.0	4.3	3.2
External demand	**-39.2**	**-35.2**				**-1.3**	**-1.7**	**-0.1**
Exports	20.4	19.8	19.2	16.2	14.1	3.9	3.7	3.5
Imports	-59.6	-54.9	10.4	10.4	6.7	-5.2	-5.4	-3.5
Real GDP growth						**6.8**	**7.8**	**7.2**

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

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peg to the euro, the real effective exchange rate of the escudo has depreciated, helped by low domestic inflation, which has contributed to the attractiveness of Cape Verde as a tourist destination.

Growth in government consumption is expected to fall significantly in the medium term due to wage restraint after several years of large increases. Public investment, however, is expected to increase substantially from 2007 to 2008 in order to support the rapidly developing tourism sector, although there is some risk that the PIP execution rate will again be insufficient in 2009. Growth in domestic investment has been underpinned by a drop in the cost of capital and an increase in the supply of credit to the private sector. Overall, real growth of private investment (including FDI) is expected to moderate over the next two years along with growth in tourism.

Macroeconomic Policies

Fiscal Policy

The medium-term fiscal strategy is geared towards preserving macroeconomic stability, strengthening the tax effort and prioritising public sector investment. The MTEF for 2008-10 has been approved. An integrated budgetary and financial management system (*Sistema Integrado de Gestão Orçamental e Financeira* – SIGOF) was introduced in 2004. To date, this new system has brought only a partial improvement in budget execution. From 2008, the government will be using the analytical framework of the IMF *Government Finance Statistics Manual 2001* (GFSM 2001) to present public finance statistics. The change reflects the progress made by Cape Verde in compiling both annual and sub-annual government finance statistics using the GFSM 2001 methodology.

Following the adoption of a GPRSP for 2004-07, a new budget model was adopted in 2005. The model includes an overall MTEF and a number of sectoral MTEFs for the period 2005-07 within key line ministries (education and higher education, agriculture and environment, labour, family and solidarity, and health), in order to allocate public expenditures in accordance with GPRSP priorities. A recent public expenditure review, conducted under the Country Financial Accountability Assessment and the Country Procurement Assessment Review projects, will lead to the adoption of additional measures to improve public expenditure management.

Cape Verde has improved its tax effort through tax reform and improved tax collection. Tax revenue increased from about 17 per cent of GDP in 1999 to about 23 per cent in 2006 and 2007. Total revenues were also boosted by the one-time revenues from the privatisation of nearly 30 state-owned enterprises. Cape Verde has a relatively high income tax rate (the top rate for the highest bracket is 45 per cent) and a moderate corporate tax rate (a top rate of 30 per cent). Other important sources of revenue are import duties and value added tax (VAT). In 2007, tax legislation was reformed to rationalise and streamline the use of tax incentives, exemptions, and import and consumption taxes, thereby broadening the tax base.

Grants continue to be an important source of revenue, amounting to about 6 per cent of GDP in 2006 and 2007. Grants and external loans together finance about 80 per cent of the PIP. Improved public expenditure management has increased donor confidence, leading to an increase in general budget support from 4 per cent of the total budget in 2006 to 7 per cent in 2007. A new financing mechanism has also been put in place to smooth expenditures financed from donor resources over the 2008-15 period, since there has been considerable front-loading of commitments.

Estimated total expenditure and net lending amounted to 34 per cent of GDP in 2007, down slightly from the 35.5 per cent registered in 2006. This exercise of expenditure restraint reduced the overall fiscal deficit (including grants) to an estimated 2.3 per cent of GDP in 2007, compared to 4.6 per cent in 2006.

The 2008 budget reinforces the government's commitment to fiscal discipline. It calls for a 13 per cent increase in domestic financing in comparison to

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

	1999	2004	2005	2006	2007(e)	2008(p)	2009(p)
Total revenue and grants[a]	**28.6**	**33.5**	**30.0**	**30.9**	**31.6**	**31.6**	**31.4**
Tax revenue	17.3	20.3	21.0	23.0	22.8	23.9	23.2
Grants	7.2	10.8	6.4	5.8	6.8	5.6	6.1
Total expenditure and net lending[a]	**42.1**	**38.2**	**34.0**	**35.5**	**34.0**	**34.1**	**33.7**
Current expenditure	28.6	24.4	21.4	22.7	21.4	20.3	20.2
Excluding interest	*26.3*	*21.9*	*19.2*	*20.8*	*19.8*	*18.7*	*18.6*
Wages and salaries	10.7	11.9	12.1	11.6	10.9	10.2	9.7
Interest	2.3	2.5	2.2	1.9	1.6	1.6	1.6
Capital expenditure	13.5	13.6	12.5	12.5	12.3	13.7	13.5
Primary balance	**-11.2**	**-2.2**	**-1.8**	**-2.6**	**-0.7**	**-0.9**	**-0.7**
Overall balance	**-13.6**	**-4.7**	**-4.0**	**-4.6**	**-2.3**	**-2.5**	**-2.3**

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

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2007. Revenue is expected to increase further to 31.6 per cent of GDP, thanks to improved efficiency in tax collection, notably the tripling of the amount of local tax collected in the period 2004-07. While recurrent expenditure is expected to decline in real terms, falling back to 20.3 per cent of GDP, public investment is projected to rise slightly to 13.7 per cent of GDP due to the low PIP execution rate. Some important expenditure items include the repayment of arrears as agreed with IMF, increases in transfers towards municipalities for the organisation of municipal elections in 2009 and wage adjustments to compensate for inflation.

Given Cape Verde's heavy dependence on imported oil and the public regulation of utility prices through consumption subsidies for electricity, the international oil price increase might affect the 2008 budget. Nevertheless, for the very first time, the 2008 budget aims to achieve a primary surplus of CVE 6.4 billion (Cape Verdean escudos) while increasing the share of public capital expenditures in GDP.

According to a recent IMF-World Bank debt sustainability analysis, the risk of debt distress in Cape Verde remains low. The government has undertaken to reach and then maintain a central government public debt ratio of no more than 70 per cent of GDP (72.4 per cent in 2006), while the domestic debt/GDP ratio should be stabilised at around 20 per cent of GDP by end-2008 (from over 33 per cent at end-2005). As a result, domestic debt, net of deposits but including arrears, is projected to decline from 32.7 per cent of GDP at end-2005 to 25 per cent at end-2007. As part of the government's effort to clear the payment arrears of central and local government entities, it has also arranged to pay part of its old arrears to the oil companies (Shell Oil) for past subsidies on fuel supplied to Electra, the country's monopoly electricity and water provider. The arrears will be paid in three tranches by 2009.

Monetary Policy

In 2006 and 2007, the aim of the independent Banco Central de Cabo Verde (BCV) was to enhance the credibility of the exchange rate regime, in which the escudo is pegged to the euro as an anchor for low inflation. Owing to the importance of remittances and their sensitivity to interest rate differentials, the BCV is expected to raise its main interest rate by about 0.5 per cent, in line with movements in the European Central Bank's key refinancing rate.

A law enacted in May 2002 prohibited budget deficit financing by the central bank. Moreover, for the last three years the government of Cape Verde has not had to monetise the general state budget through the BCV, mainly thanks to general budget support from donors and financing through the sale of treasury bonds with maturities extending up to 2014.

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In 2006, inflation as measured by the consumer price index accelerated to 6 per cent due to rises in food and fuel prices, after having averaged only 1 per cent from 2001 to 2005. The rise in food prices in 2006 was due to poor rainfall and higher international food prices. There were also large upward adjustments in the regulated prices of petroleum products following increases in international oil prices. In 2007, consumer price inflation fell back to 4.5 per cent – despite a slight easing of monetary policy, with the BCV lowering the reserve requirement from 15 to 14 per cent – as prices of fresh food declined and the VAT rate on some categories of consumer goods was temporarily reduced. Over the medium term, the inflation rate is expected to return to levels equal to or below those in the euro area.

External Position

After more than seven years of negotiations, Cape Verde became the 152nd member of the World Trade Organisation in December 2007. For industrial products, Cape Verde has agreed to bind tariffs at rates ranging from zero to 55 per cent. Some bindings involve reductions phased in over the period to 2018. This would result in an average upper limit of 15 per cent. For agricultural products, Cape Verde has agreed to bind tariffs at an average of about 19 per cent. Cape Verde has also made specific commitments to ease market access in ten services sectors and a wide range of sub-sectors.

Cape Verde is a member of the Economic Community of West African States (ECOWAS), which is financed by a levy of 0.5 per cent on all goods and vehicles originating from non-ECOWAS countries. Cape Verde is the ECOWAS country most affected by this levy due to its high proportion of non-ECOWAS imports, and hence is not a party to the Economic Partnership Agreement between the European Union (EU) and ECOWAS. Instead, Cape Verde opted for a "solo" solution with the aim of transforming the country into "a model of the circulation economy". In October 2007, the EU granted Cape Verde "Special Partnership Status", which will lead to growing co-operation on trade, investment, illegal immigration, the fight against organised crime and upgrading of institutions and norms.

Cape Verde's main trading partners in 2007 were Portugal, the Netherlands, France, Brazil, Spain, Italy and Sweden. Portugal is the biggest exporter to Cape Verde, accounting for almost 45 per cent of the latter's total imports in 2007, ahead of the Netherlands' 16 per cent share. In 2007, Portugal was likewise Cape Verde's main export partner, ahead of Spain, absorbing over 50 per cent of exports. Although the euro area countries will continue to be its main economic partners, Cape Verde is seeking to strengthen South-South co-operation, especially with Brazil and China, and in the medium term with South Africa, India and Nigeria.

In 2006, net ODA flows amounted to USD 138 million (12.6 per cent of gross national income), up from an average of USD 124 million over the 2001-05 period. External aid (grants and loans) is expected to increase to just above 10 per cent of GDP in 2007, after which it will fluctuate between 8 and 9 per

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

	1998	2003	2004	2005	2006(e)	2007(p)	2008(p)
Trade balance	-36.9	-41.0	-34.9	-40.9	-40.8	-41.3	-41.5
Exports of goods (f.o.b.)	4.5	6.2	8.9	8.5	6.3	5.6	5.2
Imports of goods (f.o.b.)	41.4	47.2	43.8	49.4	47.1	46.8	46.7
Services	-3.0	3.4	6.9	13.9	10.5	12.7	14.6
Factor income	-1.5	-2.0	-3.4	-4.0	-2.7	-2.8	-2.9
Current transfers	27.3	25.2	27.9	25.7	22.4	20.7	21.7
Current account balance	**-14.2**	**-14.3**	**-3.4**	**-5.3**	**-10.7**	**-10.6**	**-8.2**

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

StatLink http://dx.doi.org/10.1787/322464601581

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cent of GDP. Among the bilateral donors, the United States has provided support through the African Growth and Opportunity Act (AGOA), with little success so far. In 2007, Cape Verde was a beneficiary of funding from the Millennium Challenge Account (MCA) for the third time in four years.

The current account deficit is estimated to have widened in 2007, returning to near its historical level. The increase was due mainly to a slowdown in the growth of merchandise exports and remittances. In 2008 and 2009, the deficit is projected to fall gradually as a percentage of GDP. The structural current account deficit is associated with Cape Verde's heavy reliance on merchandise imports, which are extremely high compared to merchandise exports. Fish exports, which accounted for about 14 per cent of merchandise exports in 2006, have been expanding rapidly. Re-exports of fuel will continue to be depressed, however, owing partly to management and technical issues pertaining to two firms, Enacol and Shell, which are not stocking adequate fuel. The stable merchandise trade deficit will be partly offset by a substantial increase in the services trade surplus driven by buoyant tourism receipts. The deficit on goods and services trade is financed by FDI, foreign aid and migrant remittances from a large diaspora of around 700 000 Cape Verdeans.

Gross international reserves have grown steadily, reaching more than CVE 2.9 million at end-2007, up from CVE 2.1 million in 2006. This amounts to 3.2 months of import cover.

Although it has not liberalised the capital account, the government has encouraged FDI by simplifying the registration process (investors still have to make a declaration to the BCV on how FDI will be invested), providing a 100 per cent tax exemption on all dividends during the first five years of operation (after which the tax rate is 10 per cent), providing a tax exemption on dividends and income when reinvested, providing a tax exemption on amortisation and interest, and allowing foreign investors to purchase shares in privatised companies. This strategy has attracted nearly 109 investment projects with total capital of USD 416 million since economic reforms began in 1993. All sectors of the economy are now open to foreign investment, but 90 per cent of FDI has flowed into tourism and only a small amount into manufacturing. By June 2007, FDI (on an approvals basis) was estimated to have reached a total of some EUR 555 million. Most FDI has originated in Portugal, the United Kingdom, Italy and Spain (Canary Islands). More recently, investors from China and the United Arab Emirates have become involved in Cape Verde.

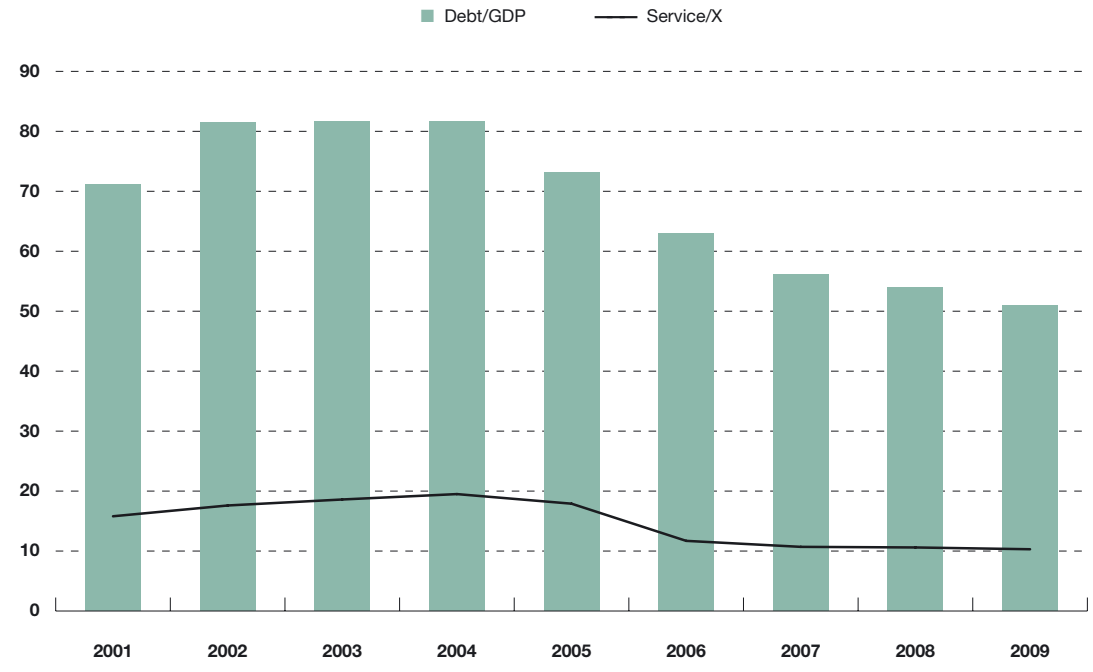
The reduction in grants and the availability of loans, albeit on concessional terms, led to a large increase in Cape Verde's total external public debt from 1997 to 2001. Following this period, the external public debt/GDP ratio decreased from 56.5 per cent of GDP in 2001 to 48 per cent in 2006. The external public debt service/exports of goods and services ratio decreased from 14.2 per cent in 2001 to 5.7 per cent in 2006. The World Bank (via the International Development Association) was the largest multilateral creditor, followed by the African Development Fund. Portugal is the main bilateral lender. Total external debt, which includes the debt of the private sector, followed a similar pattern. The external debt/GDP ratio fell from 71.2 per cent in 2001 to 63 per cent in 2006, while the debt service/export ratio fell from 15.8 per cent in 2001 to 11.7 per cent in 2006.

The country's improved creditworthiness due to the low risk of debt distress has been reflected in bond ratings. In December 2006, Fitch affirmed Cape Verde's long-term foreign currency rating of B+, first assigned on 15 August 2003, and a long-term local currency rating of BB-. The short-term foreign currency rating of B, assigned in 2003, was also affirmed.

To support Cape Verde's transition from LDC status, the United Nations has called on donors to continue assistance to the country at least until it has achieved its Millennium Development Goals (MDGs) in 2015. Cape Verde's development partners have responded favourably, although USAID and the World Food Programme have cut food aid. The Chinese government has written off 30 million yuans (CHN) (USD 3.9 million) of the country's debt. Hence, Cape Verde is expected to continue to receive one of the

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Figure 3 - **Stock of Total External Debt** (percentage of GDP) **and Debt Service** (percentage of exports of goods and services)



Source: IMF.

StatLink http://dx.doi.org/10.1787/318543673732

highest levels of net ODA per capita in the world (USD 317 per capita in 2005).

Structural Issues

Recent Developments

The privatisation programme slowed in 2006, when the government was forced to re-purchase the majority of the shares of Electra, which was facing serious financial difficulties. It is expected that Electra will be privatised again through the intermediation of a new management team. Moreover, the government has initiated the bidding process for the pharmaceuticals distributor Emprofac and the fish freezing company Interbase. In April 2007 the government completed the privatisation of the national oil distributor Enacol. Bidding for shares in the port authority (Enaport) took place in 2007. The privatisation of TACV Cabo Verde Airlines was still in progress at the end of 2007, and negotiations are under way for the privatisation of the shipbuilding firm Cabenave.

According to *Doing Business 2008*, starting a business in Cape Verde requires 12 procedures, costs 40 per cent of gross national income per capita and takes an average of 52 days. Despite efforts to streamline the cumbersome bureaucracy and increase transparency in recent years, obtaining a business licence took an additional average of 120 days in 2007, and closing a business is also difficult. Cape Verde was ranked 132nd overall out of 178 countries covered. However, the government has taken steps to establish an online portal (*porton di nos ilhas*) and one-stop shop (*casa do cidadão*) in order to reduce the time required for company registration.

One of the main priorities in the transport sector area is to transform Cape Verde into a shipping support platform and a regional air transportation hub. MCA-funded improvements in the Port of Praia on Santiago,

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combined with the concurrent privatisation of port services, are expected to raise the efficiency of shipping services considerably. There are seven operational airports, three of which are international and four national. One of the latter is being converted to accept long-haul aircraft at São Pedro on São Vicente, with completion scheduled for 2008.

The government recognises that cost recovery is important for the financial viability of energy and water utilities. A comprehensive overhaul of energy and water pricing is under way, including the implementation of an automatic mechanism to adjust electricity and water tariffs in response to changes in the cost of imported petroleum products. This is expected to depoliticise price setting and reduce pressure on the budget.

The government's energy policy is directed in part at promoting conservation and alternative energy sources to reduce the country's dependence on oil imports. In August 2007, the government signed an agreement with the British multinational InfraCo and Electra to construct four wind farms in 2008 on the islands of Santiago, São Vicente, Sal and Boa Vista. The project, whose estimated cost is USD 25-30 million, is expected to provide one-quarter of the archipelago's energy needs by 2011. The Cape Verdean Ministry of Energy is also considering a proposal from Russia's state-owned nuclear power monopoly, Rosenergoatom, to construct an offshore nuclear power plant which would be operated by Russian technicians and would sell electricity to Cape Verde. The International Atomic Energy Agency has been asked to come and undertake a technical review first.

Cape Verde has not yet managed to provide safe drinking water and sanitation to the entire population. At present, 86 per cent of the urban and 73 per cent of the rural population have access to drinkable water, while only 61 per cent of the urban and 19 per cent of the rural population have access to sanitation.

In 2005, 54.9 per cent of the population had access to a land phone line, 36.2 per cent had access to a cellular phone and 3.6 per cent had computers with an internet connection. The 2005 National Initiative for Internet, Accessibility and Broadband set a new course for the country's information and communication technology (ICT) policy. The telecom sector was completely liberalised by the end of 2007, and a strong regulator for telecommunications, broadcasting and internet has been created.

The banking system is generally sound and well regulated, but it is highly concentrated, with the two largest banks controlling 89 per cent of banking assets. Banking reform initiated in the 1990s led to privatisation of the two largest commercial banks: Banco Comercial do Atlântico, majority-owned by a Portuguese bank, and Caixa Económica de Cabo Verde, owned by another Portuguese bank (both privatised in 1999-2000). The government remains active in the banking sector through a savings institution, Fundo de Solidariedade Nacional, which channels public investment, while the Instituto Caboverdiano de Solidariedade is responsible for international aid.

The rapidly developing offshore banking sector in Cape Verde now has five operational banks; four other banks and two non-bank financial institutions have been licensed but are not yet operational. Although the offshore banks are subject to a lower reserve requirement, they are also in direct competition with onshore banks. Reforms to the regulatory and legislative framework are under way with a view to protecting lenders and strengthening banks' capacity to provide project-based lending. Other reforms in the financial sector aim to improve credit risk management, increase competition in the financial market and expand access to credit for small and medium-sized enterprises (SMEs). Since commercial banks do not provide finance to SMEs, owing among other things to the high collateral demanded and high transaction costs, the government is currently exploring a new concept that would allow SMEs to be listed on the stock exchange to raise funds.

The tiny Cape Verde stock exchange, Bolsa de Valores de Cabo Verde (BVC), which started operating in December 2005, uses the electronic trading platform Euronext, allows trading in 44 treasury bonds and four corporate equities, and plans to allow corporate bond issuance by the end of 2007. Demand has exceeded the

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supply of shares and bonds several times over. The shares of Enacol, which were listed only in May 2007, were the most sought-after on Cape Verde's stock exchange in 2007, driving the exchange's market capitalisation to rise three-fold with respect to 2006. At the end of 2007, Enacol had the highest share price on the stock exchange and the highest market capitalisation (CVE 7 billion).

Supervision and regulation are managed by the BCV. In 2006 and 2007, through adherence to the Basel II framework, the institutional capacity of the BCV to supervise individual banks and their compliance with prudential regulations was strengthened; formal information-sharing agreements were signed with home country supervisors of subsidiaries and branches established in Cape Verde; the legislative and regulatory frameworks pertaining to international financial institutions were reviewed and modified; and legislation to combat money laundering and financing of terrorism was strengthened.

Technical and Vocational Skills Development

Technical and vocational education and training (TVET) is not well developed in Cape Verde. In 8th and 9th grade, pupils receive some orientation towards technical subjects at schools as well as at urban youth centres. At the lower secondary school level (International Standard Classification of Education [ISCED] level 2), however, there are no technical or vocational programmes. At the upper secondary level (ISCED 3), only 7 per cent of the 24 930 students enrolled in all programmes were enrolled in TVET programmes (9 per cent of male students and 6 per cent of females). The TVET entrance age in Cape Verde is 14 years and programmes last for four years.

Amongst the 2 215 students enrolled at the tertiary (ISCED 5 and 6) level in Cape Verde, there are no TVET programmes (ISCED 5B). The private sector in Cape Verde sees this as a failure of the TVET policy to take into account the skills demand of the labour market. In the hotel industry, for example, there is a great demand for qualified ISCED 5-6 hotel staff, especially at the managerial level.

In July 2001, Cape Verde signed a memorandum of understanding with the sponsors of Education for All in Cape Verde – including the Food and Agriculture Organisation, United Nations Educational, Cultural and Scientific Organisation (UNESCO), United Nations Development Programme, United Nations Children's Fund (UNICEF), United Nations Population Fund, World Bank and World Health Organisation – to prepare the National Plan of Action on Education for All. In 2002, a UNESCO mission assisted the Cape Verde government in drafting a project to develop secondary education. In 2003, a funding framework for TVET was put in place, but implementing legislation was enacted only in 2007.

Of the three institutions in Cape Verde specialising in TVET, two are located in Santiago and one in São Vicente. A Brazilian provider started operations at the end of 2007. These TVET institutions are specialised in mechanics, ICT, commerce, etc. As part of Cape Verde's TVET strategy, an observatory for employment and training will be introduced as a planning tool, and five employment service centres have been created to collect job offers. The new centres will also train master trainers and provide self-employment and entrepreneurship classes. In December 2005 an institutional framework for TVET was promulgated, which covers the following: certification, teacher qualification, TVET centre status, financing of TVET and accreditation of TVET.

The government expects FDI-funded projects to create at least 15 000 new jobs in the construction, transport, hotel and tourism sectors. Moreover, rapid private sector growth has generated a need for skilled professionals, including those with the skills needed to manage SMEs. The government has acknowledged that the current effort at private sector development is insufficient in terms of providing services such as business development services, financing and vocational training targeted to SMEs as well as micro and small informal enterprises. The government is working on creating a new agency in 2008, based on existing agencies, that will focus exclusively on private sector development and entrepreneurial development. In addition, the Ministry of Economy, Growth and

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Competitiveness is considering plans to initiate a National Council for Private Sector Development as a focal point for public-private dialogue.

Nevertheless, there is still a major mismatch between the skills needs of the labour market and the qualifications of those completing their education. In the 2006 report on GPRSP implementation at the secondary level, emphasis was given to, among other things, strengthening teacher qualifications, infrastructure development, curriculum review, equipping of schools, revitalisation of vocational schooling and its integration into the vocational training system, educational and vocational guidance in co-operation with employment centres, support for the private sector in developing secondary-level programmes, and a more participatory approach to the management of secondary schools.

The lack of adequate finance is a serious impediment to further improvements in TVET. Efforts are under way to regulate the vocational training system, in particular with regard to financing (public, private, and trainees), and to address regional asymmetries by building new infrastructure and taking advantage of local synergies. These efforts are hampered by financial constraints. In order to expand TVET programmes, the 2008 budget provides for CVE 500 million in the forms of grants and loans for vocational training. In addition, some 160 ongoing educational activities in Cape Verde are receiving funding from external sources, according to the Aid Development Gateway. The principal donors in the education sector are Portugal, Luxembourg, Spain, Germany and UNICEF.

In 1995, École Secondaire Polyvalente "Cesaltina Ramos", a UNESCO-UNEVOC (International Project on Technical and Vocational Education) centre, was founded with financial support from the European Commission. This secondary technical school offers programmes with a heavy emphasis on technology in the service and commerce branches, construction, electrotechnics and electronics. Its two-year programmes enable graduates to enrol in higher education or to enter the labour market directly after completing the programme. In 2004, Luxembourg's development agency provided the Ministry of Education with EUR 3 460 000 to strengthen national vocational training. More recently, in May 2006, the same agency provided EUR 5 485 000 to initiate a project to establish a hotel and tourism school.

In February 2007, Cape Verde opened its first specialised vocational training centre for the construction sector, a project supported by Brazilian aid. The project involves a total investment of USD 1 million, 90 per cent financed by the Brazilian Co-operation Agency and the remainder by the Cape Verdean government. The training centre aims to train instructors who will then pass on their knowledge to others all over the archipelago. Initially, the centre will offer training in mechanics, metalworking, soldering, plumbing and electricity.

Political Context

Cape Verde continues to enjoy one of Africa's most stable democratic systems. The Movimento para a Democracia (MPD) governed the country from the end of the single-party system in 1991 until the elections of January 2001, when disenchantment with the government's privatisation programme, continued high unemployment and widespread poverty contributed to its defeat at the hands of the former single party, Partido Africano da Independência de Cabo Verde (PAICV). In January 2006, Cape Verde held another successful round of parliamentary elections with the PAICV regaining power. In the same year, incumbent President Pedro Verona Pires was re-elected. However, the leading parliamentary opposition party filed suit in an attempt to overrule the National Electoral Commission (NEC) on the grounds of alleged fraud. Although the NEC and the Supreme Court of Justice declared the legislative and presidential elections generally free and fair, they also recognised that there were some irregularities in both elections. The NEC noted that the electoral code needed to be amended to provide greater security and transparency. It also cited a need for stricter, more consistent voter identification and registration processes and the adoption of indelible ink on ballots.

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Cape Verde has made substantial progress in preventing the re-emergence of corruption. For example, the 2007 Corruption Perception Index of Transparency International ranks Cape Verde as the third least corrupt African country, after Botswana and South Africa. Nevertheless, corruption and lack of transparency are still perceived as serious challenges. One response has been to strengthen SIGOF and the Court of Auditors through the new Law on the Organisation and Operation of the Court of Auditors.

Social Context and Human Resources Development

According to the first 2006 MDG progress report, the country is on track to achieve the MDGs. Nevertheless, the Household Income and Expenditure Survey conducted in 2001-02 by the National Institute of Statistics (INE) estimated the proportion of the population living below the national poverty threshold at 37 per cent, with most of the poor living in rural areas (62 per cent), and the proportion in absolute poverty at 20 per cent (extreme poverty in Cape Verde is defined by the INE in terms of households with annual income of less than 40 per cent of median annual household income). The incidence of absolute poverty among women heads of household, estimated at 53 per cent, was considerably higher than the average. In 2006, the relative poverty (perception of one's own poverty) perception rate was estimated at 78 per cent. Furthermore, the economic growth in the last decade has resulted in increased inequality in income distribution, as indicated by the rise of the Gini coefficient from 0.51 at the end of the 1980s to 0.57 in 2002.

With a view to promoting balanced and equitable economic growth and halving the number of people living in extreme poverty by 2015 (MDG 1), the government prepared the GPRSP for the period 2005-07 together with a set of attached strategic documents. Since independence in 1975, food aid (i.e. food-for-work) has been sold at local market prices. The revenues generated are deposited in a fund used to finance labour-based public works programmes for road building and soil conservation.

The labour market operates under restrictive employment regulations, which together with relatively high salaries has led to a structurally high unemployment rate (24.4 per cent in 2005). According to the INE, the unemployment rate fell to 18.3 per cent in 2006, due to an increase in labour demand associated with the rapid economic growth in labour-intensive sectors. The national unemployment rate masks wide geographical variations across the islands. To overcome the lack of opportunity in Cape Verde, the poor still turn to migration and the informal sector. It is estimated that informal employment accounts for about 40 per cent of total employment.

The extremely high literacy rate of 79 per cent in 2007 is the direct result of 32 years of sustained investment in education, amounting to 20.4 per cent of the budget between 2004 and 2006. Although the situation varies considerably from one municipality to another, the outcome of this human capital investment strategy is a net enrolment rate of about 96 per cent at the national level. Primary education is free, universal (98 per cent net enrolment) and compulsory until age 11 (MDG 2); 83 per cent of primary school pupils finish without repeating and only 2.7 per cent drop out.

Since 1980, however, the quality of education has gradually decreased, mainly as a result of an insufficient number of qualified teachers. The decline is also partly due to a lack of educational planning and professional management and to a failure to evaluate student performance at the end of basic education. The enrolment rate in secondary school for all children aged 12-17 years is a commendable 70 per cent (77 per cent for girls and 75 per cent for boys). An ICT education policy is focusing on the use of radio to provide support for teachers and to enrich content for students.

UNICEF reports that many girls drop out of secondary school due to sexual abuse and teenage pregnancy. Nevertheless, substantial progress is being made in reducing gender inequality, with women becoming increasingly empowered and their rights formally established. The country is expected to achieve MDG 3 (promote gender equality and empower women) before 2015.

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In the health sector, efforts are being made to step up the campaign against non-contagious diseases; to control tuberculosis, HIV/AIDS and malaria; and to improve reproductive and child health. Cape Verde is expected to achieve the health-related MDGs in all municipalities before 2015, and these goals have already been achieved at the national level. As regards access to health services, Cape Verde has reached a national rate of 74 per cent, while in urban areas the rate is 85 per cent. There has been an evident improvement in public health, reflected in lower rates of maternal and under-five mortality (MDG 4) and a marked increase in life expectancy at birth. In contrast, performance on other health-related indicators has deteriorated in recent years. For example, the incidence of some highly contagious diseases such as HIV/AIDS and tuberculosis (MDG 5) has increased. According to UNAIDS' *2006 Report on the Global AIDS Epidemic*, the HIV prevalence rate in Cape Verde is around 0.8 per cent.

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Chad



key figures

• Land area, thousands of km²	1 284
• Population, thousands (2007)	10 781
• GDP per capita, USD at constant 2000 prices (2007)	256
• Life expectancy (2007)	50.7
• Illiteracy rate (2007)	46.3

Chad


town > l million inhabitants
500 000 - 1 000 000
100 000 - 500 000
< 100 000
major road
secondary road
railway
track
main airport
secondary airport
commercial port
petroleum port
fishing port
LIBYA
NIGER
NIGERIA
CAMEROON
CENTRAL AFRICAN REPUBLIC
SUDAN
Aozou
Bardaï
Faya
Fada
N'Galafo
Mao
Bol
LAKE CHAD
Moussoro
Abéché
Ati
Yao
El Fasher
N'DJAMENA
Chari
Melfi
Am Timan
Bongor
Logone
Léré
Pala
Bahr Salamat
Sarh
Doba
Moundou
Chari
Oléoduc
Goré
Baïbokoum
Kribi
Bangui
0
200 km

Chad

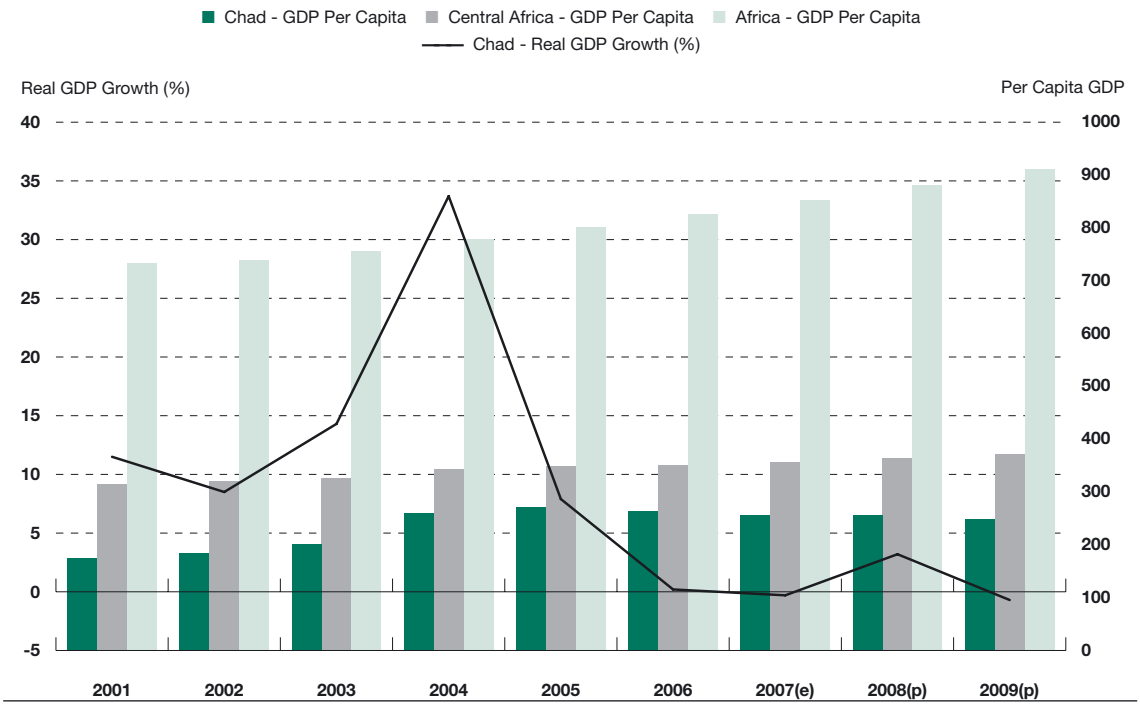
AFTER STAGNATING FOR MOST of 2006, Chad's economy shrank 0.3 per cent in 2007 as activity in the oil sector declined. This was despite relatively good non-oil sector results, mainly due to a healthy performance by government services and its positive effects on the activities of non-oil branches. The oil sector contracted because of a fall in output, even though substantial investment was made to deal with premature water flooding in wells and a new oil field (Maikeri) came into production in the second half of 2007.

Government finances fell far short of predictions chiefly because of the demands of the security situation. Major distortions in spending are still a risk in military matters, for wages and salaries, and for investment.

Average inflation was 8 per cent in 2006. It is expected to drop to around 3 per cent in the next few years (in line with the Economic and Monetary Community of Central Africa – CEMAC – convergence criterion) as road improvements open up production areas and import prices rise only moderately (with the exception of construction materials) due to strong competition.

Growth was underpinned by FDI and sustained public investment in infrastructure.

Figure 1 - **Real GDP Growth and Per Capita GDP**
(USD at constant 2000 prices)



Source: IMF and the National Institute of Statistics and Economic and Demographic Surveys (Inseed) data; estimates (e) and projections (p) based on author's calculations.

StatLink http://dx.doi.org/10.1787/317088203811

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Recent Economic Developments

Primary-sector growth in 2006 nearly stagnated, at 0.2 per cent due to a fall in oil production (3.6 per cent), which was barely offset by healthy growth in other sub-sectors. Cereals output was up 7.2 per cent (to an estimated 1 991 122 tonnes) in 2006/07 compared with the previous harvest.

Production of cereals, vegetables and tubers is expected to fall in 2007/08 after two rather good harvests in 2005/06 and 2006/07, resulting in a 3.7 per cent drop in food-crop output in 2007. The national statistics institute, Inseed, nonetheless forecasts that easier access to inputs, better yields and increased mechanisation, which are priorities of the second national poverty reduction plan, SNRP-2 (which was revised in November 2007), will diversify food-crop agriculture (especially fruit and vegetables) and production will increase in 2008 (4.0 per cent), 2009 (4.4 per cent) and 2010 (5.5 per cent).

In agro-industry, cotton-fibre output is expected to be hit by a 45 per cent drop in the 2006/07 cotton-seed harvest (to 98 000 tonnes from 180 000 tonnes in the previous one) due to delayed productivity loans, which prevented fertiliser being applied in time, reducing the cultivated area and causing diversion of fertiliser to food crops.

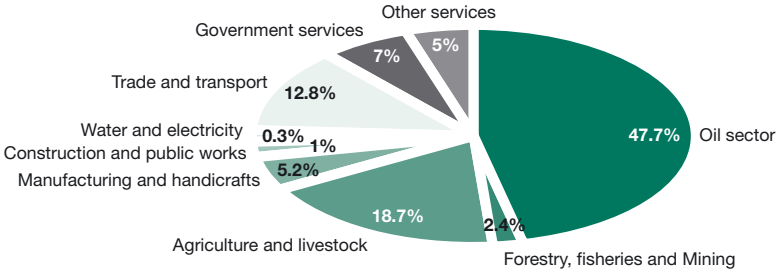
If Cotonchad's predictions of a 2007/08 rise in cotton-seed production to 140 000 tonnes are right, agro-industry will grow 26.3 per cent in 2007. Late arrival of inputs and overdue payments for the previous harvest may however reduce this, so production is expected to be 100 000 tonnes.

The government wants to be more involved in the sector and Inseed estimates cotton production will be 150 000 tonnes in the 2008/09 harvest and rise by an annual average 6.3 per cent over the next few years. Sugar-cane production should also continue to grow soundly, at a yearly 6.7 per cent average.

Livestock production is expected to increase 2.8 per cent in 2007. The forestry, fishing and mining sector (dominated by mining) will probably be boosted by construction-industry demand. Oil production was expected to continue falling in 2007 (by 4.8 per cent) despite investment to cope with water in wells and the opening of a new oil field (Maikeri) in the second half of 2007. Daily output is predicted at 152 000 barrels for 2008 (up 2.6 per cent from 149 000 in 2007), but a sharp drop is expected in 2009 (-13.1 per cent) and 2010 (-5.5 per cent). This will produce real oil-sector growth of 1.6 per cent in 2008 and declines of 13.7 per cent in 2009 and 7.4 per cent in 2010.

The secondary sector shrank sizeably (8.8 per cent) in 2007, after big jumps in 2005 (17 per cent) and 2006 (14.5 per cent). It should grow 3.7 per cent in 2008 and 3.3 per cent in 2009. The recovery is expected to be driven by cotton-fibre processing, water, electricity and handicrafts. Bakery, milling and handicrafts continues to benefit from good cereals production and

Figure 2 - **GDP by Sector in 2006** (percentage)



Source: Authors' estimates based on Inseed data.

StatLink http://dx.doi.org/10.1787/318188850683

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Table 1 - **Demand Composition**

	Percentage of GDP (current prices)		Percentage changes, volume			Contribution to real GDP growth		
	1999	2006	2007(e)	2008(p)	2009(p)	2007(e)	2008(p)	2009(p)
Gross capital formation	**10.6**	**15.6**	**10.0**	**7.4**	**7.4**	**1.9**	**1.5**	**1.6**
Public	9.8	3.0	6.0	4.8	4.8	0.2	0.2	0.2
Private	0.8	12.5	11.0	8.0	8.0	1.7	1.3	1.4
Consumption	**111.0**	**49.5**	**3.7**	**3.2**	**4.1**	**1.9**	**1.7**	**2.2**
Public	44.6	23.3	3.2	4.5	4.5	0.7	1.0	1.0
Private	66.4	26.2	4.0	2.3	3.9	1.2	0.7	1.2
External demand	**-21.6**	**34.9**				**-4.1**	**-0.1**	**-4.5**
Exports	18.3	57.0	-2.2	3.7	-4.2	-1.2	2.0	-2.3
Imports	-39.9	-22.1	10.6	7.2	7.1	-2.8	-2.2	-2.2
Real GDP growth, volume						**-0.3**	**3.2**	**-0.7**

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

StatLink http://dx.doi.org/10.1787/321410405801

should grow 7.3 per cent in 2007 (down from 16.4 per cent in 2006).

The energy sector, which shrank 0.4 per cent in 2006, recovered in 2007 with the inauguration of a new power station at Farcha, boosting the capacity of the state power firm, the Société tchadienne d'eau et d'électricité (STEE), which got a higher government deficit subsidy, help from development partners and guaranteed diesel supply for its plants. Inseed predicts 13.2 per cent energy growth for 2007. Household consumption should increase with exemption of the value added tax (VAT) on water and electricity.

The construction sector declined 1 per cent in 2006 due to budget delays but is expected to expand 22.6 per cent in 2007 with substantial domestic investment in basic infrastructure (roads, schools, universities, health facilities, etc.). It should contribute 0.4 points to overall growth in 2007 and its performance then match a steady fall in government investment, expected to decline gradually to 5.2 per cent in 2010.

Tertiary sector expansion is expected to soar from the 5.7 per cent of 2006 to 17.5 per cent in 2007 with much greater efficiency of government services due to increased spending, but this figure will probably ease to 6 per cent in 2008 and 5.8 per cent in 2009 due to a general sector slowdown, including transport and telecommunications, which is expected to decline by 0.4 per cent in 2007 and then grow 3.4 per cent in 2008 and 2.2 per cent in 2009.

Mobile-phone subscribers rose from some 26 000 in 2000 to about 500 000 in 2006 (6.3 per cent of the population), while the number of fixed lines (13 000 operational, or 0.2 lines for every 100 inhabitants) has hardly changed and remains well below the African average of 5 per 100 inhabitants. A rural phone project has installed VSAT antennae in 15 secondary towns. Telecoms access should also grow with the laying of a 1 200-kilometre 2.5 gigaoctet / second fibre-optic cable along the country's oil pipeline as part of the national oil project. Chad has fewer than 300 public-phone booths and not many call centres. Internet access is through Sotel Chad's Tawali and the mobile-phone operator Tigo, but is expensive.

On the demand side, real growth of final consumption should grow to 3.7 per cent in 2007, 3.2 per cent in 2008 and 4.1 per cent in 2009. Gross capital formation rose 10.0 per cent in 2007 but is expected to fall in 2008 and 2009 due to political uncertainty.

The growth of demand should be modest between 2008 and 2010. Final non-market consumption will

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be hit in 2008 by the expected 2007/08 drop in food-crop production before recovering to increase 3.8 per cent per year in 2009 and 2010, in step with cereals production. Final consumption of market goods, however, boosted by improved purchasing power due to only moderate inflation, should grow a yearly 3.7 per cent average during the same period.

Exports are predicted to fall 2.2 per cent in 2007, increase in 2008 and then drop again in 2009 with a fall in production from the Doba oil field and reduced cotton-fibre exports. Imports should follow increased investment, mainly in the oil and public sectors, and rise 10.6 per cent in real terms in 2007 and 7.2 per cent in 2008.

Macroeconomic Policies

Fiscal Policy

Late presentation of the 2006 budget resulted in a low rate of implementation, especially in investment, which depressed construction and domestic trade.

Budget policy in 2007 was still based on the need for a medium-term economic and social-development strategy within the framework of the SNRP, which focuses on strengthening government finances through the public finances modernisation action plan (PAMFIP) and on medium-term macroeconomic security tied to the creation of a stabilisation fund to manage oil resources temporarily. On the social side, the budget aims to increase purchasing power and the standard of living, with social protection for the most vulnerable (women and children) as a priority.

Budget revenue at the end of May 2007 had reached 46 per cent of the year's target. The steady fall in the US dollar may undermine oil revenue. Tax revenue is expected to fall 1.02 per cent in 2007, with an increase in 2008, though this will depend on the uncertain political situation.

The government's domestically generated revenue is expected to fall, due to lower oil receipts, which are expected to drop significantly by 2010. Enterprise tax from the oil consortium (which is most of this revenue and was three-quarters of it in 2007) will only be 37 per cent, or only just above one-third, in 2010. Oil revenue will be 17.0 per cent of GDP in 2007, then 8.4 per cent (2008), 7.8 per cent (2009) and 5.0 per cent (2010). The reasons for this are: *i)* reduced output, *ii)* the fall of the US dollar against the euro, *iii)* the sharp drop in price of Doba Blend against Brent Crude and *iv)* heavy, but careless investments in recent years. Non-oil revenue should steadily increase, from 8.2 per cent of non-oil GDP in 2007 to 9.0 per cent in 2009/10.

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

	1999	2004	2005	2006	2007(e)	2008(p)	2009(p)
Total revenue and grants	**11.3**	**15.4**	**12.8**	**19.5**	**19.3**	**21.1**	**20.0**
Tax revenue	7,2	5,1	4,4	4,2	4,4	4,3	4,6
Oil revenue	1,1	4,6	4,9	13,0	12,5	13,5	12,2
Total expenditure and net lending[a]	**16.9**	**17.7**	**13.9**	**17.5**	**18.0**	**18.0**	**19.5**
Current expenditure	9.0	6.0	6.9	11.1	11.6	11.4	12.3
Excluding interest	*8.2*	*5.5*	*6.5*	*10.7*	*11.1*	*10.9*	*11.8*
Wages and salaries	3.5	2.6	2.4	2.3	2.5	2.4	2.6
Interest	0.9	0.5	0.3	0.4	0.5	0.5	0.5
Capital expenditure	7.8	11.7	7.0	6.4	6.9	6.7	7.2
Primary balance	**-4.7**	**-1.8**	**-0.8**	**2.4**	**1.3**	**3.5**	**1.0**
Overall balance	**-5.5**	**-2.3**	**-1.1**	**2.0**	**0.8**	**3.1**	**0.6**

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

StatLink http://dx.doi.org/10.1787/322245857214

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Government finances have also deteriorated because of failure to curb expenditure, with a great increase in extra-budgetary military spending in 2007 because of continuing pressure from the security situation. Public spending rose 6.3 per cent in 2007 and a predicted drop in 2008 may not happen because of the security crisis.

The primary non-oil balance should improve in 2007 and 2008, but the recent upsurge of violence in the country, during which rebels entered the capital, may cause an unprecedented increase in security spending. Increases in the first half of 2007 exposed the lack of proper budgetary control, which the government is trying to correct through the PAMFIP. Refusal by the International Monetary Fund (IMF) to approve this budgetary performance in its review of the IMF-backed economic and financial programme has prevented Chad from reaching the completion point under the Heavily Indebted Poor Countries (HIPC) Initiative.

Monetary Policy

Fiscal policy is run at regional level by the Bank of Central African States (BEAC), whose priorities are controlling inflation and keeping the CFA franc pegged to the euro. Inflation in 2005 and 2006 well exceeded the 3 per cent limit in CEMAC's convergence criteria. According to the BEAC, it should be held at 4 per cent in 2007, down from 8.1 per cent in 2006, as food prices dropped because of the good 2006/07 harvest and lower energy prices.

Monetary and loan targets for 2007 were set in line with resumption of ties with the international financial community after the break in 2006 with the Bretton Woods institutions. The main goals for 2007 include XAF 20 000 million (CFA Francs BEAC) in the last quarter for refinancing, between 92.2 and 94.2 per cent external coverage, a 30.3-to-32.3 per cent increase in loans to the economy and a 7.9-to-9.9 per cent rise in the money supply. This will boost loans to the economy by 31.3 per cent, driven by a higher value of exports of cotton and livestock, revival of the government investment programme, and growth of the agro-food industry and the tertiary sector. The money supply should increase 8.9 per cent in 2007. The refinancing aim in 2008 is for XAF 20 000 million in the first quarter.

External Position

The country's foreign trade has depended on the oil sector since the start of the Doba oil project. Imports, mostly equipment, have been in step with the level of oil investment, while exports have matched fluctuations in exports of Doba crude. This undermined the trade balance during the investment phase (a deficit in 2003 that was nearly 8.4 per cent of GDP) and improved it when exports began (a surplus in 2007 that was 30.0 per cent of GDP).

The value of oil exports will drop because of the decline in the price of Brent Crude, that of the exchange rate and, naturally, the lesser amounts of oil sold. They were only 38 per cent of GDP in 2007 (and are expected to fall to 26 per cent in 2010), down from 50 per cent in 2006. The decrease in cotton and oil production will probably reduce total exports in 2007 but they should recover in 2008 as both rise again.

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

	1999	2004	2005	2006	2007(e)	2008(p)	2009(p)
Trade balance	-1.4	28.0	37.5	33.3	30.0	33.2	27.4
Exports of good (f.o.b.)	15.9	49.6	53.6	54.1	52.7	54.7	51.0
Imports of goods f.o.b.)	17.2	21.6	16.2	20.8	22.7	22.6	24.7
Services	-11.6	-36.8	-30.6	-27.2	-27.6	-23.6	-15.8
Factor income	-1.0	-13.3	-9.9	-18.2	-17.1	-22.0	-19.3
Current transfers	2.7	5.0	5.4	4.5	3.8	2.6	2.5
Current account balance	**-11.3**	**-17.1**	**2.4**	**-7.6**	**-10.8**	**-10.8**	**-6.2**

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

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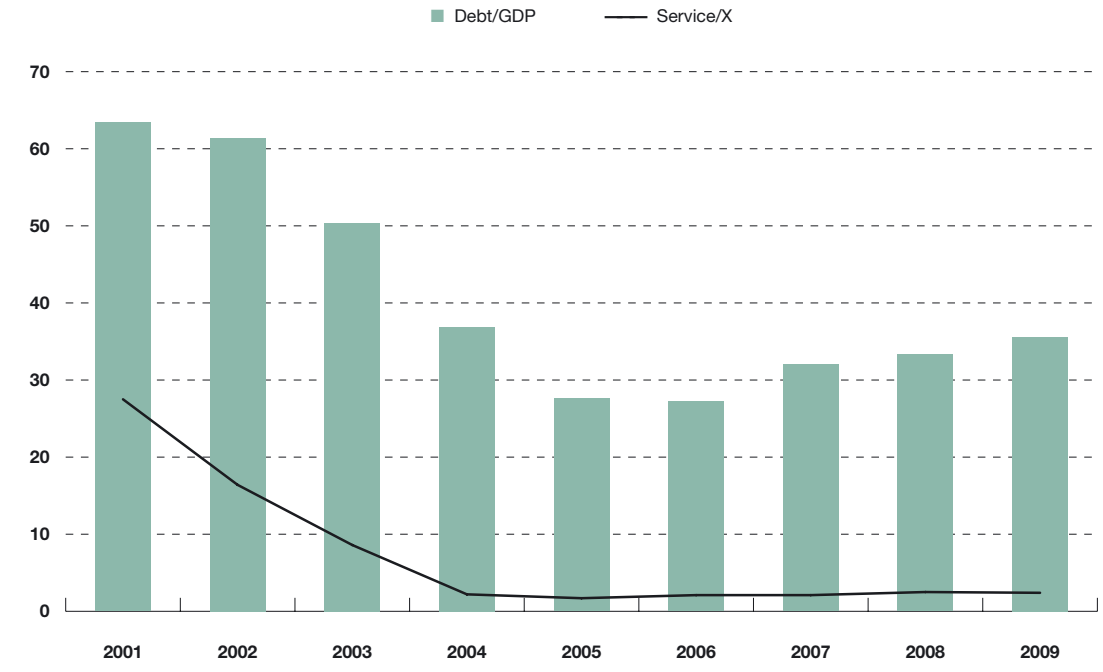
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Goods and services imports, which are also in step with oil investments, may increase by 10.6 per cent in 2007 as a result of higher investment in the public sector..

Regarding Chad's relations with the international financial community, the World Bank had nine projects worth USD 306 million underway in the country on 1 August 2007. The bank has approved 58 projects in all, worth USD 1.1 billion. The European Union (EU) has signed a EUR 273 million aid programme for 2000-07 as part of the 9th European Development Fund.

Chad has a cautious external-debt policy and most of the loans it gets are on very soft terms, but the break in relations with the World Bank between November 2005 and July 2006 means it has not yet reached the HIPC completion point.

Figure 3 - **Stock of Total External Debt** (percentage of GDP) **and Debt Service** (percentage of exports of goods and services)



Source: IMF.

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Structural Issues

Recent Developments

Reforms have so far shown mixed results. Those in government services have mainly involved institutional and organisational inspections, and 14 ministries had been audited by 2007.

Some progress has been made in decentralisation, but although many texts have been issued on the subject, devolved management is still being delayed and local elections have been postponed several times.

The government has gradually introduced a medium-term expenditure framework to streamline inter-sectoral budget decisions. Multi-year sector allocations based on forecasts of adequate funding should lead to more realistic and rigorous programme budgets. Computerisation of the spending channels should speed up the drafting of detailed financial projections and of budget implementation reports. Nonetheless, the effectiveness of this reform could be undermined because the system is fragmented and several key financial services are not yet linked to it. The shortcomings of the system partially explain the recurrent Treasury squeezes. A very important step was

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the decision to increase the total budget share of poverty-reduction priority sectors and to allocate 70 per cent of budget appropriations to education, health, infrastructure, rural development and governance in the supplementary estimates of July 2006 and in the 2007 budget. Though these priority ministries found it difficult to use up their allocations, their share of total budget expenditure had steadily increased up until 2005. In 2006 and 2007, this trend was interrupted as defence and security problems began to weigh on the budget: funding of the priority sectors fell from 63 per cent of the 2005 budget to 56 per cent in 2006, before rising again in 2007, to 65 per cent.

The PAMFIP, funded jointly by the Chadian government and the EU, began operating in January 2007 (with a co-ordinating team of a dozen persons) to make management of public finances more organised and effective.

Reform of the justice system and of the security of persons and property began in 2005. It involves three aspects: *i)* instituting two new appeals courts (in Abeche and Moundou) to ease the load on the N'Djamena court; *ii)* setting up commercial courts in the principal towns of the 18 regions; and *iii)* reviewing the monthly pay of justices of the peace and magistrates and adopting a special status for court clerks. Six branch courts were made into full courts. Several groups of justices of the peace were trained and assigned to these courts (sub-prefectures) to bring justice closer to the population. A security and immigration ministry was set up and steps were taken to collect military weapons and to suspend the sale of handguns. A bill on livestock migration and nomadic movement is a major step towards a code of conduct for more organised livestock movements and settling disputes between farmers and breeders. Adoption and implementation of the law should help to reduce inter-community conflicts and restore social peace in the rural areas concerned.

The government has drafted a 2000-09 national transport strategy to boost economic growth and reduce poverty by opening up remote areas (and links to other countries), reducing transport costs, ensuring access to all parts of the country even during the rainy season, providing an adequate network of roads linking main towns the year round, continuing the liberalisation of the sub-sector and streamlining its administration, and expanding rural infrastructure. Significant progress has been made, including the construction of three international roads from N'Djamena: to the border with Sudan (226 kilometres paved, out of a total 1 063 kilometres); to the border with Cameroon (entirely paved since June 2006); and to Niger via Massakory and Bol (77 kilometres surfaced, out of 249 kilometres). The country's paved roads increased from 557 kilometres in 2002 to 736 kilometres in 2005 and nearly 900 kilometres in 2007.

The government has declared agriculture the key to economic development and food security and announced plans to modernise agricultural and livestock production, encourage agro-food processing, organise irrigation to reduce dependence on the weather, and fight locust invasions.

Remaining structural problems include negligible dialogue between the government and the private sector, only partial implementation of the rules of the Organisation for the Harmonisation of Business Law in Africa (OHBLA) and the persistence of arbitrary behaviour, fraud and corruption. Recent steps to change this include a national investment charter in line with CEMAC rules, adopted in December 2007, and a one-stop shop for public procurement contracts, set up by prime ministerial decree in November 2007.

Small and medium-sized enterprises (SME) are often refused loans because they cannot provide banks with solid guarantees and are inefficiently run (lack of accounting and computerisation and poor project drafting and funding requests). The government and its development partners are looking at how to boost SME capacities while ensuring more securely based bank loans, with perhaps a guarantee fund to encourage transparency and better management by SMEs.

The government, helped by non-governmental organisations (NGO) and the international community, is to survey existing arrangements in the informal sector and draft a realistic plan to promote microfinance

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nationwide, involving government and NGOs and expanding both the geographical coverage of microfinance and its products and beneficiaries. Financial networks would also be enlarged, notably by the revival of postal cheques, to make things easier for non-governmental institutions in the provinces.

Technical and Vocational Skills Development

Technical and vocational education and training (TVET) was introduced in Chad before independence (1960) with the creation of a trades college, École des métiers, which trained skilled workers. Technicians only began to be trained after independence. TVET has not since then grown significantly to match technological changes and above all, the country's needs. It is still in its very early stages and does not have the autonomy it needs to develop effectively amid fierce competition and unprecedented poverty. It cannot handle the complexities of the job market and the ups and downs of the economy. The number of students in TVET rose 105.37 per cent between 2000 and 2004 (from 1 989 to 4 085) and the number of women in training increased from 32 to 35 per cent.

TVET is regulated by Article 13 of the (17 May) 2007 decree 414/PR/PM/MEN setting out the education-ministry organigramme. Its structure and operation is laid down by decree 185/MEN/SG/DHEFA/DESTP/2004 of (16 August) 2004 setting out the organisation and functioning of the technical and vocational secondary-education department (DESTP). TVET is delivered through separate and unrelated institutions under 11 technical ministries. The large number of supervisory bodies hampers design and implementation of disciplined management, especially for issuing diplomas, and causes confusion and duplication. There are few proper bridges between the system's various levels, making it almost impossible to get a higher-level diploma through continuing education. The system should operate coherently, especially in standardisation of diplomas.

To ensure that TVET is run in tune with the labour market, the country's government and development partners adopted a national job-linked education and training strategy (EFE) in 1990 aimed at making the best use of human resources through education and training in order to help people become key players in social and economic development. When EFE was implemented in 1993, an advisory national committee for job-linked education and training (CONEFE) was set up (decree of 31 December 1993) as an interministerial political guidance and decision-making body to co-ordinate sector activity, comprising government and civil-society representatives. CONEFE has a permanent executive and two technical bodies – an education, training and employment monitoring unit and a national fund for vocational training and apprenticeship – as well as a co-operation and co-ordination unit set up in 1999.

Chad's TVET system has to compete (in terms of graduates' skills) with training provided in neighbouring and Western countries, so the national diploma must accurately reflect the skills acquired and be comparable with diplomas issued elsewhere. Subsidiary programmes contain sectoral and institutional divisions that undermine harmonious growth of the national system. All these structures almost entirely provide typical academic-style initial training, with courses that do not link up with the job market.

Three divisions in Chad's TVET system illustrate the problems well. One is between technical education and vocational training, with initial training and continuing education not complementing each other due to lack of continuing education in technical schools that come under the education ministry and to insufficient facilities in public technical-education schools.

Another division is between the formal TVET set-up and on-the-job apprenticeship systems, with almost total lack of complementarity between them, insufficient consideration of the needs of the handicrafts sector for formal TVET, too small a range of qualifications supplied by on-the-job apprenticeship due to limited technology in small businesses, lack of facilities and unmonitored working conditions for apprentices.

A third division is between subsidiary programmes and the economic functioning of the education ministry,

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which oversees national vocational-training policy. The country has no system of nomenclature, which is needed to standardise courses and procedures in training schools, and lacks an overall flexible and coherent regulatory structure that sets out the goals, areas of application, and the rights and duties of those involved. Also, few companies help to run the vocational-training facilities and often just pay the apprenticeship tax, and a system of dialogue and permanent co-operation between a profession and those involved in training is lacking. There are deficiencies in national vocational-training facilities and not enough human and material resources.

TVET is important in the country's social and economic life because it links the general-education system and the labour market by offering initial training and continuing education to those who want qualifications to get into a profession. Its key role in training a skilled workforce means the country should expand the range of training and increase the intake, making access easier and fairer, which is one of the goals of the Education For All programme. Strong demand for certain skills makes it all the more necessary to increase efforts to provide quality TVET.

Lack of data makes it hard to say how much private TVET is on offer, but government-sponsored training (especially through the DESTP) was being delivered in 2007 by only 16 schools distributed unequally across the country (three upper-secondary schools, one lower-secondary school, and 12 technical and vocational training centres (CFTP). The three secondary schools prepare children for graduation in mathematical and technical subjects (category E), administrative and secretarial skills (G1), quantitative management (G2), commercial skills (G3) and for a technician's certificate in electrotechnology, auto mechanics, refrigeration and air-conditioning. The lower-secondary school offers two-year courses in general mechanics, auto mechanics, electricity and plumbing, carpentry and construction skills, and the CFTPs offer two-year courses in metal fittings, carpentry, auto mechanics, electricity and plumbing.

The government, helped by technical and financial partners (including the African Development Bank), has drafted an educational reform programme (PARSET) and a national Education For All action plan (PAN/EPT) to run until 2015, the broad lines of which are in the SNRP-2, which only fleetingly mentions (two lines) technical and vocational training, despite the government's having declared it a priority.

Lack of funding is cited as the main reason for problems in implementing the EFE and indeed allocations are usually too low. Education only gets an average 11.5 per cent of the annual government budget (excluding grants) and has stagnated in the range of 2 per cent of GDP since the SNRP came into effect. TVET gets less than half of the resources for the sector.

To remedy substantial school attrition, the government is considering reviving, expanding and strengthening technical and vocational training structures by offering short and more diverse courses that take account of the local, regional and national labour markets. This will involve opening 42 CFTPs, five technical lower-secondary schools and four technical secondary schools.

The government also intends to reform teaching and training methods and courses to make them more relevant to the country's situation and the changes of recent years. The educational stages and levels of the courses will be designed to fit the goals of the education and training system, with special emphasis on cognitive and psychomotor knowledge, and attitudes to be acquired through practical apprenticeship.

Generally speaking, the government's reform plans to solve TVET problems depend on changing laws and regulations. The reforms should enable: *i)* the drafting of a genuine national TVET policy to fight unemployment and poverty effectively, and drive economic growth; *ii)* the institution of a TVET regulatory framework describing the nature and aims of available education, as well as the organisation of training activity and clarifying the rules for issuing diplomas; *iii)* strengthening EFE by putting CONEFE firmly in charge of government monitoring; *iv)* giving training schools independent management; and *v)* helping people join a skilled workforce.

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Political Context

Eastern Chad is the scene of rebellion against President Idriss Déby Itno's rule and of inter-ethnic violence and attacks across the Sudanese border that are often tied to the civil war raging since February 2003 in Darfur, in western Sudan. The Darfur crisis has driven hundreds of thousands of Sudanese refugees into Chad, making the eastern region more unstable. Several humanitarian, political and military operations are helping populations on the edge of the Darfur region whose lives have been turned upside down by the deadly fighting. The United Nations estimates that in Chad alone, there are 236 000 refugees from Darfur and 173 000 displaced Chadians. An agreement was reached at a crisis meeting on Darfur in early 2007. Chad and Sudan had already pledged not to back each other's rebels but these promises were never kept. Chad accuses Sudan of backing anti-Deby rebellions, which use Darfur as a rear base, and Sudan in turn accuses Chad of helping the Darfur insurgents.

Significant progress was made in 2007 towards domestic political peace, with ex-President Goukouni Weddeye returning from exile for the first time since he was ousted in 1982 and discussing the crisis with Déby. Weddeye's delegation included Adoum Togoi, another prominent opponent in exile in Burkina Faso. The chief aim of the meeting was to help return peace and stability to the country. A joint government-opposition committee is to be formed to explain to Chadians the need to make peace. Weddeye leads the National Liberation Front (Frolinat), the country's first political and military movement founded in the 1960s. The government and the head of the United Front for Change (FUC), Mahamat Nour Abdelkerim, signed a peace accord in December 2006 and Nour was appointed defence minister in March 2007.

A political agreement signed in August 2007 between the ruling coalition parties and the democratic opposition, and a military one two months later with the armed movements, were steps forward. Implementing them should help resolve the roots of conflict, gradually restore peace and security, allow reduction of military spending and revive a programme to reintegrate soldiers and fighters into civilian life. Recent new fighting in the country, however, during which rebels entered the capital, threw all this progress into doubt.

Social Context and Human Resources Development

About 80 per cent of the population lives below the poverty line on less than one US dollar a day. Chad ranks 171st out of 177 countries on the UN Development Programme's human development index. Three decades of civil war have put a brake on the country's economic and social development and badly affected the most vulnerable populations, notably women and children.

The health system is barely coping with ever-growing demands on it. Surveys of health policy in 2005 and 2006 revealed shortcomings in health-care training access, in the facilities available and the quality of services. The main obstacles to effective health care are lack of funding, lack of trained personnel and their uneven distribution around the country. Only one doctor is available for every 27 680 inhabitants, far below the World Health Organisation (WHO) norm of one per 10 000, and 46 per cent of them work in N'Djamena. Only one midwife is available for every 9 074 women of childbearing age (below the WHO norm of 5 000). The health infrastructure includes one national hospital serving about 7.5 million persons, four regional general hospitals each serving 950 000 persons, 64 district hospitals and 911 health centres. The number of beds ranges from 0.09 per 1 000 inhabitants in the Massakory district to 1.61 in Benoye. The underprivileged populations thus resort to self-medication and to informal health care. Lack of funding for primary health care, its uneven geographical distribution and low quality, as well as bad co-ordination and lack of follow-up has had disastrous effects on national health-care indicators.

Vaccination efforts have never managed to extend coverage beyond 80 per cent of the country (78 per cent for a combined diphtheria-whooping cough-tetanus vaccination in 2006). Infant and child mortality is very

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high and has hardly fallen over the past decade (infant mortality declined from 103 per 1 000 live births in 1997 to 102 in 2004 and child mortality fell slightly from 194 per 1 000 in 1997 to 191 in 2004). Some 41 per cent of children under five suffer from moderate chronic malnutrition and about 20 per cent from severe chronic malnutrition. Maternal mortality rose from 827 per 100 000 live births in 1997 to 1 099 in 2004. About 57 per cent of pregnant women get no prenatal care from qualified personnel and 79 per cent of births are not assisted. Nonetheless, good progress has been made in the fight against HIV/AIDS and the adult infection rate has dropped from between 5 and 7 per cent (depending on the data source) in 2000 to 3.5 per cent in 2005. About 200 000 persons, including children, are thought to be HIV positive, including one-third of all those afflicted with tuberculosis.

Government education policy has produced spectacular quantitative results as enrolment grew an average 6.3 per cent a year between 2001 and 2005, taking gross primary enrolment from 71.6 per cent in 2000 to 82.5 per cent (2003), 87.6 per cent (2004) and then falling back to 84.4 per cent (2005). Gross enrolment of girls advanced from 54.7 per cent in 2000 to 65.2 per cent (2003) and 67.9 per cent (2005). Enrolment targets for the first year of primary school set by SNRP-1 were clearly exceeded – 121 per cent (90 per cent target) for boys and 88 per cent (65 per cent target) for girls. Secondary enrolment grew even faster, by about 13 per cent a year. Students in higher education rose from 75 per 100 000 inhabitants in 2000 to 117 in 2003.

These results hide big regional disparities, however. The internal efficiency coefficient (0.49) is low. The number of pupils repeating years was 26 per cent in 2000 and has only been reduced to 22 per cent in the last three years. Only 36.4 per cent of primary-age children (33 per cent of girls) completed primary education in 2005 and the level of knowledge was unsatisfactory. This was caused by: *i)* the high pupil/teacher ratio (69 in 2003/04); *ii)* the percentage of community teachers (67 per cent, many of them untrained); and *iii)* the lack of equipment and textbooks (only 21 per cent of pupils had a seat and a desk and on average, two pupils shared each textbook). The same problems of quality were found at other education levels. The flow of pupils between levels is not controlled and the production of higher-education graduates exceeds the economy's demand for them. Government spending on education nonetheless has risen significantly (from 10 per cent of spending disbursed in 2002 to 14 per cent in 2005), but some of the increase was offset by soaring unit costs (that of a classroom has quadrupled in four years, from XAF 7 million in 2002 to more than XAF 30 million in 2006).

There are some old laws and regulations to protect forests and biodiversity but they are hardly complied with. Population pressure is very strong in forested areas (with demands for firewood and the need for more arable land), poaching is hard to fight, and tree felling and brush fires are uncontrolled. Wood and charcoal provide more than 90 per cent of the country's energy needs. Gas consumption grew between 1999 and 2004 (from 69 to 367 tonnes of oil equivalent) but this is only by a small section of the population (only about 11 000 households have gas stoves, 90 per cent of them in N'Djamena). Local integrated-development initiatives that have encouraged grassroots communities to make inventories of locally available natural resources and make plans for their use on a participatory basis is one of the most promising developments of recent years.

Measures taken and being considered to organise livestock migration should also have a positive effect on the environment, protecting harvests, making animal movements easier in the dry season, and using pasture and water supplies more effectively. Again, the recent political violence, which caused population movements, will prevent expected targets from being met.

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Congo Republic



key figures

• Land area, thousands of km²	342
• Population, thousands (2007)	3 768
• GDP per capita, USD at constant 2000 prices (2007)	1 100
• Life expectancy (2007)	55.3
• Illiteracy rate (2007)	12.6

Congo Republic



Congo

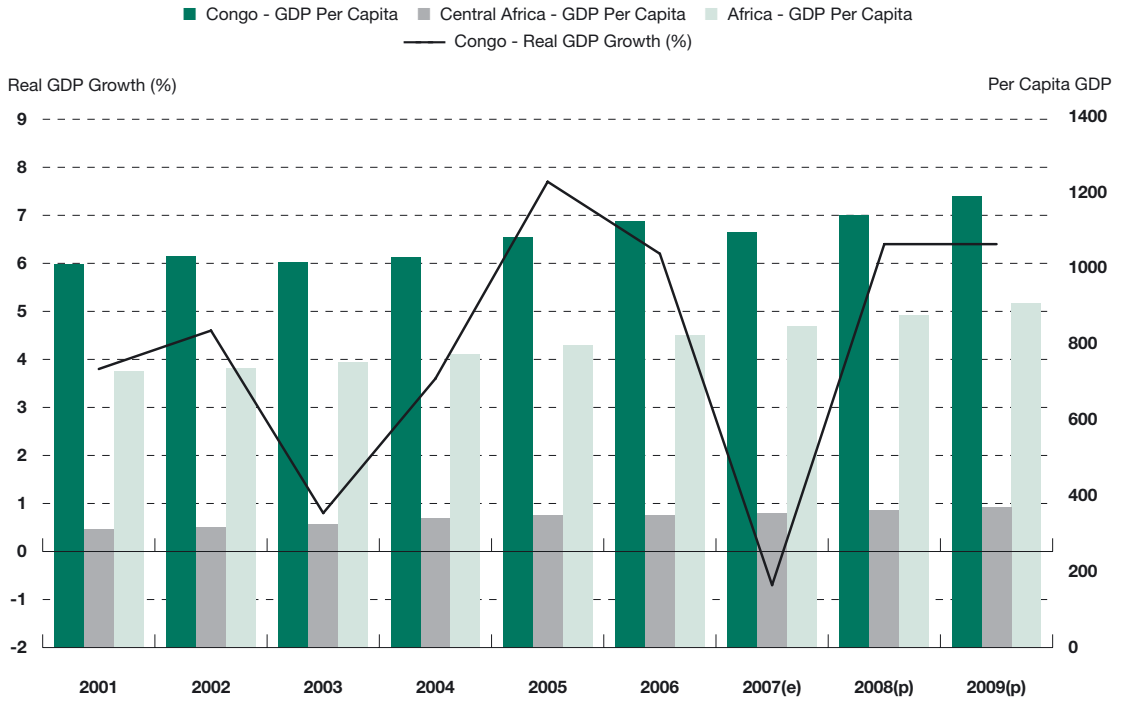
ALTHOUGH THE DAMAGE CAUSED by recurrent civil wars is still evident, the Republic of Congo has reached a crossroads. Skyrocketing oil prices and the prospect of debt relief under the augmented Heavily Indebted Poor Countries (HIPC) Initiative have created favourable financial conditions for greater sustainable growth over the medium term as well as for achieving the Millennium Development Goals (MDG). Still, rapid growth and high levels of government expenditure in the context of low absorptive and administrative capacity risk compromising macroeconomic stability, the sustainability of public finances and foreign competitiveness.

Based on revised data obtained in September 2007 (from the oil sector in particular), the rate of real GDP growth for 2007 is expected to be negative, at -1.2 per cent. This clear decline compared with the 6.2 per cent rate posted in 2006 is due mainly to the dramatic fall-off in oil production caused by the maturation of some oil fields and the fire that broke out in May 2007 on the Nkossa platform, interrupting pumping. In 2008 and 2009, annual GDP growth should pick up again to a rate of 6.4 per cent as oil production recovers.

Activity in the non-oil sectors is picking up, but hydrocarbons still predominate.

In 2007, Congo remains confronted with the following challenges: *i)* implementing the Poverty Reduction Strategy Paper (PRSP) which is financed mainly by foreign resources mobilised by the World

Figure 1 - **Real GDP Growth and Per Capita GDP**
(USD at constant 2000 prices)



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

StatLink http://dx.doi.org/10.1787/316317820686

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Bank and the European Union (EU) targeting priority sectors (such as combating HIV/AIDS, the emergency community rehabilitation and support programme (PURAC), and a basic education support project); *ii)* reducing the Congolese economy's heavy dependence on the oil sector, production in which will continue to increase until 2010; and, *iii)* consolidating socio-political stability by better redistribution of the oil windfall.

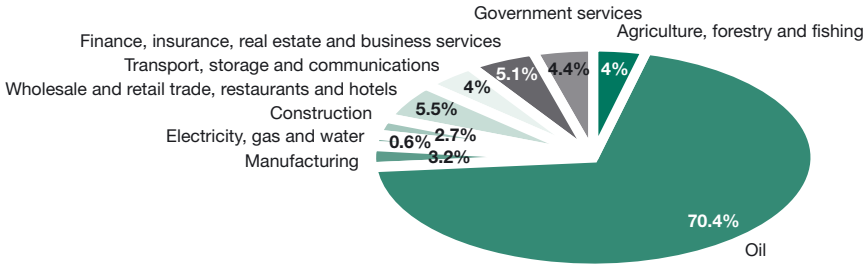
For 2007 and the coming years, moving from the HIPC decision point (reached in March 2006) to completion point is the authorities' overriding objective. In light of this, and in order to strengthen dialogue with the international community, Congo must respect the criteria enabling this transition.

Recent Economic Developments

The Congolese economy is characterised by weak diversification and high dependence on the oil sector, which generates the greater part of its tax and export income. In 2006, the oil sector accounted for 70.4 per cent of GDP. After reaching 98.7 million barrels in 2006, production dropped by 17.2 per cent to just 81.7 million barrels in 2007, following the fire at the Nkossa field. Nonetheless, as the Moho-Bilondo offshore field with estimated reserves of 1 billion barrels comes on-line production is expected to grow more quickly over the coming years. China and Chinese Taipei were the main recipients of Djeno Melange crude oil in 2007, while production from Nkossa was sent to Korea and the United States. Domestically, 541 703 metric tonnes of crude oil went to supply the Congolaise de Raffinage (CORAF) as against 497 945 metric tonnes the previous year, representing an 8.79 per cent increase. The Société Nationale des Pétroles du Congo (SNPC) plays a key role in the oil sector: it is responsible for commercialising the Congolese share of oil produced under partnership agreements with oil companies (Total E&P Congo, ENI Congo, Zetah M&P, Chevron Congo, CMS Nomeco); it represents the government in its contractual dealings with foreign partners; and, it is partly responsible for exploration and exploitation of several oil fields through subsidiary companies and/or organisations.

Although the oil sector dominates the Congolese economy, renewed activity can be observed in non-oil sectors, particularly agriculture and forestry, manufacturing industries, electricity, gas and water, construction, transport and telecommunications. These early signs of economic diversification have been furthered by a combination of factors including: public and private-sector investment, the renovation of basic infrastructure and by gradual implementation of budget consolidation measures and reforms under the Staff-Monitored Program. These efforts were required for opening discussions for a new agreement under the Poverty Reduction and Growth Facility (PRGF). In 2007, stronger economic activity in the non-oil sector resulted from increasing domestic demand caused particularly by sustained investments at the national level.

Figure 2 - **GDP by Sector in 2006** (percentage)



Source: Authors' estimates based on IMF data.

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Despite Congo's enormous potential for vegetable and animal production, the total contribution of agriculture, husbandry and fishing to GDP was 4 per cent in 2006. With vast natural reserves, a national reforestation policy, and the development of fast growing fuelwood plantations, forestry and logging offer real potential for growth and diversification. They represented just 0.6 per cent of GDP in 2006, however, a sharp decline. Still, the forestry sector could be boosted in the coming years from the application of the forestry code enacted in 2002, which requires companies to process 85 per cent of their logs locally, as well as from high demand from Asian countries.

Other manufacturing industries, which represented 3.2 per cent of GDP in 2006, experienced strong growth in 2007 due mainly to the development of transportation infrastructure, improved energy supply and the ongoing industrialisation of the wood industry. The energy, water and gas sectors represented 0.8 per cent of real GDP, while construction increased from 2.7 per cent of GDP in 2006 to 3.5 per cent in 2007. Despite this growth, the construction sub-sectors are still experiencing difficulty in procuring materials because of the dilapidated transportation infrastructure, particularly between Brazzaville and the northern areas of Congo.

The transport and telecommunications sector contributed 5.1 per cent to GDP in 2007, up from 4 per cent in 2006. This improvement is the result of substantial investments in transportation with the acquisition of engines following the awaited concession of the Chemin de Fer Congo-Océan (CFCO), and the increasing operational capacity of the port of Pointe-Noire. The network expansion activities of Celtel, a Kuwaiti mobile telephony company, and the South African company Mobil Telecommunication Network (MTN) are also notable. These will be bolstered by the installations currently being set up by Warid, a new Saudi Arabian company. Furthermore, the government has committed to connecting Congo to the SAT-3 fibre optic cable, at a cost of XAF 3.1 billion (CFA franc). The GDP share of the trade, restaurants and hotels sector in 2007 reached 10.5 per cent, compared with 10.3 per cent in 2006.

Volume demand grew at an accelerated pace in 2007, driven mainly by investment, which was up 19.6 per cent between the public and private sectors. This increase in investment, combined with public investment and expenditures for oil-field development, altered the composition of domestic demand such that investment's contribution to GDP jumped from 23.3 per cent in 2006 to 29.5 per cent in 2007. This

Table 1 - **Demand Composition**

	Percentage of GDP (current prices)		Percentage changes, volume			Contribution to real GDP growth		
	1999	2006	2007(e)	2008(p)	2009(p)	2007(e)	2008(p)	2009(p)
Gross capital formation	**27.8**	**23.3**	**19.6**	**8.8**	**8.8**	**7.5**	**4.1**	**4.2**
Public	6.4	5.0	13.0	12.0	12.0	1.1	1.1	1.2
Private	21.3	18.3	21.3	8.0	8.0	6.4	3.0	3.0
Consumption	**54.0**	**33.1**	**3.3**	**1.7**	**2.7**	**2.1**	**1.2**	**1.7**
Public	17.0	9.1	3.1	-0.6	-0.6	0.4	-0.1	-0.1
Private	37.0	24.0	3.3	2.3	3.5	1.7	1.2	1.8
External sector	**18.2**	**43.6**				**-10.3**	**1.2**	**0.5**
Exports	72.4	81.3	-5.2	5.8	5.4	-4.0	4.3	4.0
Imports	-54.2	-37.6	7.8	3.5	4.1	-6.3	-3.1	-3.5
GDP growth rate, volume			**-**	**-**	**-**	**-0.7**	**6.4**	**6.4**

Source: Director General of the Economy data; estimates (e) and projections (p) based on authors' calculations.

StatLink http://dx.doi.org/10.1787/320804411886

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trend could continue with the installation of infrastructure to work potash deposits in the Kouilou region, the development of oil fields, construction on the road between Pointe-Noire and Brazzaville and works to install mobile telephony equipment.

Macroeconomic Policy

Fiscal Policy

As a member of the Economic and Monetary Community of Central Africa (CEMAC), Congo must adhere to a common budgetary discipline and convergence criteria. In 2007, fiscal policy aimed at controlling expenditure while meeting basic needs in the social sector and infrastructure. The budget act promulgated in early June 2007 calls for an increase in non-oil revenues and limited growth of primary expenditure, to be achieved through: *i)* strict payroll controls; *ii)* reducing shared expenses; *iii)* a significant reduction in subsidies on oil products, with fuel prices being increased by 15 per cent and being indexed in the future to international market prices.

Fiscal receipts rose from 44.4 per cent of GDP in 2006 to 44.9 per cent in 2007, while oil revenue rose from 37.9 per cent of GDP to 38.2 per cent. Meanwhile, tax rates in the forestry sector dropped off slightly, falling from 6.8 per cent of FOB value in 2006 to 6.2 per cent in 2007. It should be noted that Congo was not in line with the CEMAC tax rates of the forestry sector. Furthermore, upgrading measures in the customs sector helped to increase customs revenue from XAF 42.7 billion in 2005, 53.5 billion in 2006 and 62.1 billion in 2007.

In 2007, no significant improvements were registered in structural reforms. The practice of depositing all revenue in the Treasury before redistributing it to the Ministries is helping to improve control and boost revenue. This reached XAF 23.8 billion in 2006 and nearly 20 billion in 2007. In 2006 and 2007 a certain weakness could be observed in the management of current and capital expenditure, which was characterised by a level of growth not aligned to the objectives set by the IMF programme. In 2006, current expenditure reached XAF 342.8 billion, increasing to XAF 352 billion in 2007. At the same time, investment expenditure represented XAF 360 billion in 2006 and XAF 400 billion in 2007. The realisation rate on domestic finance, which was 1.9 per cent in 2006, jumped to 14 per cent in 2007. Despite this increase in total spending, the primary balance in 2006 was positive, coming out at 21.5 per cent of GDP. This high balance was due to the combined effects of rising prices and production of oil, which led to a sharp jump in oil revenue. The overall positive balance was calculated at 17.2 per cent of GDP in 2006, and is at the level of 15.1 per cent of GDP for 2007, which allowed Congo to continue paying off its foreign debt and to regularise its position with donors.

Congo's fiscal deficit excluding oil is one of the highest in Africa (-18.7 per cent of GDP in 2007). It is higher than the deficit in Cameroon, Chad and Gabon, and it was even higher that the deficit in Nigeria in 2006. For the 2006 fiscal year, a total of XAF 1.5305 trillion in non-oil revenue was collected, higher than the projected figure of XAF 1.3674 trillion. In 2007, start of the year projections called for XAF 1.038 trillion, but these were later revised to XAF 1.329 trillion to account for changes in international oil prices. The primary balance excluding oil has deteriorated considerably since 2003. Given that oil production will begin to drop off in 2012 and will be exhausted in 20 years at the current pace of extraction, such high deficits are not viable.

As previously, and with IMF approval, surplus revenue was allocated first and foremost towards financing internal and external debt. A large part of the surplus revenue is in an account at the Central Bank. In the framework of its membership in the Extractive Industries Transparency Initiative (EITI), Congo also respected the criteria of centralising all public revenue in the Treasury, of executing public payments, as well as oil-sector transparency, including quarterly certification of oil revenue by an internationally respected auditor. An EITI national committee was set up at the beginning of September 2007. The

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members of this committee are appointed by presidential decree and include representatives of both the government and civil society, as pressure is increasing to boost government spending. Recently, relations between the government and civil society have deteriorated after an action was brought against two activists demanding transparency in the oil sector.

Non-budgeted expenditures were observed in 2007 in the areas of current expenditure (to cover electoral operations and border security) and investment expenditure (to finance the additional costs of infrastructure and urban road works in the regions chosen to host the touring independence celebrations). These investments raise the most questions in terms of transparency and effectiveness. The stumbling block for discussions between the government and the IMF was the excessively high level of spending and its low quality with regard to the PRSP requirements. The high level of projected public investment calls into question the country's capacity to absorb these expenditures. In an attempt to adapt to the Staff Monitored Programs, the IMF also recommended the implementation of a Medium-Term Expenditure Framework (MTEF) to take pro-poor expenditures into account. The 2006 budget, which was elaborated in co-operation with the IMF, reflects the priorities already defined in the 2005 budget and contained in the Interim PRSP, namely combating poverty and concentrating spending in the social sectors.

Since 2003, in agreement with the IMF, SNPC no longer has the right to contract debts or to make payments on behalf of the government. It is also required to transfer its revenues to the Treasury within eight days of receiving them. Nonetheless, although exploitation in the oil sector has improved remarkably, refining and distribution are still areas of concern. This observation pushed the government to draw up legislative texts to manage how the oil windfall is used and to create a regulatory body. With the privatisation of Hydro-Congo, which possesses a lubricant manufacturing unit whose operation has not yet been restarted, the refining and distribution sector must now rely on the Société Commune de Logistique (SCLOG) for supply and transport of fuel, on Total, Puma, X-oil and Texaco for its distribution, and on liquefied petroleum gas companies for the sale of gas.

The fiscal surplus is causing overspending as the authorities deviate from the objectives of the Staff Monitored Programs set with the IMF. In 2006, there was a substantial surplus, leading to increasingly heated debates as to its use; the government then decided to allocate part of the surplus to increasing the salaries of government employees, which had been fixed since 1994. In fact, since 2006, base salaries for government employees have risen by 5 per cent following negotiations which began in 2002 between the government and union organisations. As a proportion of GDP, salaries fell consistently between 1999 and 2007, dropping from 6.9 per cent to 3.5 per cent.

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

	1999	2004	2005	2006	2007(e)	2008(p)	2009(p)
Total revenue and grants[a]	**27.0**	**30.4**	**38.8**	**44.4**	**44.9**	**43.8**	**43.6**
Tax revenue	6.8	8.1	6.6	5.9	6.1	5.7	5.7
Oil revenue	19.6	21.6	31.8	37.9	38.2	37.5	37.4
Total expenditure and net lending[a]	**32.8**	**26.7**	**23.2**	**27.3**	**29.8**	**27.1**	**27.0**
Current expenditure	26.7	20.2	17.9	18.3	19.3	16.8	15.8
Excluding interest	*15.1*	*15.0*	*13.0*	*13.9*	*15.0*	*13.1*	*12.5*
Wages and salaries	6.9	5.0	4.0	3.3	3.5	3.1	3.1
Interest	11.6	5.2	4.9	4.4	4.3	3.7	3.4
Capital expenditure	6.1	6.5	5.3	8.9	10.5	10.3	11.1
Primary balance	**5.7**	**8.9**	**20.5**	**21.5**	**19.4**	**20.4**	**20.1**
Overall balance	**- 5.9**	**3.6**	**15.6**	**17.2**	**15.1**	**16.8**	**16.7**

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

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Monetary Policy

Because Congo belongs to the franc zone and to CEMAC, monetary policy remains subject to regulation by the Bank of Central African States (BEAC), which focuses maintaining stability of prices and exchange rates. In 2007, net external credit as of June 30 totalled XAF 1.072 trillion, up from 859.8 billion in 2006. Official reserves represented 88.3 per cent of total net external credit, having increased by more than 10 per cent in 2007. Money supply, after an upward climb of 40.9 per cent in 2006, rose approximately 11 per cent in 2007. Inflation remained stable at 4 per cent between 2006 and 2007. Projections place inflation at between 3.6 per cent in 2008 and 3.8 per cent in 2009.

External Position

Crude oil exports were 91.466 million barrels in 2006, valued at XAF 2.9017 trillion. They fell slightly in 2007, with a volume of 71.612 million barrels valued at XAF 2.5489 trillion. Exports of refined oil products, mainly composed of heavy fuel oil, reached 260 100 tonnes in 2006 after a sustained volume decrease since 2003, due mainly to the difficulties encountered by CORAF. They increased to 281 000 tonnes in 2007, however, and are posting higher value because of rising oil prices.

Wood exports increased in volume in 2006, due largely to a slight rise in raw wood production as operation of the pine and eucalyptus plantations in the Pointe-Noire region restarted. In 2006, wood exports were valued at XAF 104.6 billion for a volume of 632 700 cubic metres of rough lumber, 188 300 cubic metres of processed wood (rough lumber, plywood and veneer) and 135 300 cubic metres of eucalyptus logs. In 2007, the value of exports dipped to XAF 91.7 billion for a volume of 461 900 cubic metres of rough lumber, 214 300 cubic metres of processed wood and 130 000 cubic metres of eucalyptus logs. The fall in natural wood exports continued as the provisions of the 2002 forestry code were applied, requiring companies to process their production locally. In 2006, to meet this requirement, Asian companies installed and upgraded production units for plywood with a total annual capacity of 96 000 cubic metres.

Non-oil exports accounted for XAF 83.4 billion in 2006 and 130 billion in 2007. The current account balance posted substantial surpluses in 2006 (15.1 per cent of GDP) due to increasing oil export income. This surplus fell to 11.2 per cent of GDP in 2007 but is expected to rebound in 2008 and 2009 (with projections of 20.5 per cent and 18.6 per cent of GDP, respectively).

Congo's debt situation has improved markedly due to the more favourable attitude of bilateral and multilateral foreign creditors. Relationships are focusing on support for efforts to consolidate peace, governance and transparency, actions combating poverty and the rehabilitation of infrastructure in rural areas (prefecture roads, renovating educational buildings and health-care centres).

The December 2004 approval of the Poverty Reduction and Growth Facility (PRGF), following the

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

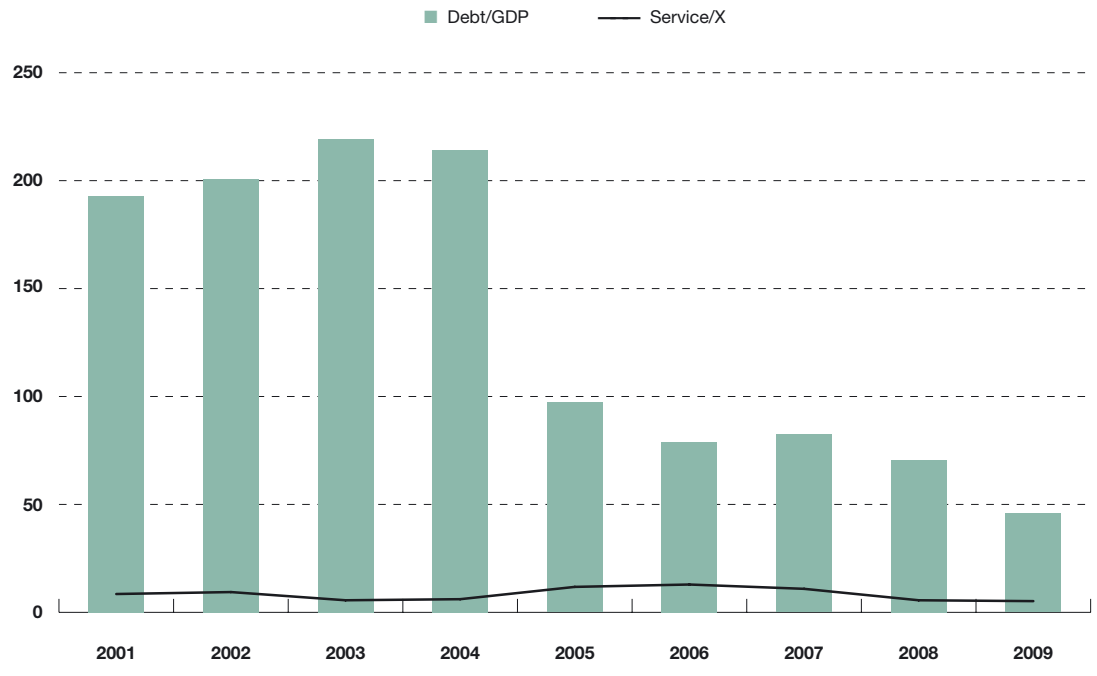
	1999	2004	2005	2006	2007(e)	2008(p)	2009(p)
Trade balance	44.1	53.0	57.8	56.7	50.1	53.7	52.7
Exports of goods (f.o.b)	66.3	73.9	77.9	79.3	74.2	75.3	73.8
Imports of goods (f.o.b)	22.2	20.8	20.1	22.6	24.1	21.7	21.2
Services	-30.7	-17.6	-19.2	-18.0	-21.5	-13.1	-14.3
Factor income	-22.9	-20.4	-26.8	-23.3	-17.0	-19.7	-19.4
Current transfers	-0.2	-0.5	0.5	-0.3	-0.4	-0.3	-0.4
Current account balance	**-9.8**	**14.5**	**12.2**	**15.1**	**11.2**	**20.5**	**18.6**

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

StatLink http://dx.doi.org/10.1787/322541803482

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Figure 3 - **Stock of Total External Debt** (percentage of GDP) **and Debt Service** (percentage of exports of goods and services)



Source: IMF.

StatLink http://dx.doi.org/10.1787/318571347808

reopening of discussions between Congo and the donor community, helped improve the country's situation in terms of external debt. However, unlike most countries in sub-Saharan Africa, Congo's PRGF programme has not yet been approved. The IMF considers that this is unlikely to happen before the end of 2008, because a conclusive examination of the Staff Monitored Program must first be carried out.

New loans have somewhat marred Congo's external debt indicators, which had been improving recently. This indebtedness, which is considered unsustainable, is well above CEMAC's multilateral monitoring criteria, whose threshold is set at or below 70 per cent. Public debt totalled XAF 3.658 trillion at the end of 2006 and had reached 3.459 trillion by the end of September 2007. In 2006 and 2007 respectively, external debt totalled XAF 3.2938 trillion (81.5 per cent of GDP) and 3.166 trillion (86.9 per cent of GDP). External arrears represented 47.2 per cent of current external debt in 2006, and 46 per cent in 2007.

The majority of the new foreign debt was contracted with China, valued at USD 829 million, or 12 per cent of GDP as of the end of 2006, and was directed mainly to the electricity sector. In June 2006, the authorities also signed a framework co-operation agreement with China in the areas of oil exploration, infrastructure and social development. The financial terms and conditions of this agreement are not yet available. The majority of external debt was contracted with official bilateral and private lenders, representing 42 and 50 per cent respectively of current debt, whereas loans from multilateral creditors represented only 8 per cent.

The cancellation of debt of approximately USD 1.7 billion, as well as the rescheduling of outstanding arrears carried out in accordance with the agreement signed in 2004 with the Paris Club creditors made it possible to reduce the burden of external debt from 213 per cent of GDP in 2004 to 78 per cent of GDP in 2006. The proportion of debt due to Paris Club creditors fell from

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55 per cent of the total in 2004 to 35 per cent in 2006 due to the effect of traditional debt relief and temporary aid mechanisms granted by some creditors after reaching the decision point for the HIPC Initiative. In 2006, the public creditors of the Paris Club had granted Congo a cancellation of 90 per cent of its debt, rescheduling the loans granted under public development aid over 40 years (including 16 grace years), with the result that a sum of EUR 1.4 billion due to the Paris Club creditors had already been cancelled. In exchange, the country agreed to pay the arrears that could not be rescheduled over 3 years, at a pace of EUR 40 million per quarter, through to September 2007. At the termination of the HIPC Initiative, the Paris Club creditors will cancel another substantial additional portion of Congo's debt.

On 15 November 2007, the private creditors of the London Club relieved Congo of XAF 927 billion of the total XAF 1.19 trillion owed to them. Then, as recommended by the IMF, the Club eventually cancelled 80 per cent of the remaining debt and rescheduled the balance that had not been cancelled (USD 500 million) by issuing an obligation for the same amount in Luxembourg. The agreement with the London Club normalises relations with the foreign banks, complying with the principle of equal treatment by all creditors.

Still, these arrangements by the London and Paris Clubs do not affect outstanding payments due to private creditors. Estimated at XAF 88.5 billion on 31 December 2005, these had fallen to 30.1 billion by 30 September 2007. By the end of 2006, XAF 150 billion in debt had been settled with the Paris Club, and 94.8 billion by the end of September 2007. Debt owed to private lenders had been calculated at XAF 1.2248 trillion at the end of 2006, including 1.190 trillion in debt to London Club creditors as of 15 November 2007, when the latter cancelled 80 per cent of the debt, or XAF 927 billion. Debt owed to multilateral lenders, calculated at XAF 220.4 billion at the end of 2006, totalled XAF 213.9 billion at the end of June 2007. Payment of arrears totalled 113 billion in 2007. Relative debt was estimated to represent 18.8 per cent of private debt at the end of September 2007, down from 26.6 per cent at the end of 2006.

Structural Issues

Recent Developments

The diversification of the Congolese economy depends heavily on a substantial reduction in transaction costs. As the World Bank's *Doing Business* report states, Congo ranks among the lowest in the world in terms of business environment. The most worrisome difficulties concern creating companies, employing workers, registering property, obtaining credit, paying taxes, international trade and respect for contracts. In all of these criteria, Congo ranks lower than the majority of African countries. The World Bank data shows that Congo must make a great deal more progress overall in order to attract private investment. *Doing Business* also highlights the need to simplify the tax payment process, as Congolese companies pay 2.3 times more in tax than companies in other African countries.

The hydroelectric sector has benefited from a number of advances. The rehabilitation work on Moukoukoulou, Congo's largest hydroelectric plant, located in the south of the country, was completed. *Jeune Afrique* wrote that, "The work was led by Chinese technicians thanks to XAF 6 billion in funding released by the Congolese government. The hydroelectric plant produces 74 MW each day and supplies power mainly to the port city of Pointe-Noire, along the Atlantic coast. This output remains insufficient, however, and power outages are frequent."[1] The Djoué dam was also extended; the feasibility study for this project was carried out by the Czech consortium Agile-Mavel at a cost of XAF 26 billion and it calls for the construction of an additional 31 MW plant, compared with the 14 MW already installed. Dam feasibility studies have been carried out for the following sites: Mpama (Plateaux), Kandeko (Likouala), Etoumbi (Cuvette) and Sounda

1. Jeune Afrique (May 2007), *"Moukouloulou retrouve du jus"*. http://www.jeuneafrique.com/partenariat/article_jeune_afrique.aspart_cle=LIN06057moukosujude0&part=35. Viewed on 4 March 2008.

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(Kouilou).[2] A water and electricity infrastructure rehabilitation programme (PRIEE) adopted by the Congolese authorities and the World Bank was to be performed before these two sectors were privatised, but it was stopped after the privatisation process was frozen.

The Congolese government attempted to privatise CORAF in the hopes of increasing exploitation of the refinery's production capacity. However, a lack of interest by private investors forced the government to work on expanding and modernising CORAF to make it more attractive. The IMF recommended an audit on the company's management in light of the magnitude of consumer subsidies, which exceeded XAF 130 billion in 2007, in comparison with XAF 65.8 billion in 2006. The effective dissolution of Hydro-Congo and the transfer of its assets and activities to the logistics companies (SCLOG) and distribution companies (Total, Texaco, X-oil and Puma) was a decisive step in the process of privatising the company; its employee redundancy payments remain outstanding.

A programme for installing electric meters was executed in Brazzaville and Pointe-Noire following an operation to identify points of medium and low-voltage electric consumption and another to implement digital cartography in 2004. Installing meters has helped the Société Nationale d'Electricité (SNE) to increase its turnover. There was no subsidy programme or special treatment provided for the most destitute or in response to the claims triggered by rising electricity prices. It should be noted that current prices were set in 1994 and that, due to war damage (lost meters), more than 75 per cent of households in Brazzaville were being temporarily billed a fixed sum. In 2006, electricity production reached 453 GWH. While this marked a 4.3 per cent increase over 2005, it only represented 43.4 per cent of capacity due in particular to poor performance by the Djeno gas plant, which ran at only 27 per cent of capacity in 2006. Insufficient gas supply from the Kitina oil field was the cause of this situation. In 2007, gas supplies from the Mboundi field boosted this rate to 85 per cent in two months.

Imports from the Democratic Republic of the Congo (DRC) for the same year totalled 411 GwH, a slight dip of 1.6 per cent in comparison with 2005. The SNE's debt to the DRC's Société Nationale d'Electricité (SNEL) is estimated to be of the order of XAF 35 billion. The governments of the two countries have agreed to set up a payment schedule. The electricity network had 115 213 subscribers in 2006, 3 600 of them in rural areas. Construction is continuing for the 120-MW Imboulou dam; more than 50 per cent of the work has been completed, and the objective is to begin producing electricity in 2009. Construction on the Brazzaville thermal station was completely finished in the third quarter of 2007. The Liouesso and Sounda dams are currently the subject of feasibility studies.

The health of the banking system is improving, in part because of the recapitalisation and privatisation of a struggling bank. Privatising this bank, which had a negative value, cost the Treasury XAF 14 billion (0.4 per cent of GDP). However, the privatisation process was not transparent and the operation could easily cost the government at least XAF 6 billion (0.2 per cent of GDP) more than the value of the bank, according to an independent consultant.

The Banque Marocaine Pour le Commerce Extérieur (BMCE) gained a 25 per cent equity in the capital of La Congolaise des Banques, while the Compagnie Financière des Participations (COFIPA) was taken over by the French group Banque Populaire to create the Banque Commerciale Internationale (BCI) in October 2006. The Congolese banking system had four banks as of 30 June 2007: the BCI, BGFI-Congo (Banque Gabonaise et Française Internationale), Crédit du Congo (formerly Crédit Lyonnais Congo) which became a subsidiary of Crédit Agricole in 2007, and La Congolaise des Banques. In terms of respect for prudential standards, all four banks comply with the provisions on capital reserves and, since October 2006, have posted with

2. Mokili (March 2005) "L'Electricité au Congo". http://mokili.free.fr/congo/secteur.php?idtext=8. Viewed on 4 December 2007.

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Natexis Banques Populaires a weighted risk coverage ratio on net equity higher than or equal to the minimum of 8 per cent. New establishments could move into Congo, particularly the Ecobank group.

The legal system does not always succeed in settling disputes equitably. During the third quarter of 2007, a national anti-corruption committee was set up, with representatives of the government and civil society. A national anti-corruption surveillance body will also be established. According to *Transparency International*'s 2007 Corruption Perception Index, Congo ranks 40th among African countries, with a score of 2.1 out of 5.

Technical and Vocational Skills Development

The introduction of technical and vocational education in Congo occurred during the colonial period. In 1930, more specifically, several vocational training centres were founded, the most important of them being the Brazzaville vocational school. Over the years, this establishment became a college, and eventually a secondary in the early 1950s. Technical and vocational education was thus intended to prepare students to practice a given trade.

Long attached to other ministerial organisations, the sub-sector of technical and vocational education was set up as its own independent ministry in August 2002. Currently, this sub-sector falls under the umbrella of the Ministry of Technical and Vocational Training (MTVP), one of the three ministerial departments in the Congolese educational system.

Technical and vocational education is offered in establishments located in every region of the country. There is a distinction between secondary and higher level establishments. At the secondary level, technical and vocational education is provided in two types of establishments: trade centres and technical pre-secondary or secondary schools. Trade centres are organisations for vocational pre-training with the main objective of helping students acquire the skills to manufacture basic objects, perform minor repairs and master the cultivation process (particularly for agricultural courses). The courses available are general mechanics, automobile mechanics, electricity, sheet metal, masonry, carpentry, domestic arts, agriculture, secretarial work, accounting and agricultural mechanics.

Dominated by the administrative and business courses, the *collèges d'enseignement technique* (vocational colleges, or, CET) also offer training in the following areas: sheet metal, general mechanics, automobile mechanics, automobile electricity, carpentry, masonry, accounting, secretarial work and agriculture (in vocational and agricultural colleges, CETA).

Despite the importance placed on technical and vocational training, it is still the poor relation of the formal education system in terms of the number of establishments, staff and the resources available. According to MTVP statistics, these establishments developed in a relatively stable manner between 2002 and 2006. From a total of 101 for the entire country in 2002/03, their number increased to 104 in 2006/07. In terms of the number of pupils, over the same period enrolment increased from 40 716 (including 22 071 girls) to 37 040 (including 21 291 girls). Class sizes are highly disparate from one region to the next, with Brazzaville, Kouilou and Niari being home to 90 per cent of students.

The human and material resources provided to technical and vocational training are modest, and have consistently decreased over the years. Teachers are not always appropriately qualified, and several courses lack the necessary equipment. All of these factors present serious handicaps to learning.

Irrespective of their subject, graduates of technical and vocational training generally face the same problems when they try to join the working world. Their training proves to be relatively impractical and not adapted to the immediate needs of the productive sector. One of the weaknesses of TVET (technical and vocational education and training) is its relative incompatibility with the employment needs of private operators. The dated nature of the courses and training offered has caused a gap between the training provided and jobs available, which is detrimental not only to the young graduates who end up joining the ranks of the

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unemployed, but also to companies, which cannot find the skills they need in the labour market.

The problem of financing for technical and vocational training is often cited as a major obstacle to its development. Less than 1 per cent of the national budget is devoted to TVET. Although current expenditure on education rose by 13.8 per cent from 2003 to 2005, increasing from XAF 56.76 billion to 65.88 billion, only 7.13 per cent of this expenditure in 2003 and 10.03 per cent in 2005 was directed towards TVET.

Currently, joint financing for TVET provided by the government and the production sector is envisaged. Several proposals have been put forward in this regard: i) creating a national vocational training development fund as a mechanism that should be able to mobilise all necessary resources combining state funding with that of companies seeking to develop trades and hubs in certain high-potential fields, and financing provided by donors and the apprenticeship tax; ii) having companies participate in financing TVET in order to facilitate employment through a new work/training approach and the promotion of promising sectors; and iii) resorting to bilateral and multilateral aid and financing.

Since TVET is at the heart of the training and human resources qualifying mechanism that Congo needs to ensure its sustainable development and fight endemic poverty and unemployment among young people, the Ministry for Technical and Vocational Education and Training has decided, as part of the "*La Nouvelle Espérance*" (New Hope) social project, to undertake a radical overhaul of technical and vocational training. This will be based on necessary and urgent reforms designed to ensure and guarantee the qualitative recovery and sustainable development of TVET. These reforms will act to quantitatively and qualitatively improve the training offered and the mechanism for general TVET management.

This overhaul of technical and vocational training has the following key objectives: i) improve and increase the effectiveness and performance of institutional, public and private training mechanisms by strengthening their operational capacity and performance**;** ii) respond locally and nationally, in both the public and the private sectors, to the massive and varied demand for vocational and technical qualifications under administrative, regulatory, pedagogical and budgetary conditions that are high quality, accessible to all and fair; iii) ensure that there is a better balance between training and jobs by taking needs, labour-market demand, and the constantly changing social, economic and technological environment all into account; and, iv) facilitate the professional and economic integration of individuals or social groups through income-generating activities: salaried jobs, individual employment and company creation.

In order to maintain TVET in step with quantitative and qualitative changes in employment, an employment and training supervisory body is envisaged. This permanent mechanism would be used to identify employment needs, to specify which trades and profiles are sought by economic actors and to define the job profile that meets the needs of the sectors and operators. This supervisory body could cover the various levels of the education system, particularly the conditions required at higher levels, rather than limiting itself to jobs and corresponding training courses prior to the leaving certificate.

Political Context

After a decade of instability marked by civil wars (1993, 1997 and 1998/99) that had harmful consequences for the country, Congo has experienced a stabilisation of the socio-political climate. The return of peace took hold gradually, starting with the ceasefire in 2000, continuing with the peace accord signed in March 2003 with the last rebel group active in the Pool region, and finally with promotion of the reintegration of former combatants supported by the National Disarmament, Demobilisation and Reintegration Programme (PNDDR). The consolidation of peace continued with the adoption of a new constitution in 2002, facilitating the organisation of general elections that served to confirm the mandate of President Denis Sassou-Nguesso and to set up the

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democratic institutions provided for in the new constitution (parliament and senate). The 2007 legislative elections were expected to consolidate these efforts to stabilise the political climate, but they did not achieve massive participation because of serious failures that were decried by the opposition parties, international observers and civil society.

Social turmoil was triggered in October and November 2007 by strike notices in the health-care and education sectors. The demands included taking into account promotion of ranks and grades, increasing the value of the index used in calculating the base salary, paying seniority bonuses and back pay and improving working conditions as well as recruiting teachers (referred to as volunteers) in the public service.

Social Context and Human Resources Development

In 2006, the results of the Congolese household survey (ECOM) carried out in 2005 across the entire country estimated the incidence of poverty at 50.11 per cent of the population. This poverty went hand in hand with insufficient health-care, sanitation and basic education services, as well as a high prevalence of HIV/AIDS.

Congo was a model country in terms of enrolment in education before the decade of conflict when enrolment in primary education plummeted. Enrolment rates have shown a marked improvement since then, however, increasing from 72.7 per cent in 2000 to 87.7 per cent in 2005, but with class sizes exceeding 100 students in public education. The shortage of schoolbooks is alarming, with 1 reading textbook for 27 students and 1 maths book for 32 students. The lack of qualified teachers can be explained by the number of volunteer teachers, who represent 31 per cent of the teaching force for primary education. The national student-teacher ratio worked out to 49.7 in 2006 (61.2 in public education and 37.4 in private education).

Work stoppages have been observed by teachers both in higher education and in primary and secondary education. In 2006, with the support of donors, the government began to renovate school buildings and, to a lesser degree, to build new infrastructure. The results are tangible but still insufficient in comparison with the expectations of citizens, and decidedly insufficient in landlocked regions where many schools suffer from a serious lack of qualified teachers, which forces the parents of students to contribute their own resources to recruit volunteers.

In 2006, public investment intended to combat poverty reached XAF 38.8 billion, or 10.8 per cent of all public investment, which was below the 30 per cent objective. Nearly three years after the implementation of the basic education support project, some of its main accomplishments include: i) supporting the collection of statistical data on general primary and secondary education and for publishing statistical directories; ii) setting up 711 community management and development committees for educational establishments; iii) training 7 058 teachers, of which 3 151 were volunteers; and, iv) training 520 young people who had dropped out of school in a variety of trades.

In terms of health, the results of the Congo Democratic and Health Survey (EDSC-1) helped to identify the main problems affecting the health of mothers and children, and reproductive health in general. Child and infant mortality remain high, although they have declined slightly. The mortality rate has dropped from 81 deaths per 1 000 live births in 2002 to 75 deaths per 1 000 live births. The low quality of medical treatment, the lack of health facilities and the difficulty of accessing medical treatment are resulting in high rates of maternal mortality: in 2002, the risk of maternal mortality for a Congolese woman was 1 in 26. These mortality rates are linked most strongly to malaria (the cause of 51.5 per cent of hospitalisations), then to the resurgence of tuberculosis, diarrhoea-related illness, the predominance of other infectious diseases that are not treated properly and HIV/AIDS. In 2007, 10 168 orphans were taken into care under a project financed by the World Bank and implemented by the National Committee for Combating AIDS. These orphans are particularly

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vulnerable given the proliferation of "revival churches" which distribute information that is often incorrect, if not dangerous, particularly in terms of prevention.

The rate of HIV/AIDS prevalence in major cities is 4.2 per cent among individuals between 15 and 49 years of age. Among individuals older than 30 (35 to 49 years of age), prevalence rates are 10 per cent for men and 7 per cent for women. As of 30 November 2007, the World Bank has disbursed USD 12.2 million (of USD 19 million promised) enabling more than 80 NGOs to develop activities for HIV/AIDS prevention in five regions covered by the project, and to take 5 432 orphans and vulnerable children into their care through basic health-care, psychological, educational, and vocational training assistance as well as supporting them in starting or consolidating income-generating activities. This sum is in addition to the USD 45 million offered over a five-year period by the Global Fund to Fight AIDS, Tuberculosis and Malaria.

In 2007, 7 426 patients including 4 900 women suffering from AIDS were receiving antiretroviral treatments as part of the project financed by the World Bank. This figure is an increase of 1 530 patients over 2006. The government made the decision to ensure that antiretrovirals would be available free of charge to all those suffering from the disease in 2008.

The epidemic of Ebola, a fatal disease that breaks out in highly virulent episodes in the northwest of the country, was brought completely under control with the support of the World Health Organization. This situation suggests that the surveillance system in place is functioning effectively.

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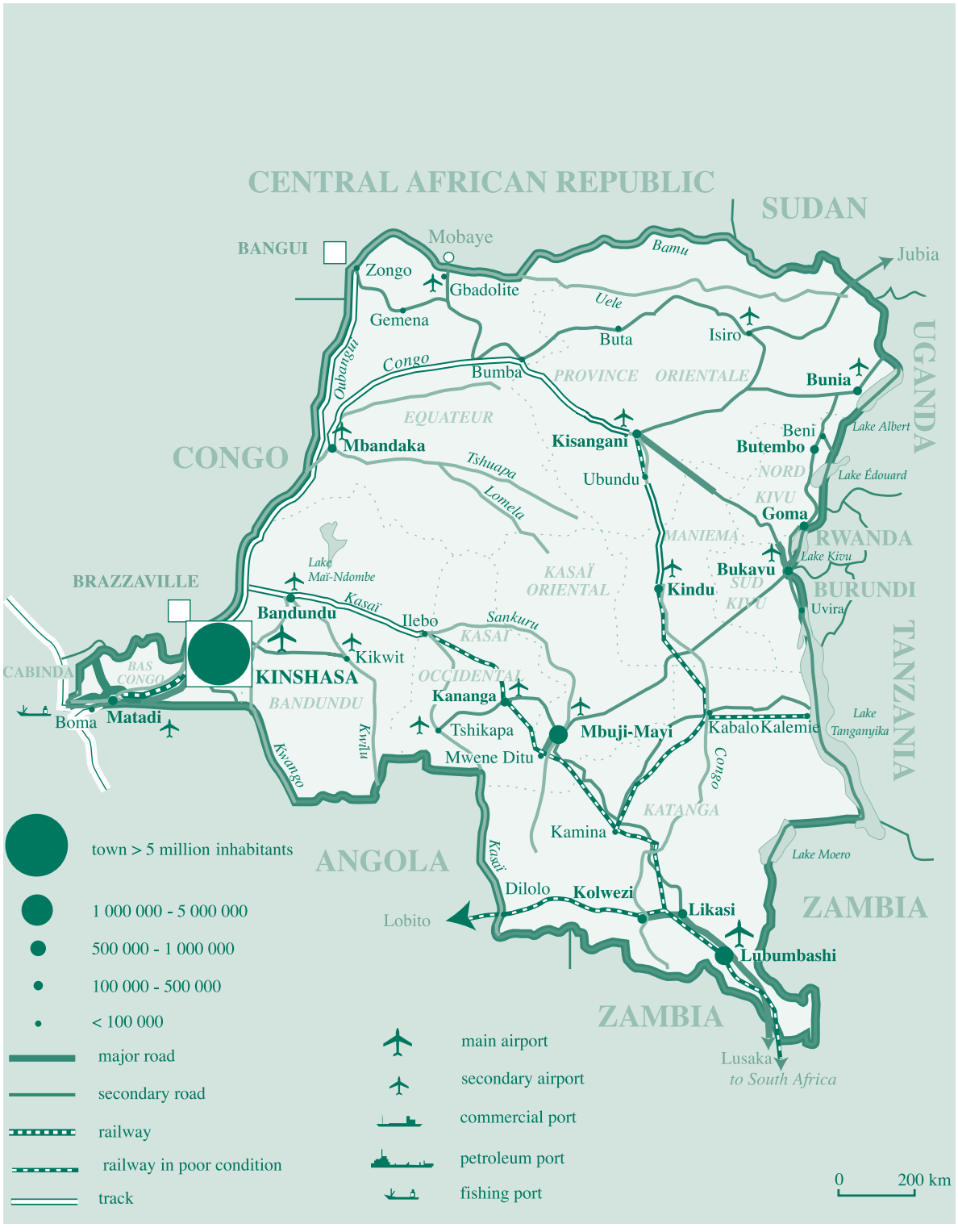
Democratic Republic of Congo



key figures

• Land area, thousands of km²	2 345
• Population, thousands (2007)	62 636
• GDP per capita, USD at constant 2000 prices (2007)	93
• Life expectancy (2007)	46.5
• Illiteracy rate (2007)	29.5

Democratic Republic of Congo



D.R. Congo

In 2007, the country recorded economic growth of 6.2 per cent, lower than the objective of 6.5 per cent but higher than the rate of 5.1 per cent rate posted in 2006. A faster growth rate is forecast for 2008 and 2009.

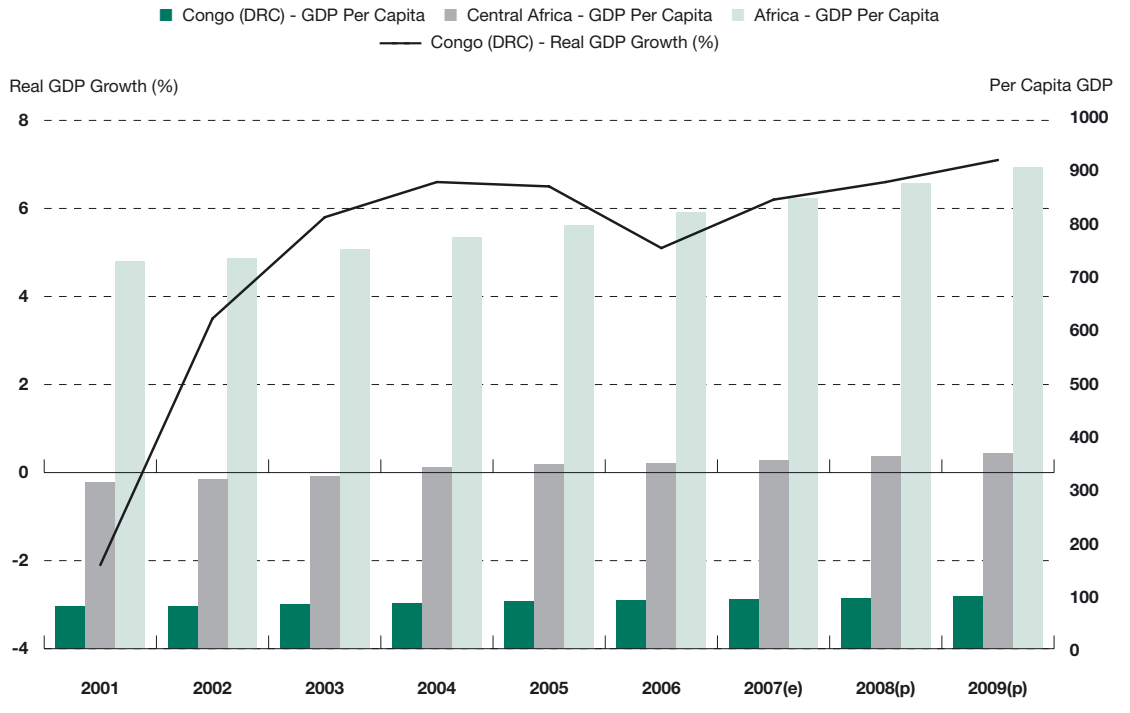
However, 2007 raised many expectations amongst the Congolese and not all have been satisfied. Institutions have been established and the decentralisation process has been laid out, but conflicts persisted in the eastern part of the country. The new government, installed in February 2007, has undertaken efforts to ensure the rigorous management of public finances. But macroeconomic stability did not materialise over the course of the entire year and continuing reforms have not made sufficient progress to address the problems weighing on the Congolese economy.

Even with peace and stability, current reforms are not enough.

Poor macroeconomic performance, slow reforms and non-implementation of the Growth and Poverty Reduction Strategy Paper (GPRSP) prevented the DRC from reaching the completion point of the Enhanced HIPC (Heavily Indebted Poor Countries) Initiative at the end of 2007 as planned.

Social tensions grew in 2007. Many companies and government services were affected by strikes, and

Figure 1 - **Real GDP Growth and Per Capita GDP**
(USD at constant 2000 prices)



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

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the labour market has become increasingly tight; access to drinking water and electricity remains problematic; hunger is killing thousands of people; the number of people with HIV/AIDS continues to rise; and insecurity was still a factor in 2007, especially in the eastern part of the country.

In November 2007, the Congolese government and its bilateral and multilateral partners met in Paris to discuss the economic performance achieved by the country in recent years and its future prospects. The parties agreed to a new triennial programme (2008-10) with a budget of USD 4 billion. In December 2007, the World Bank decided to grant the DRC aid, as defined by its Country Assistance Strategy (CAS), for 2008-11. The strategy aims to expand the state's authority, restore security in the east, end violence against women and children, promote good governance, fight HIV/AIDS and promote education.

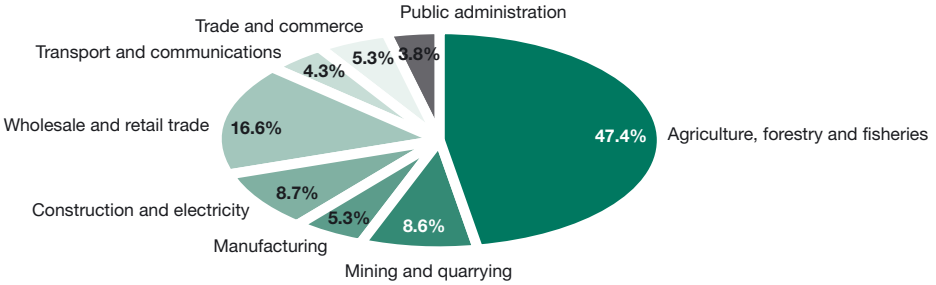
Recent Economic Developments

Growth slowed in early 2007 because of macroeconomic instability and strong political tensions. The situation improved in the second half of the year after public finances were stabilised. Inflation declined and productive activity accelerated, with a growth rate of 6.2 per cent, mainly boosted by the mining and quarrying industries as well as by the wholesale and retail trade.

Some 70 per cent of the population are dependent on agriculture, which is the main activity in rural areas and represented 48 per cent of GDP in 2006. In 2007, the agricultural sector recorded a growth rate of 3.1 per cent, a decline from the previous year. This fall was the result of the decreased production of certain products, particularly palm oil (down 45.9 per cent), cacao (down 31.3 per cent) and rubber (down 14.6 per cent). The agricultural sector has considerable potential for large-scale farming operations, but the country's conflicts have prevented it from regaining its vitality. The sector remains dominated by small farms that have had difficulty developing as a result of rundown transport infrastructures and the lack of bank credit.

Mining and quarrying industries (8.2 per cent of GDP in 2006) grew at a rapid pace. This performance primarily resulted from an economic upturn in Katanga province, an upswing in diamond production in the two Kasaï provinces,and growing world demand for minerals. The increased global demand for non-ferrous metals led to a considerable price rise, which has benefited Congolese mining production. Copper production increased by 2.5 per cent, cobalt production by 3.5 per cent and zinc production by 8.1 per cent. Total diamond production rose by 7.5 per cent at the end of June 2007 because of an increase in small-scale production (19.1 per cent). Industrial diamond production declined as a consequence of a business downturn at MIBA (Minière de Bakwanga). MIBA is suffering from obsolete production equipment and a decline in the geological grade of industrial diamonds caused by the depletion of detrital deposits. Moreover, in the first half of the year, productivity declined at MIBA and its 6 500 employees demanded back pay and threatened to go on strike.

Figure 2 - **GDP by Sector in 2006** (percentage)



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

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While the price of oil increased significantly in 2007, Congolese production dropped by 4.2 per cent compared with 2006. This decline, which began in 2005, resulted from the temporary closing of certain wells, maintenance work on some machinery and strikes against the enterprise Perenco, which operates in the Muanda costal area.

The construction sector recorded a growth rate of 5.6 per cent in 2007, significantly lower than the figure recorded in 2006. This downturn stemmed from an insufficient supply of cement due to a quasi-monopolistic situation and the country's limited cement production capacity (less than 100 000 tonnes per month). Cement production did not meet construction needs, particularly for PMURR (Emergency Multi-Sector Programme for Rehabilitation and Reconstruction) projects. At the end of the first half-year, production by the country's two largest cement manufacturers – CILU (Cimenterie de Lukalu) and CINAT (Cimenterie nationale) – totalled 249 839 tonnes compared with 252 372 tonnes the previous year. That figure represented a one per cent decline while demand grew by 2.6 per cent. The drop in production resulted from equipment breakdowns at CILU and cash flow problems at CINAT. Demand pressures led to a rise in cement prices.

Manufacturing production slightly increased in 2007. Several factors explain this loss of momentum: obsolete production equipment, a limited ability to use new technologies and the lack of competitiveness with foreign products. This situation also followed the April shutdown of Congotex, one of the country's largest textile factories, which faltered due to foreign competition. The manufacturing sector's poor performance was mitigated by the increased production of beverages. Between June 2006 and June 2007, the production of non-alcoholic and alcoholic beverages rose by 9.9 and 15.3 per cent respectively.

Table 1 - **Demand Composition**

	Percentage of GDP (current prices)		Percentage changes, volume			Contribution to real GDP growth		
	1999	2006	2007(e)	2008(p)	2009(p)	2007(e)	2008(p)	2009(p)
Gross capital formation	**16.5**	**13.4**	**10.0**	**15.7**	**17.5**	**0.8**	**1.3**	**1.6**
Public	1.1	3.4	10.0	15.0	16.0	0.2	0.3	0.4
Private	15.4	10.0	10.0	16.0	18.0	0.6	1.0	1.2
Consumption	**77.4**	**97.0**	**6.6**	**6.2**	**5.8**	**6.2**	**5.9**	**5.5**
Public	6.1	8.8	6.7	6.8	6.8	0.9	0.9	0.9
Private	71.3	88.2	6.5	6.1	5.6	5.4	5.0	4.6
External sector	**6.1**	**-10.3**				**-0.9**	**-0.6**	**0.0**
Exports	23.7	31.7	0.2	2.5	4.1	0.0	0.3	0.4
Imports	-17.6	-42.0	6.3	6.1	2.9	-0.9	-0.9	-0.4
GDP growth rate, volume	**-**	**-**	**-**	**-**	**-**	**6.2**	**6.6**	**7.1**

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

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The very important water and electricity production and distribution sector recorded a 0.8 per cent drop in 2007 because of its obsolete network and production equipment. The sector's poor performance imposes enormous economic costs on other sectors and has a negative impact on household conditions as well.

The transport and communications sector (4.1 per cent of GDP in 2006) recorded actual growth of 8.6 per cent in 2007. This performance results from the increased demand for mobile phones. The number of subscribers reached 5 million. Over the past few years, the communications segment has experienced

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strong growth: an average annual figure of approximately 67 per cent.

Faster growth beginning in the second half of 2007 also stemmed from the good performance of private consumption and gross fixed-capital formation, which recorded increases of 6.5 and 10 per cent respectively in 2006. The expansion of wholesale and retail trade was stimulated by the growth of private consumption.

The increase in the private investment rate reported in 2007 reflects the rise in the investor confidence index. The attractiveness of the mining sector, prospects for the country's reconstruction and the strengthening of macroeconomic stability beginning in the second half of the year also explain this trend.

GDP growth should accelerate in 2008 (6.6 per cent) and 2009 (7.1 per cent), mainly thanks to the performance of the mining sector, the current structure of the world minerals market, and planned investment in the mining sector (USD 3 billion). These economic growth projections could be achieved in view of good private investment prospects related to the return of peace and the signing of several contracts for investment projects between 2007 and 2008.

Macroeconomic Policies

Public spending overruns recorded in late 2005 and early 2006, added to structural reforms, had led the International Monetary Fund (IMF) to freeze budget aid for the DRC during the sixth review of the Government Economic Programme (GEP) in March 2006. In compensation, the government put forward an economic programme called *Programme relais de consolidation* (PRC). Taking its lead from the GEP, the government aimed to continue implementing reforms that would support stabilisation efforts. The PRC was not conclusively implemented. The poor state of public finances again led to the failure of the stabilisation programme. As a result, it delayed progress toward completion point of the HIPC initiative. In order to maintain dialogue with external partners and strive to re-establish the conditions necessary for a resumption of formal relations with the IMF, the government set up an IMF Staff Monitored Programme (SMP). Within the framework of the SMP, it was agreed that government budgetary policy should focus on stabilising public finances and redirecting public spending to the poor while reducing non-priority expenses.

Fiscal Policy

In mid-October 2006, to restore macroeconomic stability, the government announced a number of measures designed to increase the collection rate of public revenues and to reschedule certain pending payments. Despite these efforts, the state's financial operations posted a large deficit, which remained in place until February 2007. Monetary financing of the government deficit of over CDF 20 billion (Congolese francs) was envisaged, thereby leading to a monthly consumer price rise of 4 per cent and a monetary depreciation of 10 per cent in two months. This trend was subsequently reversed as a result of the strict management of public finances instituted by the new government. Beginning in July, however, certain spending overruns were noted, explained by the conflicts in the eastern part of the country and by the rise in payroll costs that accompanied the establishment of local and provincial institutions and the decentralisation process. The monthly remuneration for members of parliament rose from CDF 537.5 million to CDF 2 944.5 milllion, and payroll costs exceeded the ceiling agreed upon in the SMP (5.5 per cent of GDP).

Notwithstanding the delay in the implementation of fiscal reforms, coverage of public expenditures by domestic resources improved in 2007. The coverage rate rose from 58 per cent to 76 per cent. One reason was the performance of government financial institutions. General Tax Department (DGI) revenue increased from CDF 157.9 million in 2006 to CDF 256 million in 2007, while Customs and Duties Office (OFIDA) revenues rose from CDF 195.5 million to CDF 273.7 million. Estimated at CDF 526.8 billion for the first three quarters of 2007, actual revenues, including grants, came to CDF 571.6 billion, a realisation of 108.5 per cent. The under-utilisation of capital expenditures, however, is cause for concern

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

	1999	2004	2005	2006	2007(e)	2008(p)	2009(p)
Total revenue and grants[a]	**4.5**	**11.5**	**16.8**	**21.4**	**22.9**	**25.5**	**25.7**
Tax revenue	4.5	9.5	11.6	13.2	13.1	13.6	13.6
Oil revenue	0.0	2.0	5.2	8.2	9.9	11.9	12.1
Total expenditure and net lending[a]	**9.5**	**15.6**	**19.9**	**22.1**	**20.8**	**25.9**	**21.5**
Current expenditure	8.5	12.8	16.5	18.7	17.5	19.4	19.3
Excluding interest	*6.3*	*9.2*	*12.8*	*15.3*	*14.7*	*16.8*	*17.1*
Wages and salaries	4.0	3.6	4.4	5.5	5.0	5.4	5.1
Interest	2.2	3.6	3.7	3.5	2.7	2.6	2.2
Capital expenditure	1.1	2.8	3.4	3.4	3.3	2.1	2.3
Primary balance	**-2.9**	**-0.5**	**0.6**	**2.8**	**4.9**	**2.2**	**6.4**
Overall balance	**-5.0**	**-4.1**	**-3.1**	**-0.7**	**2.2**	**-0.4**	**4.2**

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

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(54.4 per cent). This situation can be attributed, in part, to the low payment rate of external resources intended to cover them.

The soaring price of a barrel of crude oil (around USD 100 at the end of 2007) slightly contributed to inflationary pressures, and should lead to an increase in the country's energy bill. Combined with the drop in oil production, the rise in crude oil prices should have had serious repercussions on public finances. Because world mineral prices had climbed since 2005, the DRC was able to make up the deficit in its energy balance through higher mineral export revenue.

The country's fiscal balance improved in 2007 thanks to a budgetary surplus resulting from the strict management of public finances the government had put into effect in February 2007. Even though the government submitted a balanced budget in 2008, it could still experience overruns. The various social and wage pressures, as well as the decentralisation process, could contribute to a budget deficit.

Monetary Policy

The DRC has a largely dollar-based economy. Exchange rate trends between the American dollar and the Congolese franc greatly influence the country's economic activity, conveying credible signs of the Congolese economy's health. Therefore, one of the monetary policy's objectives is to maintain the national currency's stability while mitigating budget overruns with the aim of preserving macroeconomic stability.

The beginning of 2007 was marked by major fluctuations of the Congolese franc. These fluctuations led to a certain degree of unpredictability about its future value and, as a result, uncertainty and lack of confidence. This climate had a negative impact on the country's economic growth and the effectiveness of its macroeconomic policies. The exchange rate depreciated by 10.5 per cent between January and February 2007 as a result, in part, to a widening of the government deficit, which was fully financed by the printing of money in the amount of CDF 28 billion.

The Central Bank of the Congo (BCC) subsequently conducted a prudent and restrictive policy, which led to a strong appreciation of the franc and a monetary surplus of up to CDF 76 billion. The bank was thus able to compensate for the damage caused by the restrictive budgetary policy, injecting the level of liquidity necessary for the smooth functioning of transactions. As a result, the exchange rate stabilised during the second half of 2007 before depreciating at the end of 2007 and the beginning of 2008.

Inflation and the exchange rate moved in tandem until August. During this period, the return of inflation stemmed from problems in the goods market and the

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implementation of certain fiscal measures. The government now imposes strict checks on goods bound for the DRC before they are loaded for shipping. This policy has lead to a rise in costs and in the price of certain imported products, such as foodstuffs. At year-end, inflation stood at nearly 11.4 per cent.

The country's banking sector remains small. Since the restructuring process began, certain banks have been liquidated and others are in the process of being liquidated. To expand banking services, the BCC has just approved the creation of a new bank, called Ecobank, and is in discussion with five other groups. The sector currently has 11 banks, and total assets, which amounted to USD 780 million in 2006 and USD 480 million in 2005, reached the USD 1 billion level in September 2007.

These assets mainly comprise cash reserves (more than half of the balance sheet). Outstanding debt is a relatively minor item, but its share has continued to grow over the past two years. With regard to liabilities, customer funds are the dominant item, largely composed of demand deposits in foreign currencies. This situation is characteristic of an underdeveloped financial sector.

In recent years, commercial banks have become much more open to small and medium-sized enterprises (SMEs) as a result of the establishment of microfinance institutions, notably Procredit Bank in 2005 and Afriland First Bank (operational in 2007). In 2008, the African Development Bank and other partners will finance the establishment of a new microfinance institution in the DRC.

External Position

Since 2005, the DRC has been involved in the Economic Partnership Agreement (EPA) negotiating process, which encompasses the central African region. This agreement includes the countries belonging to the Central African Monetary and Economic Community (CEMAC) as well as Sao Tome and Principe. In view of problems linked to the regional structure of negotiations and slow progress relating to development, the DRC was unable to sign an agreement as at 31 December 2007. In terms of international trade, the Congolese authorities decided to strengthen the agreement's enforcement over the control of imported goods before shipping as of 1 January 2008. This procedure serves to fight fraud and counterfeiting and to increase the collection of customs duties.

Between 2006 and 2007, the trade balance deficit widened, rising from 7.5 to 7.9 per cent of GDP. This decline should be viewed in relation to the growth achieved in 2007: the economy imported the inputs necessary for production on the one hand and the consumer goods that entered the wholesale and retail trade on the other. During 2007, equipment and raw material imports grew by 29.9 and 44.5 per cent respectively.

Exports rose by 8.5 per cent as at the close of the first half of 2007. Despite soaring oil and metal prices on the world market, oil and diamond export revenues declined due to a drop in production. In June 2006, exported diamonds had brought in USD 624.7 million while only generating USD 395.97 million in June 2007, a reduction of nearly 40 per cent.

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

	1999	2004	2005	2006	2007(e)	2008(p)	2009(p)
Trade Balance	4.0	0.9	-5.7	-4.9	-0.8	-4.0	-4.1
Exports of goods (f.o.b.)	7.6	27.6	29.2	27.1	29.4	29.9	29.6
Imports of goods (f.o.b.)	3.6	26.7	34.8	32.1	30.2	33.9	33.7
Services	-2.0	-4.9	-6.0	-5.4	-5.4	-6.7	-6.7
Factor income	-3.1	-4.4	-5.8	-5.5	-6.7	-4.1	-3.7
Current transfers	0.1	6.0	6.9	8.3	5.0	4.4	4.9
Current account balance	**-0.9**	**-2.4**	**-10.6**	**-7.5**	**-7.9**	**-10.5**	**-9.6**

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

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As is common among sub-Saharan African countries, foreign direct investment (FDI) in the DRC is directed towards the mining industry. This trend stems, in part, from the growth of world demand for minerals. In 2007, FDI reached USD 576 million compared to USD 500 million in 2006 and USD 405 million in 2005. With regard to the behaviour of the world minerals market, an increase in FDI is expected in 2008 based on China's investment plans and reconstruction prospects.

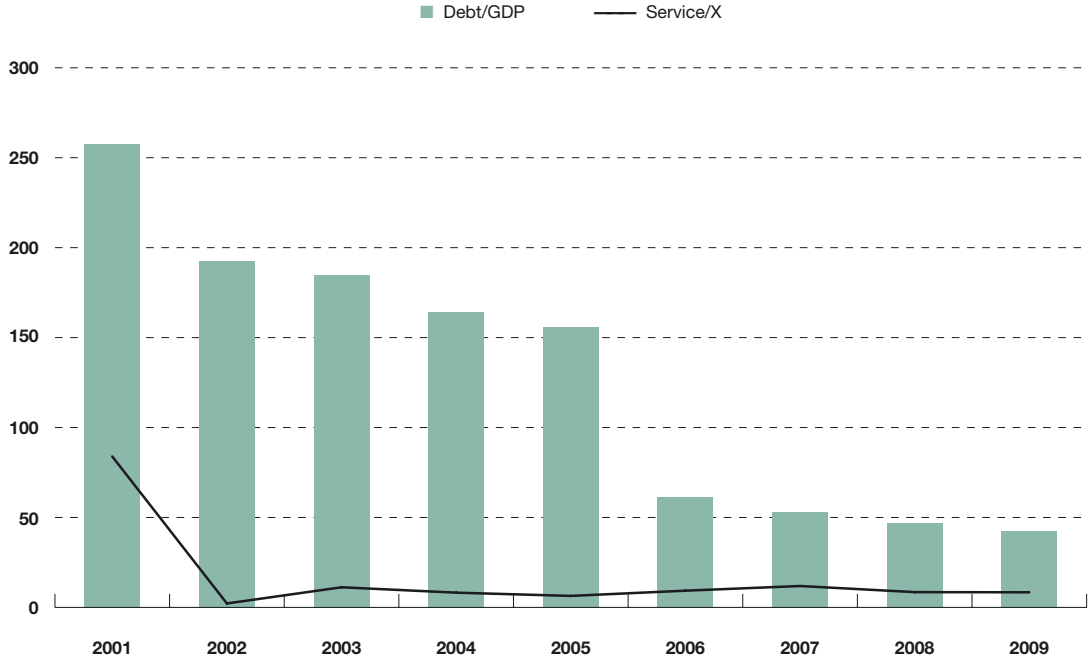
In September 2007, foreign reserves amounted to USD 215.4 million as against USD 177 million in August, moving the import coverage ratio to 3.5 weeks. The reserves were rebuilt to their December 2006 level of USD 53.2 million. They proved their value when the BCC had to intervene in the foreign exchange market to preserve the stability of the national currency and domestic prices.

While it has been admitted into the HIPC initiative and has already prepared the final version of its GPRSP, the DRC did not reach completion point in 2007 because of to its poor economic performance at the beginning of the year and the slow pace of structural reforms. The final version of the GPRSP will have to be implemented and evaluated before the initiative's completion point can be reached in 2008.

The debt service was not paid in full in 2007. The government only repaid debt services to multilateral institutions and the Kinshasa Club. At the end of September 2007, the external debt service totalled USD 70.1 million as against a projected service of USD 76.7 million. These payments dropped by 43.5 per cent over their 2006 level, mainly because of a suspension of commitments to the Paris Club since the second half of 2006. With regard to the London Club, the non-payment of the debt service resulted from the failure to reach a compromise concerning the actual stock of debt.

The IMF noted that the external debt would remain unsustainable in the absence of a stock transaction

Figure 3 - **Stock of Total External Debt** (percentage of GDP) **and Debt Service** (percentage of exports of goods and services)



Source: IMF.

StatLink http://dx.doi.org/10.1787/318572435603

under the HIPC and Multilateral Debt Relief Initiative (IADM). If completion point is reached in the first half of 2008, the maximum level of debt relief could be attained under these two initiatives, which should reduce the net present value to less than 150 per cent of exports.

The flow of aid experienced mixed results in 2007 because of the failure of the PRC and the poor allocation of HIPC resources. This trend was somewhat offset by the implementation of the SMP, and certain partners reconsidered their position in view of the return of macroeconomic stability in the second half of the year.

It should be noted that the DRC, in light of the agreements it entered into with China, will benefit from a significant level of development aid in the form of projects in 2008. Other Asian, European and Latin American countries are in the process of entering into similar agreements. However, there are no specific terms of reference defining the implementation of most of these projects. Furthermore, it should be recalled that the DRC and its partners adopted a common statement on development aid harmonisation and coordination during the meeting of the consultative body.

Structural Issues

Recent Developments

Growth prospects still fall short of the country's potential, largely because of problems related to the institutional framework and business environment. The 2007 *Doing Business* report ranked the DRC as the world's most difficult place to do business. In addition, the 2007 Transparency International report ranked the DRC 168th out of 180 countries, based on the level of corruption in the world of business. To expand the business sector, it will be necessary to further clean up business practices, fight corruption and instill good corporate governance.

In the second half of 2007, the government submitted four draft laws on: the transformation of public enterprises; the state's disengagement; the organisation and management of the state's portfolio; and general provisions applicable to public enterprises. The reform advocates the state's withdrawal from certain business sectors, the liberalisation of certain sectors by abolishing state monopolies, the privatisation of certain enterprises with negative economic and financial rates of return, and the restructuring of enterprises that do not have the resources to make the necessary investments in support of growth.

The government has identified its decentralisation priorities and developed a draft decentralisation law. To ensure that all stakeholders and local decentralised entities embraced decentralisation, the minister of the interior set up a preparatory committee at the national decentralisation forum. The committee carried out its tasks in October 2007.

The Congolese transport sector functions very poorly and has been incapable of serving as a growth engine. The state has not yet honoured its commitment to repair roads and restructure the transport sector. Certain projects launched several months previously are not moving forward because of a half-hearted disbursement of funds. After seemingly forging ahead, other projects found themselves practically back at their point of departure as a result of the torrential rains that struck the country in 2007.

Technical, commercial and financial difficulties faced by Regidesco (water authority) and SNEL (national electric company) are still making access to electricity and potable water problematic. Only 46 per cent of the population use high-quality drinking water, a percentage that masks the great disparity between urban (84 per cent) and rural (29 per cent) areas. Because of these poor results, the government is planning to restructure the two public enterprises and decentralise both sectors.

Given the gaps between drinking-water and sanitation needs and the services offered, it was decided to revise the Millennium Development Goals (MDG) downward: 49 per cent for potable water and 45 per cent for sanitation. The total cost required for achieving these objectives has been estimated as USD 217 million.

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In the rural environment, 60 per cent of waterworks are no longer operational through a lack of maintenance. In 2004, only 12 per cent of rural households had direct access to drinking water. Difficulty in accessing drinking water underlies a number of water-borne epidemics and diseases, such as cholera, typhoid and dysentery. In general, rural and suburban populations receive their drinking water from non-governmental organisations (NGOs) and religious congregations. At year-end 2007, the Fonds social de la république (FSR, government social fund) approved microprojects, including the provision of drinking water, submitted by the Kinshasa Development Agreement (CODEK) in the amount of USD 2.5 million.

The abolition of state monopolies, the repair of infrastructures, the development of an efficient intermodal transport system, and the state's withdrawal from public enterprises are all priorities. Improving the business climate remains a major challenge for reviving economic activity in the DRC. In 2006, the Congo Business Federation (FEC) initiated a process to identify needs and analyse solutions per sector and region in order to expand the private sector throughout the country. Plans call for dialogue with the government for the purpose of discussing and implementing the private sector's proposals in 2008.

In 2007, efforts to consolidate peace and security helped improve the business climate. Moreover, the Congolese authorities created a one-stop service to streamline the business creation process, improve customs clearance procedures, eliminate bureaucratic obstructions and contain the consequent fraud. A manual was distributed explaining customs clearance procedures as well as the decree establishing the one-stop service.

The audit and reform of business law, combined with the country's new reconstruction framework, are preconditions for the promotion of private investment and the signing of public-private partnerships (PPP). The DRC has expressed its interest in joining OHADA (Organisation for the Harmonisation of Business Law in Africa), which will lead to a simplificationof business legislation. Six commercial courts are to be established, two of which have been set up in Kinshasa and Lubumbashi. In addition, three legal reform projects have been initiated. The first addresses the creation of enterprises. The second concerns the Build, Operate and Transfer programme, with a view to facilitating private investment in the infrastructure sector. The third modifies the investment code to encourage long-term projects.

In 2007, the government also adopted a draft law that eased the tax burden to make the business climate more attractive and stimulate investment. Tax law reform took into account the government's objective of introducing a value-added tax (VAT) in 2009.

Moreover, a committee was set up in June 2007 to identify mining contracts that are unfavourable to the country. This measure would enable the government to assess the impact of contracts signed in recent years on investment, growth and public revenues. It would also allow the government to explore wealth-creation opportunities that would result from other forms of state withdrawal; these projects would be conducted in full transparency. The mining sector investment and tax codes are currently being revised in order further to attract foreign capital and encourage the signing of new PPPs.

To improve the business climate and boost intermediary financing, the government, in partnership with the World Bank, has prepared studies on the country's microfinance, leasing and security needs. The bank has also recommended expanding the national financial system to local banks. In March 2007, in order to develop a national policy for this sector and to provide it with a legal and regulatory framework, the government initiated a programme to support microfinance with the assistance of the United Nations Development Programme (UNDP).

The DRC has approximately 100 million hectares of dense tropical forest, of which 60 million hectares may be able to support sustainable forest exploitation. In 2007, the government drew up a priority reform agenda focused on the development and implementation of regulatory and legal foundations; establishment of zoning; nature conservation;

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development of forest resources; the sector's contribution to economic recovery and poverty reduction; strengthening of institutions; and management capacity building.

Global Witness was brought in to monitor illegal forest activities. The organisation began its pilot project in August 2007. In the second half of 2007, after the government decided to examine old forest contracts, it completed a review of documents and an assessment of 156 contracts for which a conversion request for new titles had been introduced. Approximately 20 irregular contracts representing nearly 3 million hectares were cancelled by order of the ministry of the environment in March 2007. A moratorium on the awarding of new concessions, issued in 2002, is still in force. From 2006 to 2007, eight additional implementing regulations of the forest code were signed. Six others were approved and are waiting to be signed.

Development of Technical and Vocational Skills

The underdevelopment of the DRC's economy stems, in part, from its low savings rate and its ineffective management of human capital. This situation results from the poor organisation of its education system, which no longer addresses the country's socioeconomic needs and problems. The government allocates meagre funds to education in general and to technical and vocational training in particular. Education spending as a proportion of the total budget dropped from 30 per cent in 1960 to 2 per cent in 2004, and this figure only represented payroll costs. The country has an insufficient number of technical and vocational schools, which only constitute 10 per cent of the number of general education schools.

In recent decades, the Congolese education system has operated on the dwindling financial resources devoted to the sector during a recessionary period. Enterprises, other employers and students show a lack of interest in technical and vocational education and training (TVET) because of this sector's current weak performance nationwide. There is a discrepancy between the supply of qualified labour and the demand for skills on the job market. The education sector is poorly organised and lacks a strategic vision and consistent structure for implementing programmes.

TVET is not a priority for the Congolese government, evidenced by the fact that it is not addressed in the national education outline law and only receives a brief mention in the strategy paper (GPRSP). This sector, however, ought to have its place through two of the president's major projects, namely education and employment. The low budgetary allocation to TVET supports this contention: 90 per cent of TVET costs are funded by families and students compared to 10 per cent by the state.

TVET institutions are organised and managed by several different bodies, such as the ministries of primary, secondary and vocational education; higher education; social affairs; youth; and public health as well as NGOs and the private sector. The management and coordination of this sector are therefore complex and inefficient.

The infrastructure is dilapidated and the educational tools and materials are obsolete. Most of the institutions the Congolese State created in past years to provide technical and vocational training are in a state of severe disrepair. The *École nationale de l'administration* (ENA: National school of administration) no longer exists, and the *Institut national de préparation professionnelle* (INPP, Vocational training institute) and *Centre interdisciplinaire pour le développement de l'éducation permanente* (CIDEP: Interdisciplinary continuing education centre) must operate on limited resources to fulfil their missions. Yet in the 1970s and early 1980s, these institutions were able to provide the country with skilled workers for specific occupations. This situation reflects the government's inadequate investment in school reconstruction and rehabilitation, which has a negative impact on enrolment capacity and the provision of specialised training at secondary schools and institutions of higher learning.

Teaching quality has seriously eroded, particularly through an an increase in the number of pupils. Teaching staff lack motivation, are largely underqualified and do

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not meet the labour market's changing needs. Because compulsory retirement no longer exists, old teachers retain their positions and neglect practical training in favour of theoretical, rote learning that ignores technological developments. The quality of curricula is declining because the subjects taught are out of date. Educational tools, equipment and textbooks are obsolete and in poor condition.

The growing indifference on the part of employers and students is evidenced by the lack of relations between the various schools and the institutions and enterprises that use them. Employers are increasingly less likely to attend school board meetings. Because the *diplôme d'état* (state diploma) is seen as possessing a legendary value, students scorn technical and vocational training, viewing it as intended for less important staff.

To meet training needs, some private enterprises provide job training through vocational schools or institutes of higher learning. Most of these schools teach their students how to practice a trade and earn a living. Subjects include mechanics, sewing, masonry /bricklaying, leatherwork, beauty care and hairdressing. The value of certificates granted by these vocational schools is a matter of subjective opinion.

Future prospects depend on the DRC giving serious consideration to technical and vocational training in its growth and development strategy. Several studies conducted by the department responsible for TVET noted the disastrous state of technical and vocational training and recommended solutions to revitalise this sector. Recommendations included: providing greater support to the teaching staff; easing admission requirements and improving career prospects for students; increasing financing for infrastructure, equipment and new technologies; strengthening curricula by adapting them to labour market realities; and establishing an institutional structure that encourages inter-school partnerships, public-private partnerships, dialogue and information sharing. A lasting and definitive solution depends on better management and coordination of TVET nationwide and, therefore, on implementation of the 2006 interministerial order on educational policy in the DRC. This order calls for placing the management and administration of all technical and vocational training scattered throughout the country under the authority of a single regulatory body.

Political Context

The free and democratic elections held in 2006 were a major political event for the DRC, establishing new institutional and structural foundations. The new institutions were set up in 2007 with Antoine Gizenga as head of government, Vital Kamerhe as leader of the national assembly and Léon Kengo wa Dondo as leader of the senate. In November 2007, the ministerial team was reduced in size from 60 to 44 members.

In 2007, this new exercise in democracy was put to the test when government institutions seemed, at times, to overstep their constitutional boundaries. On many occasions, the government was challenged by parliament about certain sensitive matters, such as an aeroplane crash, without demonstrating real concern. The state budget was reviewed by parliament before being adopted and implemented – the first such exercise in 40 years. The supreme court of justice invalidated the terms of office of certain national and provincial members of parliament convicted of fraud. The country nevertheless remains weak because of two factors: a difficult cohabitation between the current government and the opposition at all levels of government, and the inadequacy of the judicial system.

The fact that some opponents contested the outcome of the presidential elections is a good example. In March 2007, this controversy led to several days of tension in Kinshasa. The tension degenerated into confrontations between members of the personal bodyguard of Jean-Pierre Bemba, candidate in the second round of voting in the election, and elements of the regular army. After these events, the confidence index of enterprises and potential investors interested in operating in the DRC fell significantly.

The resurgence of armed conflict in the eastern part of the country between the regular army and

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armed groups, such as the militia led by dissident General Laurent Nkunda, is fuelling insecurity throughout the country. In the third quarter of 2007, the first government of the Third Republic had raised the possibility of putting an end to the violence in the east through the use of force. On 9 November 2007, a joint communiqué was signed in Nairobi by the Congolese and Rwandan governments stating their respective commitments to take specific steps to manage the situation in the east.

Because of continuing conflict in this region, the president of the tepublic convened, in January 2008, a conference on the peace, security and development of the North Kivu and South Kivu provinces. The conference, which took place in Goma from 6 to 23 January 2008, brought together more than 1 000 people, including several key officials and all the belligerent parties. The meeting resulted in a peace agreement signed by all armed groups. The agreement's provisions include a resolution demanding a ceasefire, the dismantlement of all armed groups, and the deployment of observers and UN forces. Welcomed by the population and the international community, the agreement put the country back on the path of security and peace on condition of an unequivocal and effective implementation.

Social Context and Human Resources Development

In spite of renewed growth since 2002, the DRC remains one of Africa's poorest countries. About 80 per cent of Congolese live on less than USD 1 a day. In 2007, the DRC was ranked 168th out of 177 countries in the category of human development. The various programmes created over the past few years have not improved people's safety, and inequalities have widened. The poverty rate in the DRC is very high, hovering at 70 per cent in 2006.

In respect of education, the school enrolment rate is declining. In 2000/01, according to national sources, the rate stood at 33 per cent for primary schools and no higher than 12 per cent for secondary schools. Only 29 per cent of children finish primary school and 4.7 million young children, including 2.5 million girls, receive no education at all. Since 2005, teachers have incessantly been demanding the salary increase agreed with the government in February 2004 (Mbudi agreement). This sets the monthly minimum wage at USD 208 whereas a teacher now only earns an average of USD 67. Teachers' salary demands delayed the start of the 2007/08 school year. In November, teachers from universities and public institutes went on strike to demand their pay. To resolve the problem, the parliament decided to devote CDF 18 billion to teachers' salaries in the 2008 budget.

To reform the educational system in line with MDG principles, the government considered various measures: renovation of 140 schools under the PMURR's social plan; implementation of the quarterly programme for allocating funds to operate publicly administered primary and secondary schools in order gradually to reduce the school fees paid by parents; an increase in the proportion of the total budget devoted to education from 3 per cent to 12 per cent; and adoption of priority action plans by the education sector.

Over the past few years, Congolese women have increasingly taken on the role of head of household because men have either been unable to support their families or have died. About 90 per cent per cent of women engage in subsistence activities, such as working the land, running a small shop or prostitution. As a general rule, women's rights are routinely ignored and there are major disparities concerning access to education, health care and resources. In the east of the country, women are assaulted, robbed and raped by armed men.

According to national sources, the prevalence of HIV/AIDS in the DRC hovers around 10 per cent, including 37 per cent among prostitutes in Kinshasa and 25 per cent among pregnant women in the east. These figures can be attributed, in part, to the presence of foreign troops from countries with a high prevalence of HIV/AIDS. These troops are operating amid a socially disorganised population victimised by frequent acts of violence, particularly of a sexual nature. The most

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common modes of transmission are sexual (83 per cent of cases), mother-to-child (2 per cent) and by blood transfusion (2 per cent). Approximately 3 million people live with HIV in the DRC. The 20-49 age bracket is the most affected and women make up the majority of cases.

The poor access to safe drinking water and environmental hygienic conditions plays a significant role in the spread of disease in the country. The proportion of the population without access to water facilities is 78 per cent. Only 9 per cent of the population uses hygienic methods for wastewater disposal.

In the DRC, health coverage does not meet the standards set by the World Health Organisation (WHO). Access to health services is very poor: only 26 per cent of the population live less than five kilometres from a facility. Even if reports indicate one health centre per 10 218 inhabitants (standard: 1 per 10 000 inhabitants), one maternity clinic per 40 613 inhabitants and a major general hospital per 180 397 inhabitants (standard: 1 per 150 000), relative to the country's area and population distribution, these figures clearly demonstrate a shortage of health centres.

As a result, death rates are dramatically high, with estimated figures of 1 837 per 100 000 live births for maternal mortality, i.e. three times greater than the continent's average rate (640 per 100 000), and 113.5 per 1 100 for infant mortality, while the continent's average stands at 80 per 1 000. Infant mortality is largely caused by diseases that could have been prevented by vaccinations. Available data indicates that nearly one out of five children has never been vaccinated. Life expectancy at birth (46.5 years in 2007) is lower than the African average. Approximately 1 200 people, of whom half are thought to be children, die every day in the DRC through to violence, disease and hunger.

The national unemployment rate is estimated at 8.9 per cent and the underemployment rate at 81.7 per cent. In general, unemployment and underemployment affect men and women in equal numbers regardless of their level of education. With 28 per cent unemployment among the working population under 24 years of age, youth unemployment is a major concern.

The labour market is also characterised by an employment rate that is relatively low in comparison to the average rate in sub-Saharan Africa: 63.1 per cent (50.8 per cent in urban areas as against 68.1 per cent in rural areas). This situation mainly stems from a relatively late entry into the labour market due to more years of schooling. Women and men are equally involved in the labour market.

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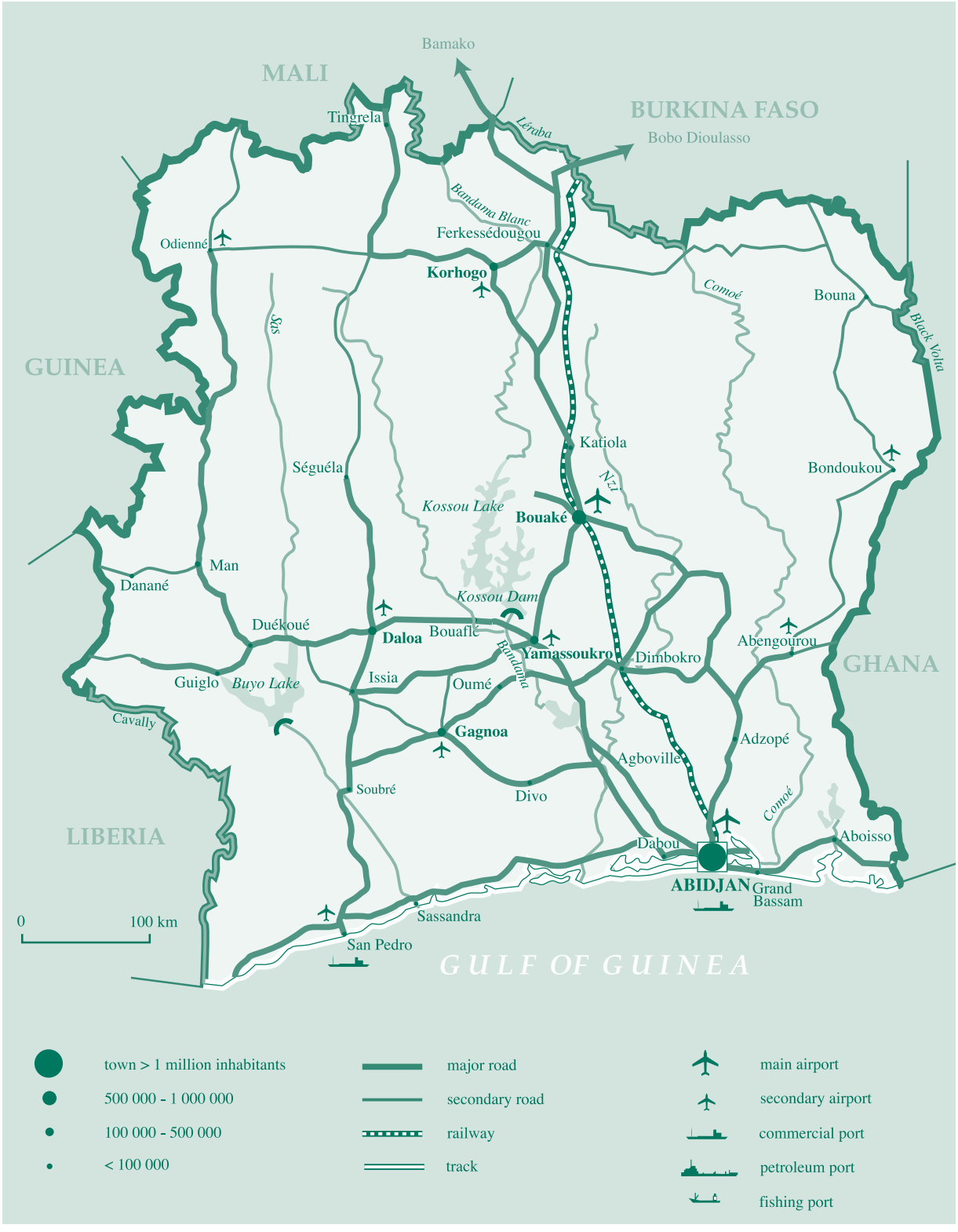
Côte d'Ivoire



key figures

• Land area, thousands of km²	322
• Population, thousands (2007)	19 262
• GDP per capita, USD at constant 2000 prices (2007)	554
• Life expectancy (2007)	48.3
• Illiteracy rate (2007)	44.5

Côte d'Ivoire



Côte d'Ivoire

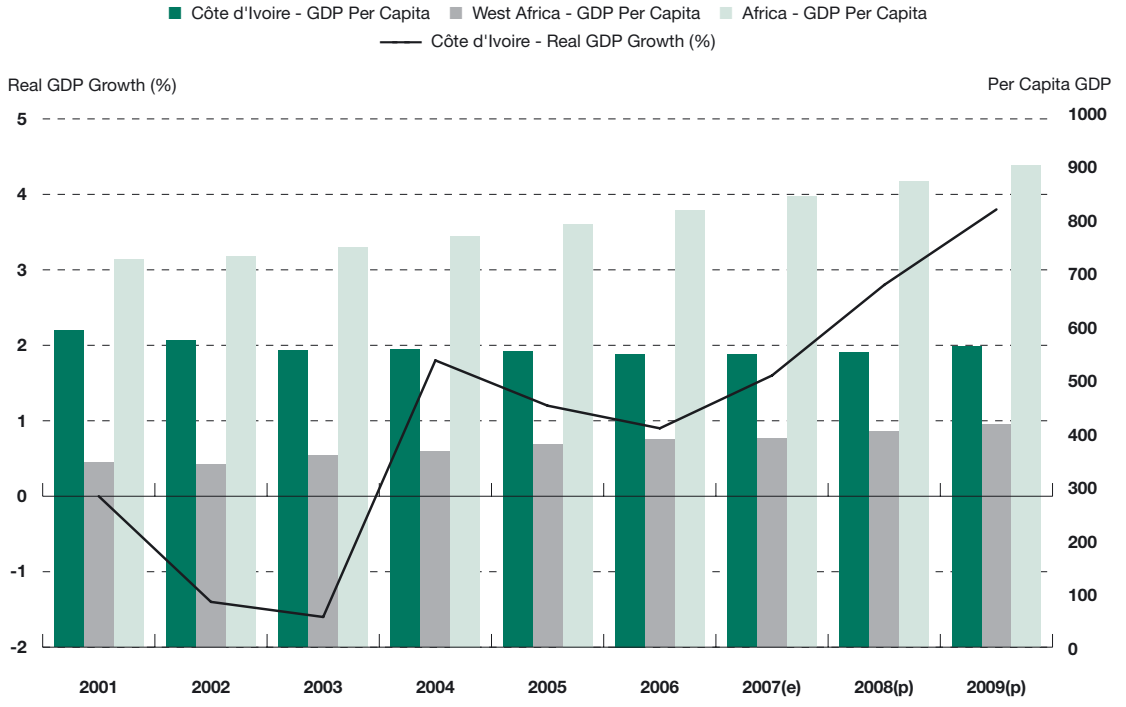
Côte d'Ivoire is still facing the consequences of the political crisis and its high points: the coup of 1999, the contested elections of 2000 won by current President Laurent Gbagbo, and the armed conflict of 2002 between the rebels and government forces. Beginning in September 2002, the conflict caused the flight of nearly 1.7 million people, the destruction of economic infrastructure and the breakdown of government administration. As it persisted, the crisis also brought a drastic fall in output, a substantial drop in employment and worsening security conditions.

In 2007, however, undeniable progress was made in re-establishing the country's institutions. This progress results from implementation of the Ouagadougou Agreement, signed on 4 March 2007 by the main protagonists of the political crisis.

The economy is recovering, but remains fragile.

Côte d'Ivoire's economy is recovering as the political situation returns to normal, but it remains highly vulnerable. The implementation of the Ouagadougou Agreement has calmed the political climate, leading to the signing of an economic-reform programme supported by emergency post-conflict assistance (EPCA) from the International Monetary Fund (IMF) on 3 August 2007, and to the adoption of plans to clear the country's external debt arrears to the World Bank and the African Development Bank (AfDB) group. Satisfactory

Figure 1 - **Real GDP Growth and Per Capita GDP**
(USD at constant 2000 prices)



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

StatLink http://dx.doi.org/10.1787/316331003781

implementation of the IMF-supported programme has been reflected in the continued recovery of the economy, as real GDP grew by 1.6 per cent in 2007, as compared to 0.9 per cent in 2006 and 1.2 per cent in 2005[1]. Consolidation of this growth in 2008 will depend on the renewed commitment of Côte d'Ivoire's main development partners.

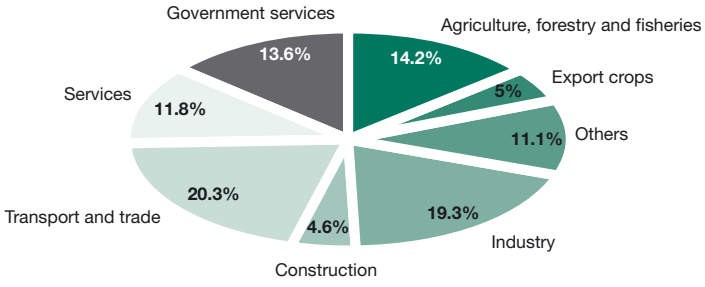
Recent Economic Developments

Agriculture employs 66 per cent of Côte d'Ivoire's workforce and contributes 70 per cent of export revenue. Cash crops, mainly cocoa and coffee, account for nearly 50 per cent of agricultural value added. Apart from the drop in output of cocoa (-20.1 per cent), cotton (-16.3 per cent) and pineapples (-17.7 per cent), the export agricultural sectors performed well in 2007, under the combined effect of higher producer prices and extension of the area planted with coffee, rubber and cashews. Output of rubber and cashews is estimated to have increased by 7.5 per cent and 16.4 per cent respectively in 2007. This performance is also considered to be due to the gradual normalisation of the social and political situation, which makes it easier to market farm products from the centre and northwest of the country. The sugar industry should see higher growth, with its output rising from 152 900 tonnes to 165 000 tonnes. The measures taken by the government to prohibit sugar imports in 2005 and 2006 should help sector operators (Sucaf and Sucreivoire) to cope with massive fraudulent imports.

The banana and pineapple sectors are still in difficulty, mainly as a result of lower prices and competition from Latin American countries. The drop in producer prices has led growers to shift their focus to other food crops and rubber. As a result, production of bananas and pineapples declined between 2006 and 2007 by an estimated 17.7 per cent and 1.9 per cent, respectively. The signature of the Economic Partnership Agreement is also expected to affect the behaviour of banana producers. Production of cottonseed declined due to low rainfall, particularly in the north, constraints related to financing of the growing season and transport difficulties. Cottonseed production for the 2006/07 growing season is estimated at 145 648 tonnes, a decline of 122 183 tonnes (45.6 per cent) from the 267 831 tonnes produced in the 2005/06 season. As at the end of September 2007, production of crude palm oil had grown by 3.6 per cent to 251 910 tonnes, as against 243 104 tonnes during the same period in the previous year, owing to strong domestic demand and the re-establishment of trust between processors and growers.

The secondary sector is expected to record growth of 1.5 per cent in 2007, as the net result of contrary

Figure 2 - **GDP by Sector in 2006** (percentage)



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

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1. After two years of negative GDP growth (-1.4 per cent in 2002 and -1.6 per cent in 2003), Côte d'Ivoire returned to positive growth of 1.8 per cent in 2004, owing to the strong performance of extractive industries and the recovery in processing (petroleum products and tobacco).

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Table 1 - **Demand Composition**

	Percentage of GDP (current prices)		Percentage changes, volume			Contribution to real GDP growth		
	1999	2006	2007(e)	2008(p)	2009(p)	2007(e)	2008(p)	2009(p)
Gross capital formation	**13.1**	**9.7**	**6.3**	**20.6**	**20.6**	**0.7**	**2.3**	**2.7**
Public	4.2	3.0	4.0	22.0	22.0	0.1	0.8	0.9
Private	8.9	6.7	7.4	20.0	20.0	0.5	1.6	1.8
Consumption	**78.7**	**79.9**	**2.7**	**4.2**	**5.2**	**2.0**	**3.1**	**3.9**
Public	6.5	8.2	3.6	4.9	4.7	0.3	0.4	0.4
Private	72.2	71.7	2.6	4.1	5.3	1.7	2.7	3.5
External demand	**8.2**	**10.3**				**-1.1**	**-2.6**	**-2.8**
Exports	40.4	51.3	1.8	0.8	1.5	0.9	0.4	0.8
Imports	-32.2	-41.0	5.8	8.3	9.3	-2.0	-3.0	-3.6
Real GDP growth	**-**	**-**	**-**	**-**	**-**	**1.6**	**2.8**	**3.8**

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

StatLink http://dx.doi.org/10.1787/320850166572

movements of its components. Extractive industries should shrink by 19.9 per cent due to persistent difficulties related to the silting up of oil wells. Growth in the construction sector should reach 6.6 per cent owing to the start of a number of large projects, including construction of the Jacqueville bridge and the extension of the motorway in the north. Agro-food industries are expected to benefit from the rise in export-crop production and the expected recovery of domestic demand.

For the first nine months of 2007, gas production amounted to 40 555 001 MMBTU, or 1.147 billion m^3, down 5.5 per cent from the same period in 2006. As in the case of oil, these output figures exceeded by 0.7 per cent the forecasts made at end-September 2007 (40 273 576 MMBTU). Gold production amounted to 1 059 kilograms for the period, up 14.5 per cent.

In the tertiary sector, sea traffic fell by 1.4 per cent in 2007 with respect to 2006, with about 13.88 million tonnes of goods traded. Air traffic increased on both the passenger (1.5 per cent) and freight (3.9 per cent) segments. The turnover index in the trade sector rose by 7.2 per cent over 2006, owing in particular to the gradual improvement in the business environment and increased receipts from export agriculture.

In terms of demand, growth in 2007 was primarily led by gross fixed capital formation and final consumption, estimated to have increased by 6.3 per cent and 2.7 per cent, respectively, compared to 2006. Public-sector gross fixed capital formation rose 4 per cent in 2007 year-on-year, as the disbursement of IMF funding boosted public investment. With the recovery in the manufacturing sector, private investment is estimated to have increased by 7.4 per cent, as against a fall of 4.9 per cent in 2006. The pick-up in consumption may be attributed to the increase in farmers' incomes stemming from favourable world commodity prices and to the recovery in agricultural production. Where external demand is concerned, exports increased only slightly (up 1.8 per cent), owing to the slowdown in crude oil extraction. Imports are estimated to have increased by 5.8 per cent in 2007 (versus 0.5 per cent in 2006), in line with the growth in economic activity and the increase in public investment spending.

Macroeconomic Policies

In 2007, the transitional government's programme focused on three priorities: promotion of peace, security and national reconciliation; reunification of the country; and economic revival and poverty reduction. These

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priorities formed the subject of negotiations with the IMF over an EPCA programme, which was approved by the IMF Executive Board on 3 August 2007. The main challenges facing the programme are to reduce imbalances, resume structural reforms and create a business environment conducive to private-sector development.

Fiscal Policy

The overall fiscal balance improved from a deficit of 1.4 per cent of GDP in 2006 to a surplus of 0.3 per cent in 2007. The basic primary balance[2] is estimated at 0.8 per cent of GDP in 2007, slightly under the target of 1 per cent laid down in the government programme agreed with the IMF. In 2007, the government focused on reduction of macroeconomic and financial imbalances, resumption of structural reforms and the creation of a favourable environment for the private sector.

Total public revenue is estimated at 20.8 per cent of GDP in 2007, up from 18.8 per cent in 2006. This improvement was due to several factors, including early tax collection (at the expense of a large tax break, however). The implementation of a system of standardised invoices to combat evasion of value added tax (VAT) and the expansion of the informal sector, as well as the rationalisation of the computerised customs clearance system also helped to boost tax receipts and offset the reduction in the tax rates on the industrial and commercial profits of large enterprises (from 35 per cent to 25 per cent) and of small and medium-sized enterprises (from 35 per cent to 27 per cent). In 2008, public revenue is forecast to be just under 20 per cent of GDP. Increasing it would require implementation of the plan to improve VAT collection, a substantial increase in oil and gas production, and better auditing and monitoring of oil revenue. In the oil sector, the protective margin of the national refining enterprise (Société Ivoirienne de Raffinage – SIR) will be reduced and pump prices raised slightly. The government is also expected to take advantage of progress in reunification to collect taxes throughout the country's territory, enhance the capacity of the tax administration and broaden the tax base. To this end, the use of standardised invoices will become the general rule.

The budget objectives for 2007 and 2008 include expenditure for reconstruction, rehabilitation of economic infrastructure, the organisation of elections, payment of domestic arrears and settlement of a substantial part of the country's multilateral debt. In 2007, public expenditure remained high (about 20.5 per cent of GDP) due to exceptional expenditures arising from the political crisis, which doubled between 2005 and 2006. These expenditures were made for implementation of the disarmament, demobilisation and reintegration programme, the redeployment of government bureaucracy, the organisation of elections and hiring in the social sectors throughout the country. The high level of spending may also be attributed to, amongst other things, the clean-up costs entailed by the discharge of toxic waste in Abidjan in August 2006. In addition, the cost of "front-line bonuses", new recruits in the army and subsidies to the power and gas sectors proved higher than expected.

In view of the country's considerable reconstruction needs, the government hopes to see a re-engagement of the international financial community in Côte d'Ivoire. To this end, it has allocated resources equivalent to nearly 2 per cent of GDP to clear part of its arrears with the World Bank and the AfDB. On 18 July 2007, the authorities held a conference of donors, who announced funding commitments that amply cover the post-crisis programme, including the emergency programme. The government gave a commitment for 2008 to step up its efforts to return to budget orthodoxy, i.e. to stop pre-spending the budget.

For the first time in eight years, the budget process returned to normal in 2007 with the adoption of the 2008 budget on 28 December 2007. The budget amounts to XOF 2 129.1 billion (CFA Francs BCEAO), up 8.6 per cent with respect to 2007. The bulk of the

2. The basic primary balance is defined as the difference between total revenue (excluding grants) and non-interest expenditure (excluding expenditures for clean-up of toxic waste).

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

	1999	2004	2005	2006	2007(e)	2008(p)	2009(p)
Total revenue and grants[a]	**16.9**	**18.4**	**18.2**	**18.8**	**20.8**	**19.9**	**20.1**
Tax revenue	14.8	15.2	14.5	15.3	15.5	15.7	16.1
Grants	0.5	0.9	1.1	0.6	1.4	1.2	1.0
Total expenditure and net lending[a]	**19.8**	**20.1**	**19.9**	**20.3**	**20.5**	**23.1**	**24.5**
Current expenditure	15.3	17.2	16.9	17.0	17.5	19.2	19.9
Excluding interest	*11.5*	*15.0*	*14.9*	*15.5*	*16.0*	*17.5*	*17.8*
Wages and salaries	5.5	6.7	6.5	6.4	6.4	7.1	7.1
Interest	3.9	2.2	2.1	1.4	1.5	1.7	2.1
Capital expenditure	4.2	2.8	2.7	3.0	2.9	3.7	4.4
Primary balance	**1.0**	**0.6**	**0.3**	**0.0**	**1.8**	**-1.5**	**-2.3**
Overall balance	**-2.8**	**-1.7**	**-1.7**	**-1.4**	**0.3**	**-3.2**	**-4.4**

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

StatLink http://dx.doi.org/10.1787/321622442275

budget relates to the disarmament, social reintegration and community rehabilitation programme, the organisation of elections, redeployment of the machinery of government over the country's entire territory and building a new national army. Tax revenue for 2008 is projected to be XOF 1 576.2 billion, or 74 per cent of the budget. The remaining 26 per cent is to be met through other domestic resources, borrowing and external support. Public expenditure in 2008 is allocated as follows: 26.1 per cent to servicing the public debt, 32 per cent to personnel costs, 23.5 per cent to operating expenditures, 16.6 per cent to investment expenditures and 1.8 per cent to subscriptions for supply of electricity, gas, water and telephone service.

As domestic resources do not suffice to cover the fiscal deficit, the latter has mainly been financed by accumulating external arrears – which amounted to 14 per cent of GDP in 2004 and 21 per cent in 2006 – and borrowing on the financial market of the West African Economic and Monetary Union (WAEMU). A bond issue of nearly XOF 225 billion was carried out in September 2007 to cover the costs of reconstruction and the payment of domestic and external (World Bank and AfDB) debt arrears.

Despite its difficult financial position, Côte d'Ivoire has managed to keep up to date with its current debt obligations to the World Bank and the AfDB since July 2007, and has formulated plans to clear its stock of arrears to those institutions. In addition, the government has reduced its outstanding arrears to domestic suppliers. As regards convergence within the WAEMU framework, Côte d'Ivoire satisfied two criteria – including one of the first importance – out of nine in 2006, namely those relating to inflation and the current external balance.

Monetary Policy

Since Côte d'Ivoire is a member of WAEMU, its monetary and credit policy is in the hands of the Central Bank of West African States (CBWAS). The money supply in circulation grew by 10 per cent in 2006. Increased demand for money, stemming from a reduction in net credit to the state and a pick-up in credit to the economy, led to a rise in the banking system's net external assets. Credit to the economy increased only slightly between 2004 and 2005 (by about 1 per cent). The central government's continued accumulation of payment arrears contributed to the bankruptcy of several firms, however, and the proportion of non-performing loans rose from 22 per cent in 2004 to 27 per cent in 2005. Broad money is projected to increase by 4.8 per cent in 2007, mainly as a result of a moderate rise in credit to the private sector (1.4 per cent at end-September 2007), stronger growth in net credit to the government (about 6 per cent at end-September 2007) and the rise in net foreign assets (10.5 per cent over the same period). The improvement

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in the net external asset position is primarily due to the Issuing Institute (+XOF 85.7 billion), in relation to increased repatriation of export receipts, the compensation payment made to the government after the discharge of toxic waste in Abidjan and assistance from the IMF for the EPCA programme (XOF 29.7 billion) and for new commitments contracted by the government (XOF 12.1 billion).

Bank branches located in the north, which had been closed since 2002, are gradually reopening for business. Non-performing loans fell from 26 per cent of total credit in 2004 to 20 per cent in 2006. The WAEMU banking commission is maintaining close surveillance on six banks out of 18. Four banks are not in compliance with the solvency ratio requirement. The micro-finance sector, which accounts for 6 per cent of financial business, was not able to expand owing to the persistence of the crisis, leading to negative equity for the entire sector. Efforts to reduce the share of loans in the portfolio of the Banque nationale d'investissement (BNI) continued, but the BNI is still not in compliance with the ratios for liquidity and credit to shareholders. The BNI's share capital has not yet been opened to private investors.

External Position

Côte d'Ivoire is the world's leading cocoa exporter and in recent years has been earning export revenue from offshore oil production. In 2006, petroleum-product exports rose as a new well came on stream, increasing the surplus in current external transactions (excluding grants). Offshore production rose by over 53 per cent from 2005 to 2006 as new fields were discovered and put into production, but is expected to fall by about 21 per cent in 2007 due to the silting up of wells. The rise in oil exports did not entirely offset the negative effects of cocoa prices and the rise in the price of imported oil. It should be mentioned that in 2006, the output of the coffee and cocoa sector fell by nearly 16 per cent, while imports increased by about 18 per cent due to higher prices for petroleum products. In 2007, cocoa exports dipped slightly (0.02 per cent) in value. The balance of current transactions amounted to 4.3 per cent of GDP in 2007, versus 3.4 per cent in 2006.

In 2008, the current-account balance is projected to show a small deficit (-0.3 per cent of GDP) versus 4.3 per cent in 2007, owing to a larger-than-expected fall in exports of crude oil, petroleum products and cocoa. Imports should rise by nearly 8.3 per cent. Private capital inflows have slightly reduced the deficit on capital account, but the deficit remains sizeable because of the scarcity of external financing. The overall balance-of-payments deficit is estimated at 0.5 per cent of GDP in 2007, down from 2.5 per cent in 2006. It was financed by accumulating external arrears.

As of December 2006, total external debt (including arrears) amounted to 73.2 per cent of GDP. Payment arrears were 21 per cent of GDP (2.4 per cent for the AfDB group). In 2006, the ratios of total debt to GDP and to exports, in net present value terms, are estimated respectively at 85 per cent and 166 per cent. By way of comparison, the benchmarks of the Heavily Indebted Poor Countries (HIPC) Initiative are 50 per cent and

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

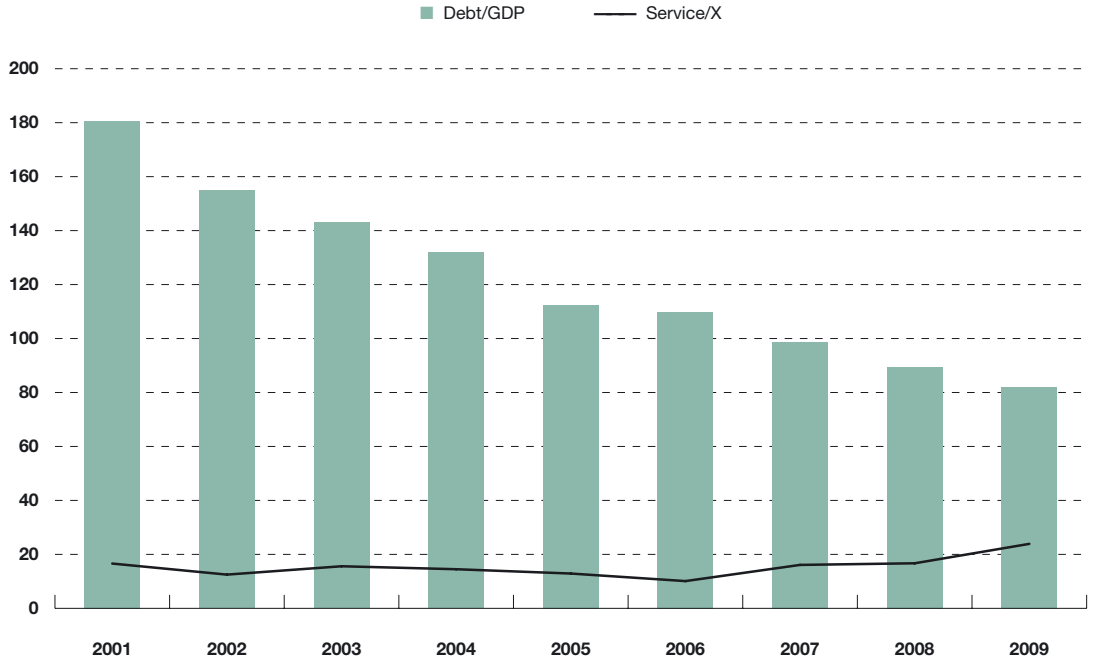
	1999	2004	2005	2006	2007(e)	2008(p)	2009(p)
Trade balance	15.1	17.0	15.0	18.0	18.0	13.0	10.2
Exports of goods (f.o.b.)	37.1	44.7	47.1	47.7	47.8	46.6	45.2
Imports of goods (f.o.b.)	22.0	27.7	32.1	29.7	29.8	33.6	35.1
Services	-6.9	-8.2	-7.9	-7.5	-7.2	-7.1	-6.8
Factor income	-6.0	-4.2	-4.1	-6.1	-5.5	-5.3	4.9
Current transfers	-3.1	-3.0	-2.8	-1.0	-0.9	-0.9	-0.8
Current account balance	**-1.0**	**1.6**	**0.2**	**3.4**	**4.3**	**-0.3**	**-2.3**

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

StatLink http://dx.doi.org/10.1787/322578771341

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Figure 3 - **Stock of Total External Debt** (percentage of GDP) **and Debt Service** (percentage of exports of goods and services)



Source: IMF.

StatLink http://dx.doi.org/10.1787/318577448246

150 per cent, respectively. In 2007, the ratios of net present value of external debt to GDP and to exports are estimated respectively at 64 per cent and 124 per cent, both of which exceed the benchmark levels for external-debt sustainability (30 per cent and 100 per cent). The share of bilateral creditors (including the Paris Club) represents 49.4 per cent of total outstanding external debt; that of multilateral debt, about 30.3 per cent. Domestic debt, which the government began to securitise in 2007, amounts to 13.5 per cent of GDP, including 7.9 per cent for arrears in 2005.

Côte d'Ivoire is a member of several sub-regional integration organisations, the most important being WAEMU and the Economic Community of West African States (ECOWAS). The persistence of the political crisis in Côte d'Ivoire – the leading economy in West Africa, accounting in 2001 for about 39 per cent of WAEMU's GDP and 25 per cent of that of ECOWAS – has had a negative impact on the other countries in the sub-region, particularly landlocked countries such as Burkina Faso, Mali and Niger. In 2007, several years after the outbreak of the crisis, Côte d'Ivoire's share in the GDP of WAEMU had shrunk to 34 per cent. The country is eligible for the HIPC Initiative, following the resumption of financial co-operation with its partners in 2002. The Paris Club had agreed to reschedule its debt of USD 2.26 billion, with immediate cancellation of USD 911 million, to reduce debt service on the debt of USD 2.26 billion to USD 750 million between 1 April 2002 and 31 December 2004. Debt relief at the HIPC decision point, initially scheduled for 2003, was estimated at USD 345.2 million. The crisis that broke out on 19 September 2002, however, upset the whole process, and the country has not yet reached the decision point. Subject to satisfactory implementation of the IMF programme, the conclusion of a Poverty Reduction and Growth Facility (PRGF) between 2008 and 2009, and the re-engagement of its development partners, including the AfDB and the World Bank, Côte d'Ivoire will receive debt relief under the HIPC Initiative and the Multilateral Debt Relief Initiative.

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Structural Issues

Recent Developments

In March 2002, the Ivorian government had concluded a PRGF with the IMF, but its implementation was suspended owing to the political crisis of September 2002. Since then, the authorities have continued the reforms – despite having no current programmes with the development community – with mixed results.

Where management of public finances is concerned, the government extended the devolution of fiscal management to 11 local authorities, within the framework of the integrated system for management of public finances (SIGFIP). A new public-procurement code was adopted in February 2005 and entered into force a year later, in April 2006. On the reform front, the tax authority has broadened the implementation of the standardised invoice, reduced delays in reimbursement of VAT credits and reduced the amount of outstanding credits via the new procedure introduced in 2006. Under the government's customs reform plan for the 2001-06 period, control of trade flows in transit to and from neighbouring countries was improved and a new version of the customs information system (Sydam-World) introduced.

To improve management of public finances, the government also carried out a review of public expenditure and financial accountability in November 2007, with support from the AfDB and the World Bank.

Reform of the coffee and cocoa sector led to the abolition of the stabilisation fund and the creation of the following main bodies: the regulatory authority for the sector (Autorité de Régulation du Café et du Cacao – ARCC), the coffee and cocoa exchange (Bourse du Café et du Cacao – BCC), a regulatory fund (Fonds de Régulation et de Contrôle – FRC) and a sector development fund (Fonds de Développement et de Promotion de la Filière Café-Cacao – FDPCC). Apart from the ARCC, which has a completely unambiguous status as a state-owned enterprise, most of these bodies have legal forms that are not recognised by the Organisation for the Harmonisation of Business Law in Africa. This situation has not been conducive to transparency in the management of financial flows in the sector. Recommendations had been made to improve governance in the sector – by Côte d'Ivoire's development partners, amongst others – such as suspending the taxes levied for purposes of investment by the FRC and FDPCC, gradually reducing the levies used to cover operating costs, provisionally suspending "bagging" taxes in order to verify how they are used, analysing the subsidy granted to processors, reviving the process of taking a census of producers in order to ensure transparent elections of their representatives, and publishing regular information on the collected taxes.

The government has begun to put these recommendations into practice. In 2007, for example, it published information on taxes levied since 2001, making it possible to observe the progress made in reducing them (down XOF 3 per kilogram of cocoa, i.e. only one-third of the planned reduction). The authorities also adopted regulatory measures aimed at rationalising and improving management of the sector's resources. These measures include two executive orders dated 10 March 2006 creating a committee to assess and monitor projects and programmes in the coffee and cocoa sector, establishing and organising the FDPCC, and setting disbursement procedures for the "FDPCC-investment" and "prudential reserve" levies. Full information on how these funds are used is not available, however, to the detriment of transparency concerning the management of the sector. In the medium term, the major concern remains the establishment of a new institutional, regulatory and legal framework, which will require a thorough overhaul of the sector. Terms of reference have been drafted on the strategy for reviving the sector. The study should be completed by the first quarter of 2008.

In the financial sector, the banking system had virtually disappeared in the north of the country, where 50 bank branches had been closed. Since mid-2007, some of these banks have resumed their activity. The regional stock market (Bourse régionale des valeurs

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mobilières – BRVM) stood up well to the 2002 political crisis, with trading volume rising by nearly 3 per cent from 2002 to 2006. The state's share in the BNI's total loan portfolio, however, fell from 83 per cent in 2001 to 60 per cent in 2006. The state's debt to BNI (XOF 150.7 billion) has been consolidated and will be repaid in 14 half-yearly instalments. Execution of the consolidation agreement is going well. Another cause of concern is the persistent structural deficits and viability of the postal savings bank (Caisse d'épargne et des chèques postaux). The government has made no real progress in eliminating these structural deficits and has not developed a credible business plan to ensure the viability of this institution.

In the energy sector, the audits of SIR and the national oil enterprise (Société nationale d'opérations pétrolières en Côte d'Ivoire – Petroci), conducted with support from the World Bank, have been completed, while that of the national power enterprise (Compagnie ivoirienne d'électricité – CIE) is nearing completion. New oil and gas deposits have come on stream. In May 2006, the government announced that it would join the Extractive Industries Transparency Initiative. In the electricity sub-sector, it signed a protocol with CIE in March 2007 to clear cross-arrears. It also plans to introduce better financial and fiscal monitoring of energy production (oil, gas, electricity, refined products) and to establish an inter-ministerial technical committee for monitoring and reporting. Lastly, the government is to review oil taxes (both production and consumption) and the pump price adjustment mechanism. In the electricity sub-sector, it undertook not to accumulate further arrears for the purchase of electric power and gas, and to limit the gas subsidy granted by the state to XOF 30 billion.

In the coffee and cocoa sector, the government will continue its efforts to improve transparency and reduce the parafiscal levies allocated to the FRC, FDPCC and other bodies. As part of the implementation of its programme, development partners recommended that it should stop granting tax breaks for early payment and eliminate the export tax on coffee and cocoa. They also advised it to begin cleaning up accounts for advances to exporters as soon as possible. The authorities also plan to develop an overall strategy for the development of the sector before end-2008, on the basis of status reports and financial and operational audits of the sector. This strategy would involve revamping the institutional, legal and regulatory framework, with special emphasis on governance of the sector.

Technical and Vocational Skills Development

Côte d'Ivoire's system of technical and vocational education and training (TVET) delivers several types of diplomas after two or three years of study: certificates of qualification, occupational certificates, vocational proficiency certificates, technician's and advanced technician's certificates, and the baccalaureate, or secondary-education diploma. The main trades concerned are cosmetology and beauty, construction, management, electricity and electronics, hotels and tourism, printing, computer science, quality and processing, soldering and fishing.

Since 1991, with the implementation of the human-resources development programme, Côte d'Ivoire has built an efficient system of vocational training. The core of the system is the vocational training development fund (Fonds de développement de la formation professionnelle – FDFP), which manages the apprenticeship tax (0.5 per cent of the total wage bill) and the additional tax for continuous vocational training (1.5 per cent), levied through compulsory contributions. The FDFP also administers any other funding earmarked for vocational training that is placed at its disposal. Its tasks relate to financing, monitoring and evaluation of in-service training plans and projects. The FDFP provides in-service training with the support of partners.

Like the general education system, technical education faces the problems of the uneven geographical distribution of schools, the great majority being located in the country's two large cities, Abidjan and Bouaké. The vocational-training system has been experiencing difficulties in recent years. Owing to the crisis, the existing system has not been maintained, particularly in Bouaké. As a result, a number of training institutions are lacking in appropriate workstations and workshops

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for hands-on lessons. This situation has reduced the overall intake capacity of training institutions. The apprenticeship programme for youth has not achieved its targets owing in particular to the lack of funding and of engineering skills.

In 2006, there were 47 488 students enrolled in TVET schools and centres, 46.8 per cent of whom were female. Nearly 90 per cent of TVET institutions are in the private sector, which attests to the vitality of TVET in Côte d'Ivoire. Whereas in the past TVET was perceived as a last-resort solution, it is increasingly sought-after today. TVET institutions try to meet the needs of all social classes and operate in a number of sectors. Moreover, the increased female participation in these sectors is taken into account in technical and vocational training, and some institutions have accommodated the family obligations of some women instructors who have children by arranging their work schedules so that they come on duty later in the day.

Over the last 15 years, the technical education sub-sector (which together with vocational training makes up the TVET sector) has been attached to one supervisory ministry after another, a situation that has not been conducive to the formulation and follow-up of a serious policy of human-resources development. The Ministry of Technical Education and Vocational Training has gone through many changes: twice given the status of a full-fledged ministry; twice broken up, with its internal departments scattered amongst other ministries; restored to ministerial status in 1996, but stripped of the *grandes écoles*, which remained under the Higher Education Ministry, and with specialised training centres falling under the remit of other technical ministries; and so on. As a result of this instability and the diversity of decision-making centres, the ministry has lost its distinct identity, its coherence has been reduced and its internal and external efficiency has steadily declined. With the formation of the first government under the Second Republic, in October 2000, this ministry disappeared once again, with its competencies redistributed to the Ministries of Education, Youth, and Employment and Vocational training. The division of responsibility for the sector amongst these three ministries has in fact led to problems in co-ordinating tasks and activities and held back the design of a coherent, integrated sectoral policy. Since 2007, however, there has been a ministry specifically responsible for technical education and vocational training.

The government's new strategy for technical education aims to broaden access to technical training at the senior secondary level. To this end, the authorities intend to raise the intake capacity of public technical education, taking into consideration the needs identified throughout the country, the cost of building and equipping schools, and the constraints on public finances.

In the vocational training sub-sector, the main proposals are as follows: in establishing training streams, to take into account the emergence of new trades and to consider all production sectors and branches (agricultural sector, informal sector, etc.), particularly those that have jobs to offer; to involve the productive sectors in designing programmes; to develop streams in trades that are truly in demand on the labour market; to include entrepreneurship in programmes, particularly for creating one's own employment; and to extend vocational training through apprenticeship.

Political Context

The Ouagadougou Agreement signed on 4 March 2007 by the main protagonists in the political crisis – which broke out in December 1999 – is the fruit of direct dialogue amongst the parties. Before this agreement was reached, a number of initiatives, both internal and external, had been undertaken to resolve the crisis. The Ouagadougou Agreement, which is based on United Nations Security Council Resolution 1712, was implemented through the formation of a new government consisting of representatives of the main political forces directly involved in the crisis. Guillaume Soro, the secretary-general of Forces Nouvelles (the rebellion in the north), became Prime Minister. On 16 April 2007, the country initiated the dismantling of the "trust zone" under international control that had separated north from south since 2002. On

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2 May 2007, the government held a seminar on the 4 March Agreement, chaired by the Prime Minister. The meeting allowed the new government to formulate an action plan for implementing a post-conflict programme. This action plan was submitted to a donor round table in order to elicit their intentions as regards funding the programme.

The holding of mobile public-identity hearings for people lacking birth certificates (*audiences foraines*), a preliminary step in providing identity documents to the population and hence in organising the presidential election, requires unswerving commitment from the protagonists of the crisis. Similarly, the political situation remains delicate and requires increased support from the international community.

Despite the recent progress in consolidating the peace process, there are serious problems of governance, both political and economic. Politically, the country's institutions have been weakened by the decline in the democratic process since 1999. The rule of law, the fight against corruption, participation and accountability are not assured effectively. Similarly, security and peace of mind are not yet guaranteed for all citizens, owing in particular to the poor institutional and financial capacity of the state and deficiencies in the judicial system.

The reforms initiated to improve transparency in public finance management were not taken to completion. The implementation of SIGFIP revealed shortcomings due to excessive centralisation of operations, inadequate information-technology logistics and a shortage of trained staff to operate and administer the system. As half the country's territory was inaccessible to the state in 2002, the quality of public services fell drastically in the north. This situation has made it difficult to assess progress towards the Millennium Development Goals and the poverty situation.

The lack of transparency is also seen in the management of the coffee and cocoa sector, particularly in the way parafiscal levies are collected and used, as well as in the functioning of the main governance bodies of the sector. In the energy sector, the main transparency problems identified relate to the reliability of physical, financial and tax flows in oil and gas production, and the accumulation of arrears for public purchases of electricity and gas. In the financial sector, the main governance problems relate to the fact that nearly half of all commercial banks are not in compliance with the prudential standards of the CBWAS, including the solvency ratio. The needed laws and regulations are on the books, but often are not enforced by the government or by the judiciary.

The disruption of public services, particularly in the areas of conflict (the north, centre and west of the country), was exacerbated by massive flight of government officials and employees to Abidjan. Lastly, the instability of public institutions has led to certain bureaucratic inefficiencies that cause problems in the co-ordination of economic management and planning, and in the execution of public investment.

Social Context and Human Resources Development

Côte d'Ivoire is ranked 164th out of 177 countries in the Human Development Index. The poverty rate in 2006 was estimated at 43.2 per cent in the report on poverty published in 2007, based on a poverty line of XOF 162 800 per capita in annual expenditure. Poverty is most severe in the rural savannah (54.6 per cent) and the eastern rural forest (46.6 per cent), followed by urban areas apart from Abidjan (33.8 per cent), the western rural forest (24.5 per cent) and Abidjan (11.1 per cent). It is particularly harsh in the northern savannah and in the rural forest.

Education-system development has been frustrated by the destruction of school infrastructure, the closure of some schools in areas occupied by the Forces Nouvelles and the fact that many teachers left their posts because of the lack of security. In addition, university staff and students were displaced to Abidjan, which contributed to the concentration of the secondary and tertiary student population in the economic capital and to a fall in education level. Furthermore, the quality of teaching has dropped sharply, particularly at the

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primary level, owing to the lack of qualified teachers. The progress achieved under the human resources structural-adjustment programme was erased by the years of conflict, as the national primary-school enrolment rate fell from 79.5 per cent in 2001/02 to 54.4 per cent in 2004/05, a drop of 25 percentage points. As a result, the enrolment rate for this age group is now lower than it was 15 years ago. The enrolment rate for girls, which was inequitable to start with at 67.3 per cent in 2001/02, fell to 49.1 per cent in 2004/05 (about half of all girls attend school). The gross enrolment rate in secondary education is estimated at 30 per cent, and the illiteracy rate is 61.1 per cent on average amongst the poor, as against 44.4 per cent amongst the non-poor. According to domestic sources, illiteracy affects 63.2 per cent of women, and 73.6 per cent of poor women. Women also have less access to basic social services. In 2006, the government was able to hold examinations throughout the country, and the beginning of the 2007/08 school year went off normally.

The health situation is poor. As a result of the social and political crisis, some health facilities were destroyed and looted, a good many staff left the country, those who remained were concentrated in urban areas for the sake of security, and the quality of care declined owing to health workers' lack of motivation. More than half of poor households (56.4 per cent) do not have access to drinking water and are exposed to water-borne diseases, but this rate is much higher in the northern rural savannah and the eastern rural forest. Côte d'Ivoire is characterised by a high fertility rate and early pregnancies. The total fertility rate is 4.5 children per woman, and the infant mortality rate rose from 89 per thousand in 1994 to 116.9 per thousand in 2007. Persistence of the crisis has aggravated this rate these past few years. HIV/AIDS infection and sexually transmitted diseases (STDs) are spreading rapidly. The HIV prevalence rate is 7 per cent. Treatment of STDs is inadequate. The reproductive health of young people is a matter for concern, characterised as it is by early sexual activity, unwanted pregnancies, HIV/AIDS and STDs, and complicated, clandestine abortions on a scale that is difficult to quantify. Traditional practices that are harmful to the health of women and girls – female circumcision, early marriage and the levirate – are widespread.

To tackle these problems, the government had initiated a health-development plan for the 1995-2005 period, which aimed to improve the population's access to health services. It was unable to bring the plan to completion, however, owing to the stoppage of funding for several health projects and the partitioning of the country, which prevented implementation of the plan in the north. Improvement in the functioning of the health sector now depends on the redeployment of health personnel to the areas formerly under siege.

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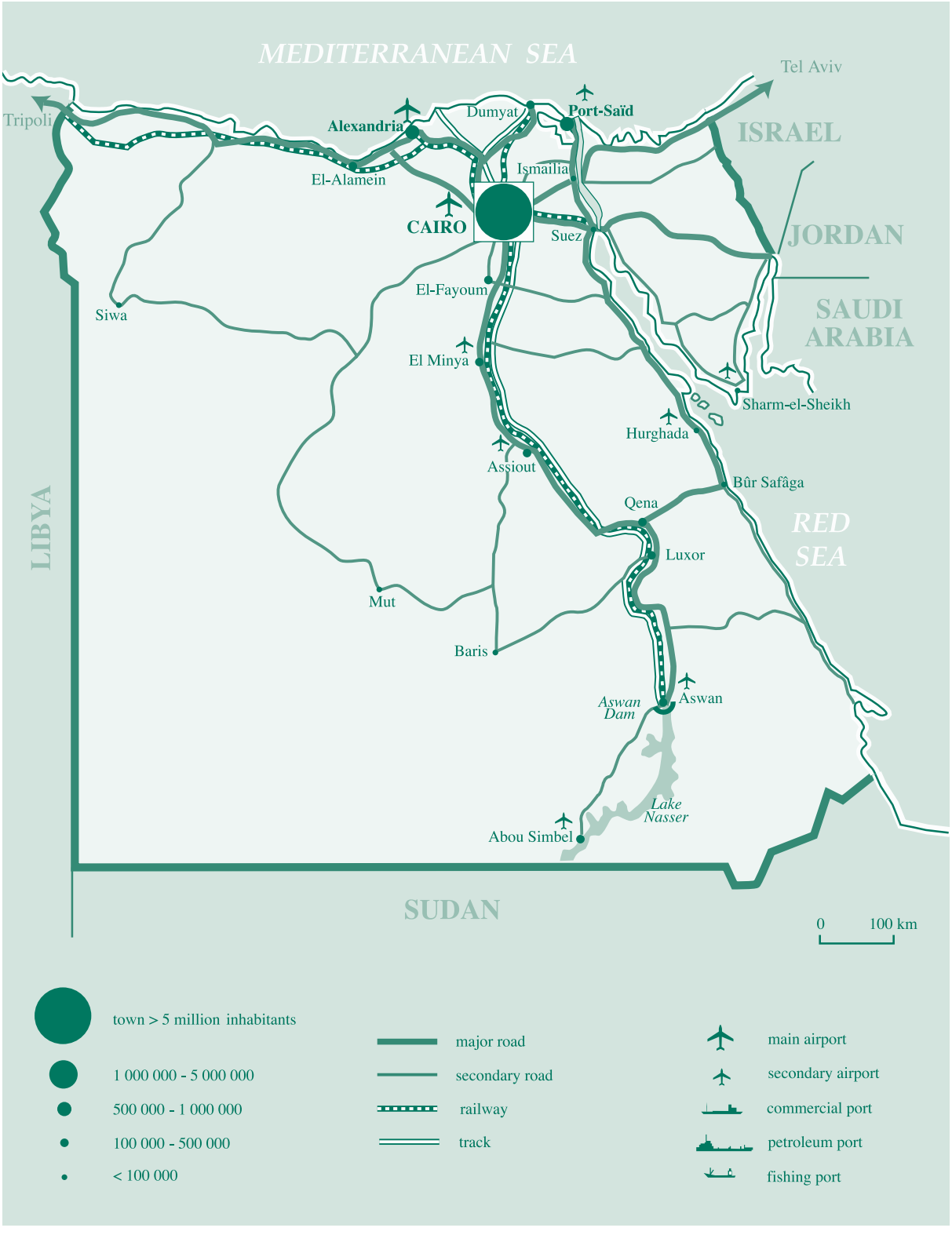
Egypt



key figures

• Land area, thousands of km²	1 001
• Population, thousands (2007)	75 498
• GDP per capita, USD at constant 2000 prices (2006/07)	1 801
• Life expectancy (2007)	73.1
• Illiteracy rate (2007)	39.4

Egypt


MEDITERRANEAN SEA
Tel Aviv
Tripoli
Alexandria
Dumyat
Port-Saïd
ISRAEL
El-Alamein
Ismailia
CAIRO
Suez
JORDAN
El-Fayoum
Siwa
SAUDI ARABIA
El Minya
Sharm-el-Sheikh
Hurghada
Assiout
Bûr Safâga
Qena
RED SEA
LIBYA
Luxor
Mut
Baris
Aswan
Aswan Dam
Lake Nasser
Abou Simbel
SUDAN
0
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town > 5 million inhabitants
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< 100 000
major road
secondary road
railway
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main airport
secondary airport
commercial port
petroleum port
fishing port

Egypt

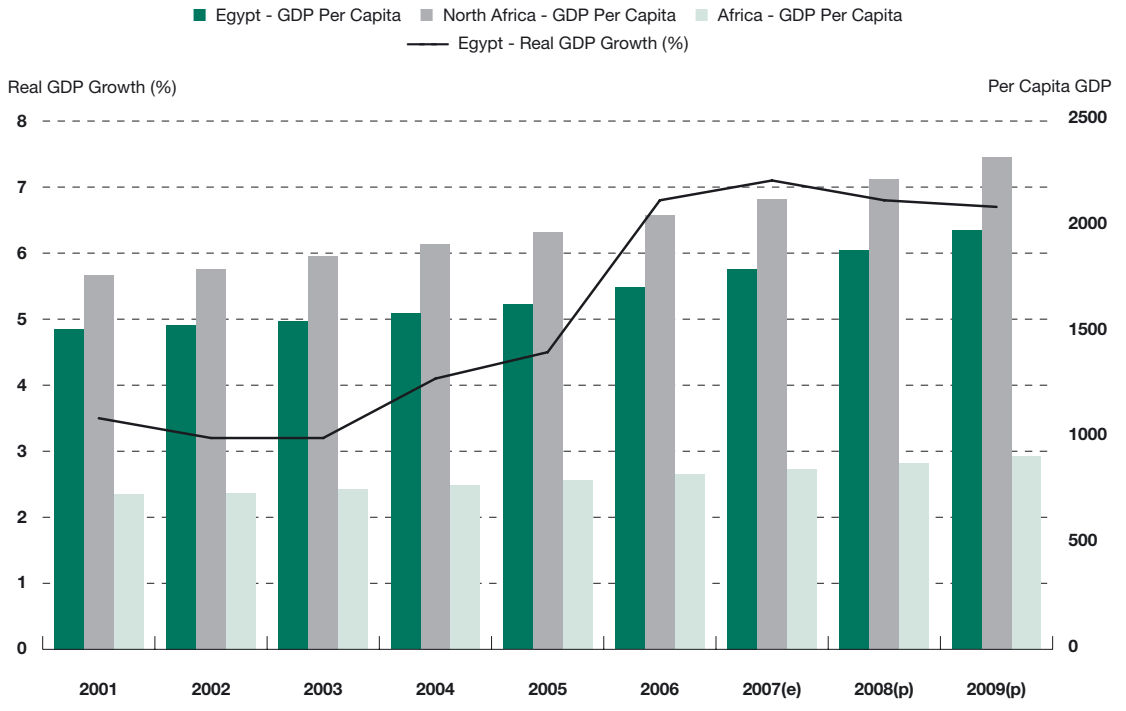
In 2005/06 and 2006/07, GDP growth in Egypt averaged about 7 per cent. Manufacturing, construction, real estate and tourism were the main sectors driving growth. On the demand side, growth was mainly led by private investment and to a much lesser extent by private consumption and government spending. Sharp cuts in tax rates and customs duties helped to stimulate demand.

In 2006/07, foreign direct investment (FDI) rose to unprecedented levels, making Egypt the top FDI recipient in Africa and the second among Arab countries, after Saudi Arabia. In addition, the government's effort to improve the business environment has been recognised, with the World Bank identifying Egypt as one of the fast-reforming countries in 2007/08. Egypt's *Doing Business* ranking improved from 167th of 175 countries in 2006 to 126th out of 178 countries in 2007. In July 2007, Egypt became the 40th country to adhere to the OECD Declaration on International Investment and Multinational Enterprises, reflecting its recent progress on policy reforms aimed at improving the country's investment climate.

Unemployment and large fiscal deficits continue to be major challenges.

Economic growth is expected to continue at similarly high levels in 2008 and 2009. Growth is threatened, however, by an increase in fiscal imbalances and delays in institutional and political reforms. Rising income inequality is another cause for concern.

Figure 1 - **Real GDP Growth and Per Capita GDP**
(USD at constant 2000 prices)



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

StatLink http://dx.doi.org/10.1787/316333406878

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Large fiscal imbalances have resulted in large and growing public debt and debt service payments. In order to address this problem, the government is undertaking an ambitious programme to consolidate public finances and reduce the budget deficit. In addition, the government faces strong inflationary pressures, which are mainly demand-driven.

Recent Economic Developments

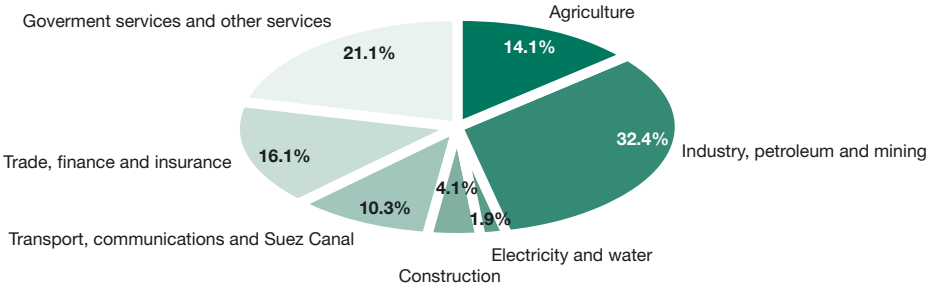
The real GDP growth rate continued the upward trend that began in 2004, increasing from 6.8 per cent in 2005/2006 to an estimated 7.1 per cent in 2006/07. The main economic sectors contributing to this growth in 2006/07 were industry, construction, real estate and tourism. Growth is expected to be 6.8 per cent in 2007/08 and 6.9 per cent in 2008/09.

In 2006/07, the non-petroleum manufacturing sector grew by 7.6 per cent, a rate exceeding that of GDP growth. The government's programme for the period 2005-11[1] includes the construction of 1 000 large factories by the private sector. These factories are supposed to generate 1.5 million jobs, contributing to the government's goal of creating 4.5 million jobs by 2010/11. The newly established Industrial Development Authority (IDA) allocated land for industrial projects having a total value of EGP 17.2 billion (Egyptian pounds), which are expected to provide 167 000 jobs. IDA also plans to establish a number of industrial clusters with a total value of EGP 4.5 billion, which are expected to provide 48 500 jobs opportunities. In addition, 28 new industrial zones are planned; they will require investments amounting to EGP 61.4 billion and are expected to provide 850 000 jobs. Manufacturing production was concentrated in fabricated metal products, printing, transport equipment, paper products, non-metallic industries, chemicals, ready-made garments and food products. Total investment in the manufacturing sector increased by 180 per cent in 2006/07 with respect to 2005/06.

Agricultural output grew by 3.7 per cent in 2006/07, as against 3.2 per cent in 2005/06. Production of major crops, such as vegetables and fruit, increased during the year, and Egypt produced 6 million tonnes of rice to become the largest rice producer in the Middle East and North Africa. Cotton production continued its decline as production fell by 2.8 per cent and exports increased by only 1.5 per cent, due to higher prices for other crops such as maize and rice, which replaced cotton cultivation.

The extractive sector grew by 3.9 per cent in 2006/07, with gas production increasing by 7.6 per cent. During 2007, 39 discoveries were made (27 for oil and 12 for gas). In September 2007, one of the largest gas producers in Egypt announced a landmark discovery in Upper Egypt, and production started in December. This discovery will help to boost the development of Upper Egypt, the poorest region in the country, which will need vast investments, especially in infrastructure, to cope with the new gas discoveries.

Figure 2 - **GDP by Sector in 2006/07** (percentage)



Source: Authors' estimates based on Ministry of State for Economic Development data.

StatLink http://dx.doi.org/10.1787/317512880213

1. The government's 2005-11 programme was adopted after the September 2005 presidential election.

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Domestic consumption of gas and petroleum products rose by 8 per cent and 4 per cent respectively. The number of housing units that use natural gas increased by 202 000, reaching a total of 2.5 million units. The number of vehicles using natural gas rose to 11 400, representing only 0.3 per cent of total vehicles (4.1 million in 2006/07), and 11 new natural gas stations were established during 2006/07. The expansion in natural gas consumption will have a positive environmental impact, since gas will replace more polluting fuels.

In the services sector, Suez Canal revenues grew by 17 per cent in 2006/07 to USD 4.17 billion. The higher revenues are mainly due to a 5.4 per cent increase in the number of vessels passing through the canal and a 12.6 per cent increase in tonnage. In addition, the capacity of the Egyptian maritime fleet rose by 40 per cent and that of maritime ports by 29 per cent.

Despite the continuing turbulence in the region, the number of tourists increased by 13 per cent in 2006/07 compared to the previous year, and tourist nights reached 96.3 million (85.1 million in 2005/06). The majority of the tourists are from Europe (73 per cent), followed by tourists from the Middle East (14 per cent), Asia (6 per cent), the Americas (4 per cent) and Africa (3 per cent). Tourism revenues increased by 11 per cent, while investment in this sector grew by 27 per cent.

Investments in the telecommunications and information technology sector increased by 30 per cent in 2006/07 compared to 2005/06. The number of mobile phone users rose by 28.5 per cent to 4.1 million, while that of fixed-line subscribers reached 12 million. The number of internet users increased by 38 per cent to 2 million users.

The construction sector grew strongly in 2006/07, becoming one of the major forces driving growth. This expansion was accompanied by an increase in the price of land and of intermediate inputs such as iron and cement. In addition, several foreign firms decided to seize the opportunities offered by Egypt's booming construction market and are currently establishing a number of real estate projects. The construction sector is constrained by lack of finance intermediated by the banking system and by a mortgage market that is still underdeveloped despite several recent reforms in this area. The government is also implementing a National Housing Programme that aims to provide 500 000 units for poor and middle-income groups during the 2005-11 period.

The share of agriculture in GDP declined slightly, from 15.5 per cent in 2005/06 to 15.0 per cent in 2006/07. Productive services (the Suez Canal, transport, trade, communications, tourism, finance and real estate services) accounted for 40 per cent of GDP and social services for 11.2 per cent.

Domestic investment increased by a remarkable 34.2 per cent in 2006/07 over 2005/06. Total investment increased from 18.7 per cent of GDP in 2005/06 to 21.6 per cent in 2006/07. Regarding the sectoral distribution of domestic investment, 26.9 per cent was made in manufacturing industries, 15.3 per cent in the oil and gas sector and 14.2 per cent in social services. In addition, infrastructure and transport projects attracted 14 per cent and 13.2 per cent of domestic investment respectively. Government investment accounted for 16.5 per cent of total investment and was mainly allocated to water and sanitation projects and to human resources development, which received 62 per cent. The remaining 38 per cent was allocated to transport (13 per cent), agriculture (8 per cent), construction (2 per cent) and other activities (15 per cent). Public sector investment increased by 47 per cent and was mainly concentrated in transport and the oil and gas sector. Private sector investment accounted for 62 per cent of total investment and grew by 45 per cent, reflecting a better business environment. The telecommunications and information technology sector attracted 28 per cent of private investment, while 25 per cent were allocated to manufacturing. The services and tourism sectors captured 16 per cent and 15 per cent respectively. In addition, 7 per cent of investment went to the finance sector, while investment in the agriculture and construction sectors accounted for 5 per cent and 4 per cent respectively. In 2006/07, FDI increased from USD 6.1 billion to USD 11.1 billion. For the first time

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Table 1 - **Demand Composition**

	Percentage of GDP (current prices)		Percentage changes, volume			Contribution to real GDP growth		
	1998/99	2005/06	2006/07(e)	2007/08(p)	2008/09(p)	2006/07(e)	2007/08(p)	2008/09(p)
Gross capital formation	**21.6**	**18.7**	**27.4**	**12.5**	**11.4**	**4.3**	**2.3**	**2.2**
Public	10.3	8.0	13.8	10.0	7.0	0.9	0.7	0.5
Private	11.3	10.7	37.6	14.0	14.0	3.4	1.6	1.7
Consumption	**86.6**	**82.9**	**6.4**	**6.2**	**6.6**	**4.9**	**5.3**	**5.6**
Public	11.6	12.3	5.1	5.0	4.0	0.6	0.6	0.5
Private	75.0	70.6	6.6	6.4	7.1	4.3	4.7	5.1
External demand	**-8.2**	**-1.6**				**-2.1**	**-0.8**	**-0.9**
Exports	15.1	29.9	19.3	10.2	6.1	3.9	2.3	1.4
Imports	-23.3	-31.6	31.3	13.3	9.4	-6.0	-3.1	-2.3
Real GDP growth	**-**	**-**	**-**	**-**	**-**	**7.1**	**6.8**	**6.9**

Source: Ministry of State for Economic Development data; estimates (e) and projections (p) based on authors' calculations.

StatLink http://dx.doi.org/10.1787/321002618145

in many years, FDI was concentrated in non-petroleum sectors (47 per cent), with the petroleum and gas sectors attracting 28 per cent. The remaining 25 per cent of FDI consisted of purchases of shares in privatised enterprises.

Macroeconomic Policies

Fiscal Policy

The high level of budget deficits relative to GDP represents a major challenge for the government. On one hand, the government is under pressure to increase spending in order to reduce political risk. On the other, it has promised to reduce the budget deficit by at least one percentage point annually. In fact, the budget deficit fell from 8.2 per cent of GDP in 2005/06 to 7.4 per cent in 2006/07, despite a 4.8 per cent rise in expenditures in 2006/07 due to increases in public sector wages and non-wage compensation. Wages were responsible for 49 per cent of the expenditure increase, representing 23.5 per cent of overall expenditures and rising by 10.3 per cent, in line with the government's commitment to double public wages by the end of 2011. Subsidies declined slightly (by 0.5 per cent), accounting for 26.3 per cent of overall expenditures. Domestic debt service represented 21.5 per cent of overall expenditures. Public investment, other expenditures and purchases of goods and services accounted respectively for 11.4, 9.6 and 7.7 per cent of overall expenditures in 2006/07. The government used some of the proceeds from the privatisation of Bank of Alexandria to retire part of its high gross domestic debt, an operation that helped to reduce the latter from 96.1 per cent of GDP in 2005/06 to 87.1 per cent in 2006/07. The purchase of non-financial assets increased by 20.2 per cent to EGP 25.5 billion, further reducing net domestic debt.

The government is currently reforming the subsidy system, especially energy subsidies. Accordingly, the prices of petroleum products are expected to increase gradually. As for other subsidies, the government is aiming to target them more effectively to low-income households, but has had little success so far.

Since overall expenditures are expected to continue to increase, reducing the budget deficit will require raising additional revenues. In fact, revenue grew by 17.1 per cent in 2006/07, mainly due to an increase in tax proceeds, which account for 75 per cent of total revenue. This increase was due in part to the improved efficiency of the tax collection system, but also to a broadening of the tax base and strong economic growth. In addition, customs duties increased by 7.2 per cent despite the reduction in import tariffs.

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

	1999/2000	2003/04	2004/05	2005/06	2006/07(e)	2007/08(p)	2008/09(p)
Total revenue and grants[a]	**23.1**	**21.0**	**20.6**	**24.5**	**24.6**	**24.7**	**24.9**
Tax revenue	15.1	13.8	14.1	15.8	15.6	15.8	16.0
Oil revenue	7.4	6.1	6.0	8.3	8.5	8.5	8.5
Total expenditure and net lending[a]	**26.0**	**30.1**	**30.0**	**33.6**	**30.4**	**29.4**	**28.3**
Current expenditure	19.9	25.0	25.3	29.9	26.5	25.4	24.4
Excluding interest	*14.6*	*18.7*	*19.3*	*23.9*	*20.0*	*19.7*	*19.2*
Wages and salaries	6.4	7.7	7.7	7.6	7.1	6.9	6.7
Interest	5.3	6.3	6.1	6.0	6.5	5.6	5.1
Capital expenditure	5.7	4.7	4.3	3.4	3.5	3.6	3.7
Primary balance	**2.4**	**-2.8**	**-3.3**	**-3.2**	**0.8**	**0.9**	**1.6**
Overall balance	**-2.9**	**-9.1**	**-9.4**	**-9.2**	**-5.7**	**-4.7**	**-3.4**

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

StatLink http://dx.doi.org/10.1787/321632546307

Tax revenue is expected to increase further after the adoption of a new Real Estate Tax Law that is currently under discussion in parliament. The new law envisages lowering the tax rate on buildings and broadening the tax base by greatly increasing the number of buildings to which the real estate tax will be applied. It is estimated that applying the new law will increase tax revenue from EGP 150 million to EGP 2 billion. More importantly, it is hoped that taxing empty housing units will lead to the release of these units for rental. In addition, a new value added tax will be introduced in 2008/09, which further increase tax revenue.

Monetary Policy

In 2006/07, the inflation rate reached 11 per cent, mainly as a result of temporary or cyclical pressures, including avian flu, the rise of international food prices and the increase in the prices of building materials as a result of strong domestic demand and some monopoly practices. By the end of calendar year 2007, year-on-year inflation had fallen to 6.9 per cent (November 2007). Nevertheless, the surge in prices in fiscal year 2006/07 has put considerable pressure on household budgets, especially for low-income families, because of the high proportion spent on food products. These inflationary pressures are expected to continue in 2007/08, fuelled by strong growth in government spending and the expected gradual removal of domestic energy subsidies.

Institutional reforms have improved the ability of the Central Bank of Egypt (CBE) to conduct monetary policy. The substantial liberalisation of the financial markets, including facilitation of interbank transactions, combined with the earlier adoption of a floating exchange rate regime, resulted in a 5 per cent appreciation of the Egyptian pound in 2007. The CBE's key intervention rates, on overnight deposits and on lending to commercial banks, had been left unchanged since December 2006, at 8.75 and 10.75 per cent respectively. In February 2008, these rates were raised by 0.25 percentage point, to 9 per cent and 11 per cent respectively. The shift in the CBE's monetary policy towards inflation targeting will likely lead to further rate increases in order to keep inflationary pressures under control. The February 2008 increase is a step in the right direction but will not suffice to curb inflation, which stood at 11.5 per cent in January 2008.

Deposits increased by 15 per cent in 2006/07, and domestic credit to both the private and household sectors increased by 12.3 per cent, while credit to the government declined by 8.3 per cent. Banks have been reluctant to increase lending because of the high level of non-performing loans. However, with the government's efforts to reform the banking sector and the settlement of a number of large non-performing loans, growth in the supply of credit is expected to increase in 2007/08.

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External Position

Egypt is a signatory of the Common Market for Eastern and Southern Africa and a founding member of the Pan Arab Free Trade Area. It was a trade partner of the European Union (EU) even before the Egypt-EU Partnership Agreement entered into force in June 2004. Egypt also signed the Action Plan for the European Neighbourhood Policy. In addition, the country has recently signed bilateral trade agreements with Turkey and Russia, strengthened bilateral co-operation with China and established a number of Qualified Industrial Zones (QIZ) with Israel to ensure better access to the US market. Recently, the terms of the QIZ agreement were changed to reduce the share of Israeli components from 11.7 per cent to 10.5 per cent, and the agreement will be expanded to include eight regions in Upper Egypt. Over the last two years, 203 Egyptian firms have exported USD 1.3 billion worth of duty-free products to the United States.

Exports increased by 19.3 per cent and reached USD 22 billion in 2006/07 (17.7 per cent of GDP). Petroleum exports showed little change between 2005/06 and 2006/07, while non-petroleum exports grew by 45 per cent in value terms over the same period, raising their share of GDP from 9.5 to 12 per cent. The value of non-petroleum imports grew by 34 per cent, while that of petroleum imports declined by 26 per cent. Higher imports are closely related to the increase in exports as well as to the expansion in domestic demand. Import prices in domestic currency have been dampened by the appreciation of the Egyptian pound. The balance of these factors resulted in a 30 per cent increase in the merchandise trade deficit from USD 12 billion in 2005/06 to USD 15.7 billion in 2006/07.

As regards the geographic distribution of exports, 39 per cent were exported to Europe, 30 per cent to the United States, 14 per cent to Asia, 13 per cent to Arab countries and 4 per cent to other regions. Egypt ranks sixth in the world in exports of liquefied natural gas, and further increases are expected in the next few years. In particular, gas exports to Jordan are expected to increase following the renegotiation of contract prices between the two countries. Currently, 85 per cent of Jordan's electricity is generated using Egyptian gas.

The current account surplus increased from 1.6 per cent of GDP in 2005/06 to 2.1 per cent in 2006/07. It is projected to rise slightly to 2.2 per cent in 2007/08 and then decline to 1.6 per cent in 2008/09.

FDI inflows reached USD 11 billion, contributing to a 63 per cent improvement in the overall balance of payments in 2006/07. This has resulted in international reserves exceeding USD 30 billion, which represents more than ten months of import cover. The large increase in FDI reflects broad-based confidence in the Egyptian economy's prospects as a result of the reform measures undertaken by the government over the last three years to improve the business environment. FDI inflows also benefited from abundant liquidity in the Gulf countries, generated by these countries' increased revenue from oil exports.

In July 2007, the government issued a EGP 6 billion Eurobond managed by Citigroup and JP Morgan. As

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

	1999/2000	2003/04	2004/05	2005/06	2006/07(e)	2007/08(p)	2008/09(p)
Trade balance	-9.7	-11.5	-11.2	-12.3	-12.5	-12.5	-13.9
Exports of goods (f.o.b.)	13.0	15.4	17.2	17.1	17.7	17.7	16.7
Imports of goods (f.o.b.)	22.7	26.9	28.4	29.4	30.2	30.2	30.7
Services	9.3	9.0	7.1	8.0	8.1	8.1	8.3
Factor income	-0.3	-0.3	0.5	0.9	0.9	0.9	1.1
Current transfers	4.9	6.0	5.2	5.5	5.7	5.7	6.0
Current account balance	**0.0**	**4.2**	**3.2**	**1.6**	**2.1**	**2.2**	**1.6**

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

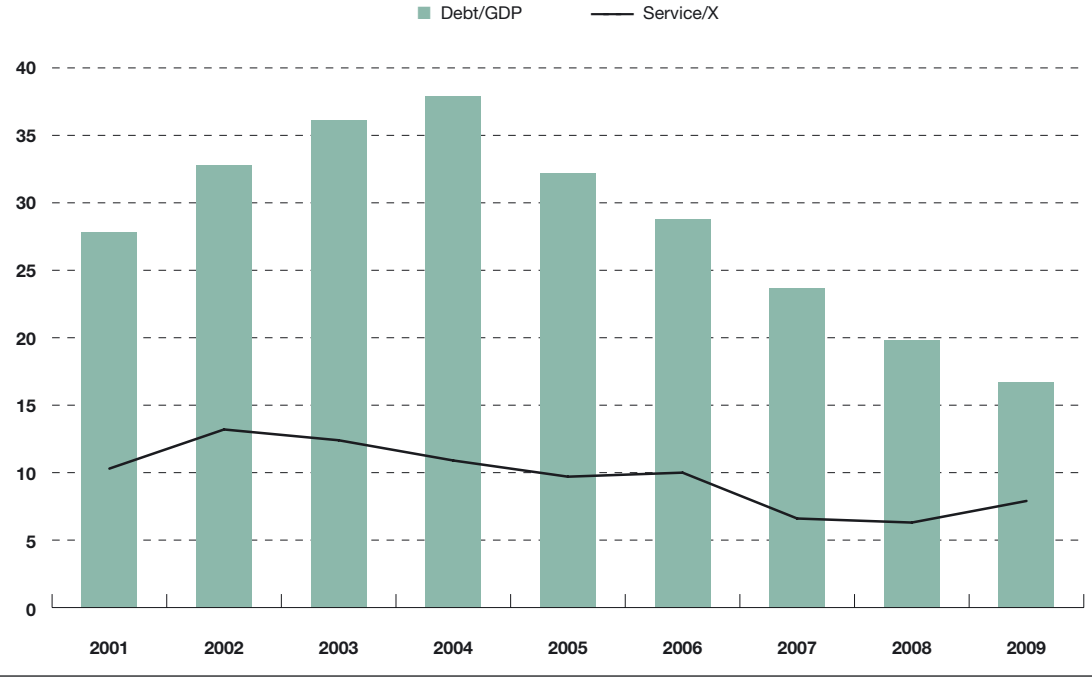
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this bond was oversubscribed 2.5 times, the government is preparing to issue another. Similar to the previous issue, it will be denominated in Egyptian pounds but payable in dollars, and the term of the new issue will be increased from five to ten years. The amount had not been determined at the time of writing, but it is expected to be large enough to act as a reference point for future issues.

External debt increased slightly by USD 0.3 billion in 2006/07, as the outcome of two factors: the depreciation of the dollar against most borrowers' currencies, resulting in an increase of USD 0.6 billion, and the repayment of USD 0.3 billion of loans and facilities. External debt amounted to a very sustainable 23.7 per cent of GDP, while the ratio of debt service to current export receipts was 6.6 per cent.

Figure 3 - **Stock of Total External Debt** (percentage of GDP) **and Debt Service** (percentage of exports of goods and services)



Source: IMF.

StatLink http://dx.doi.org/10.1787/318615528637

Structural Issues

Recent Developments

The government adopted a sixth five-year national development plan for the period 2007/08-2011/12[2], which is based on three main pillars: the government programme for the period 2005-11, the new Social Contract for Social Participation and the Millennium Development Goals (MDGs). For the first time, the plan incorporates a gender perspective, aiming to empower women and achieve gender equality. The plan seeks higher female participation in economic activities, from 19 per cent in the baseline year to 25 per cent by the end of the plan. It also calls for the creation of 600 000 new jobs for women through investments totalling EGP 931 million. The plan is aimed at achieving annual real GDP growth of 8 per cent, halving the unemployment rate, reducing public debt and raising living standards.

The government is committed to further privatisation and liberalisation of the economy. Banque du Caire, one of Egypt's largest public banks, is soon

2. The national development plan encompasses the government programme for the 2005-11 period.

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to enter the privatisation process. JP Morgan was selected as an advisor to the government on the sale. Part of the privatisation proceeds will be used to pay down domestic debt.

The minimum capital required to start a business was reduced from EGP 50 000 to only EGP 1 000. The time and cost involved in starting a business were halved. Fees for registering property were reduced from 3 per cent of the property value to a low fixed amount of EGP 2 000. New one-stop shops have been established for traders at Egyptian ports; as a result, time to import has been reduced by seven days and time to export by five. New private credit bureaux have been established to facilitate bank lending to individuals. Regulatory reform is expected to continue as well.

To improve protection of intellectual property rights, a law was issued in 2002 to help Egypt comply with World Trade Organisation regulations by strengthening protection for patents, copyrights and trademarks. In addition, the Brand Protection Group, a new non-governmental organisation (NGO), was established in 2005 with involvement from major international and local firms concerned with fighting smuggling, counterfeiting and illicit trade.

The Ministry of Trade and Industry plans gradually to reduce energy price subsidies to energy-intensive industries over the course of three years. The targeted sectors include iron and steel, cement, aluminium, petrochemicals and fertilisers. Initially, this decision is likely to affect large firms only, but small and medium-sized enterprises (SMEs) will be included in the future. It is estimated that the reduction of energy subsidies will save EGP 30 billion in government expenditure over three years. More substantial reduction of government expenditures could be obtained if subsidies were reduced on petrol and domestic electricity. Although it is not publicly announced, the government raises electricity prices periodically.

In October 2007, Egypt announced a programme to build a number of nuclear power plants. Executive measures will be taken to establish the first nuclear power plant through Egyptian expertise and in co-operation with international partners and the International Atomic Energy Agency (IAEA).

A new stock exchange for SMEs was launched to provide these firms with different and diversified financing options. The transaction costs are lower than those of any other stock market and trading is limited to an hour a day. The share prices of major Egyptian firms recorded unprecedented increases during the year, and the Cairo and Alexandria Stock Exchange index of 30 leading shares (CASE 30) stood at 8 688, up 30 per cent from its level at end-2006.

A new textile zone will be established in Borg El Arab in Alexandria, aimed at attracting Italian investments in garment sector SMEs. In addition, the government awarded 14 new cement licences in order to increase competition in the cement market. This is expected to reduce prices and increase job opportunities. Additional iron and steel licences will be issued in 2008 to achieve similar objectives.

In the information and communication technology sector, a new Arabic-language search engine called Onkosh was launched in September 2007. One-third of its users are Egyptian and 29 per cent are Saudi Arabian. This is expected to attract a significant share of Arab internet users to Egyptian service providers.

Technical and Vocational Skills Development

The Ministry of Education's priority is secondary school education that prepares students for tertiary education. The resources allocated to tertiary education are also much greater than those allocated to technical and vocational education and training (TVET) in secondary schools. Meagre budgets are allocated to upgrading equipment and workshops of technical schools and vocational training centres and to teacher training. These schools and training centres are under-equipped and outdated. Teachers are poorly qualified and remunerated, lack motivation and suffer from low social status and poor career prospects. Curricula are reviewed infrequently and are widely regarded as obsolete. Moreover, they lack co-ordination, especially in relation to standardisation of curricula, which results

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in severe discrepancies in the qualifications and skills acquired by graduates of different schools and training centres.

The TVET system is very complicated, involving 22 ministries and agencies. These include the Ministry of Education (1 600 technical and vocational schools), the Ministry of Higher Education (47 middle technical institutes), the Ministry of Manpower and Migration, the Productivity and Vocational Training Department of the Ministry of Trade and Industry (52 training centres, 40 000 trainees), the Ministry of Reconstruction and Housing (53 training centres, 70 000 trainees), the Ministry of Social Solidarity (196 training centres) and the Ministry of Military Production. In July 2006, an Industrial Training Centre (ITC) was established in the Ministry of Trade and Industry to co-ordinate all TVET programmes. According to the ITC plan, 250 000 workers will be trained per year.

Egyptian enterprises do not provide adequate training for their employees, with the exception of very limited on-the-job training for basic production skills. A small number of large local firms and transnational corporations allocate some resources for training budgets and use modern training methods. Reasons for the failure to provide training include lack of awareness of its benefits and the fear that other firms will poach trained workers. In addition, the government provides no incentives for firms to engage in training programmes, such as sharing the costs of training or providing tax reductions for firms involved in such activities. SMEs invest hardly at all in training programmes, due to budget constraints and lack of understanding of the benefits of these programmes. These market failures could be handled through incentive schemes for in-house training, disseminating best training practices and awareness campaigns on the benefits of training (especially training abroad) in improving efficiency and cutting costs.

As early as 1998, the Egyptian government responded to this need by launching the Future Generation Foundation (FGF), a major initiative to raise the skills of the labour force. FGF's programmes include the Senior Executive Programme developed in collaboration with Harvard Business School to help managers meet the myriad challenges ahead of them and capitalise on their opportunities. The Advanced Management Programme also seeks to prepare potential managers and other functional specialists for successful career transition into general management roles. The Microsoft Scholarship Programme is aimed at training more information technology professionals and equipping them with the skills needed to excel in order to establish a strong national information technology industry. Finally, there is the Basic Business Skills Acquisition programme, which provides university graduates with three months of intensive training to acquire the skills needed to succeed in the current work environment. FGF has provided 30 000 training scholarships in 18 governorates.

A good example of public-private partnership between training institutions and businesses is the Mubarak-Kohl Initiative, widely regarded as the most successful training programme in Egypt. This project involves co-operation among the Ministry of Education, the German technical co-operation agency (GTZ) and business associations. The ministry provides school premises, trainers, teachers and training funds; GTZ provides technical experts, school equipment and training materials; and enterprises, through business associations, contribute training opportunities and allowances for trainees. Under this initiative, training has been provided for 29 occupations in 45 technical secondary schools in 24 governorates. In total, 16 000 trainees have been trained in 1 600 training companies.

In recognition of the need to reform TVET, the Supreme Council for Human Resource Development, reporting to the prime minister, was established in 2000 to design a national training and employment strategy. The strategy was finalised in August 2002 with the objective of designing a TVET system that is responsive to market needs, developing a new legal and institutional framework for TVET schools and centres to make them more autonomous, and enhancing labour mobility. One of its results was the reorganisation and consolidation of TVET programmes mentioned above.

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There are currently a number of major projects supporting the TVET reform agenda. The EU's Technical, Vocational and Educational Training Reform Programme aims to provide adequately trained labour for technology-intensive sectors and those with high growth potential. The programme targets students and staff in post-secondary TVET serving the industrial and service sectors, where inadequate or outdated skills constitute an obstacle to competitiveness. The programme is based on a private-public partnership for the delivery of training. In 2005, it established enterprise training partnerships between public and private technical and vocational training providers serving the garment industry, in collaboration with the Chamber of Textiles and Garments affiliated with the Federation of Egyptian Industries.

The World Bank provided a USD 15 million loan for a four-year pilot project, the Skills Development Project (SDP), which started in 2004. The main objective of the project is to provide demand-driven vocational training for SMEs in the construction, manufacturing and tourism sectors. The SDP works closely with employers' organisations and assists them in improving their capacity to assess the skills needs of private sector firms. Currently, the project is dealing with the Union of Arab Contractors and providing training for casual workers.

The National Skills Standards Project (NSSP) aims to upgrade skills standards to international levels in various fields and to develop a National Vocational Skills Standards and Certification System in Egypt, as well as providing teachers with the skills to deliver courses in line with European best practice. The NSSP has produced 235 qualifications for 106 trades in three key sectors (tourism, construction and industry) and was expected to cover 600 trades in 2007 and 1 000 in 2008. The NSSP will also establish procedures for testing and certifying trainees and will create a system for accrediting training providers on the basis of quality, relevance and efficiency.

TVET is mainly funded through the government budget and from training levies collected from businesses, especially public sector enterprises. The budget allocation for TVET depends on the previous year's allocation and is not tied to any key performance indicators. In addition, it does not differentiate between training institutions or specialisations. Consequently, the TVET system has declined in quality and failed to deliver education and training that meet market demand and international standards. Moreover, there are hardly any practical training opportunities for TVET students or even for instructors. The Ministry of Manpower and Migration (MoMM) runs a Training Finance Fund established under Labour Law no. 12 of 2003. According to the law, a 1 per cent levy on net profits of firms employing ten or more workers is to be allocated to the training centres run by MoMM. The levy yields EGP 300-400 million a year.

The TVET system is not yet able to meet the needs of the increasing number of new entrants to the labour market, nor equipped to provide the skills required by an expanding modern private sector. TVET has never been concerned with placement, since jobs used to be secured by the guaranteed employment programme, now discontinued. Private sector firms are increasingly involved in the design and delivery of training, but further efforts along these lines and more business involvement are needed. TVET lacks proper follow-up and evaluation mechanisms.

A major problem facing TVET is the large number of informal workers who receive no proper training, as their on-the-job training is usually incomplete and outdated. Some NGOs offer limited training courses, which are usually market-driven and are better than on-the-job training.

Political Context

Recently, parliament approved 34 constitutional changes, mainly to strengthen democracy and make it easier for political parties to nominate presidential candidates. In regard to the latter, the changes to Article 76 of the Constitution require candidates to obtain the endorsement of 250 elected members of representative bodies such as the People's Assembly, the Shoura Council and local councils. This means that independent

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presidential candidates need the support of a strong and large network, such as that provided by the National Democratic Party. The number of terms the president can serve was left unlimited. The approved changes also prohibit the establishment of political parties on a religious basis. (In this regard, the Supreme Administrative Court has rejected 13 applications to establish political parties.) The impact of the anti-terror law that is currently being prepared is unclear. Lastly, the constitutional changes eliminated independent judicial monitoring of elections.

Opposition parties are already burdened by a lack of credibility. Given the additional constraints entailed by the current election rules, it would seem highly unlikely that these parties will be able to provide viable alternative candidates for president. In addition, four independent editors were recently convicted for writing offensive articles about the president and sentenced to prison terms, which can be expected to have a chilling effect on the exercise of press freedom.

Social Context and Human Resources Development

The 2004/05 Household Income, Expenditure and Consumption Survey reported a total national poverty rate of 40.6 per cent, representing 28.1 million people. Almost 13.6 million of these (19.6 per cent of total population) were classified as absolutely poor because they failed to secure their basic needs; within this category, there were 2.6 million defined as extremely poor (3.8 per cent of total population) because they could not even secure their food requirements. Another 14.5 million people (21 per cent of total population) are near poor, meaning that they can meet their basic food requirements and to some extent their non-food needs. Between the 1999/2000 and 2004/05 household surveys, the number of poor and extreme poor increased, while the number of near poor declined. The overall poverty rate fell, possibly because of an increase in employment. Poverty is more concentrated in rural areas (the rural poor accounting for 78 per cent of total poor and 80 per cent of extreme poor) and in Upper Egypt (66 per cent of extreme poor, 51 per cent of poor and 31 per cent of near poor). Within rural Upper Egypt, poverty is concentrated in specific pockets. The Gini coefficient declined from 0.36 in 1999/2000 to 0.32 in 2004/05, indicating an improvement in income distribution between the two surveys.

The labour force in the 15-64 age group reached almost 50 million in 2006/07, with an annual growth rate of 2.3 per cent. Employment increased by 3.1 per cent for the same age group during the same period. Consequently, the unemployment rate declined from 9.5 per cent in 2005/06 to 9.1 per cent in 2006/07. According to the 2006 Labour Force Sample Survey, unemployment was primarily a youth problem, as almost 90 per cent of the total unemployed were in the 15-29 age group. Unemployment was also concentrated among those with medium to high levels of education (94.3 per cent of total unemployed). Joining the workforce is also a problem: 90 per cent of the unemployed are first-time job seekers. Unemployment affects women (24 per cent unemployed) more than men (6.8 per cent), and it is more concentrated in Upper Egypt governorates, where unemployment rates reached 9.4 per cent.

Several reasons explain the persisting unemployment in Egypt. On the demand side, the economic slowdown during the first years of the decade reduced the private sector's ability to provide job opportunities to new entrants to the labour market and to compensate for the government's retreat from the guaranteed employment programme. On the supply side, the education system failed to match the skills of graduates with those most in demand in the job market.

The minimum wage in Egypt is not only very low, but also poorly enforced. The National Council for Wages, established in 2003, is currently revising the minimum wage level in an attempt to provide more decent levels of income to a large proportion of society. There is some concern, however, that setting an enforceable minimum wage at too high a level could have negative effects on employment. In 2007, several public and private sector firms witnessed strikes by workers demanding higher salaries and regular payment of their allowances.

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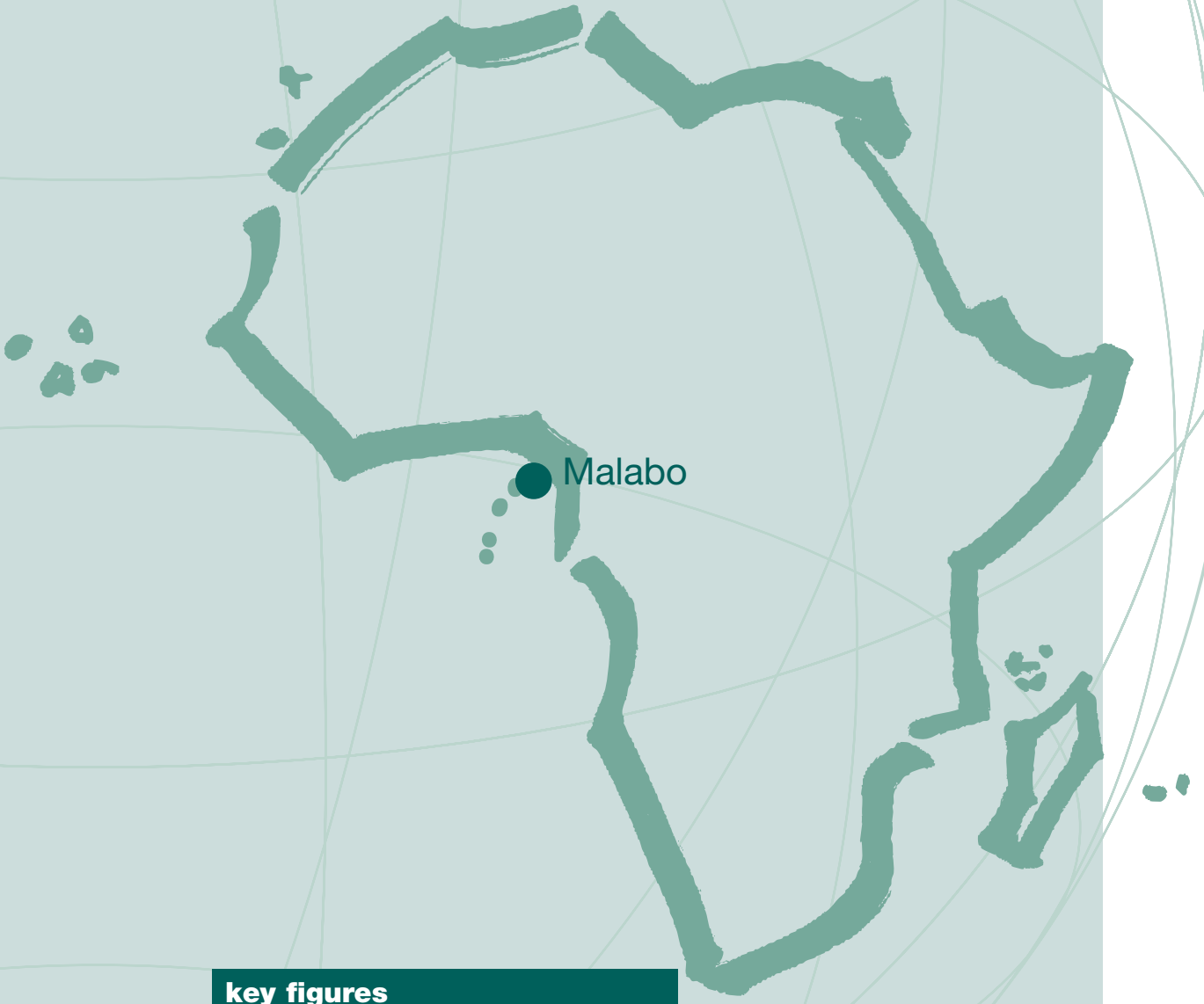
The total number of students enrolled in all education levels increased from 19.7 million in 2005/06 to 20.5 million in 2006/07. Class density (average number of students per class) is very high at all levels, especially in primary education where it reached 42.9 in 2006/07. The net enrolment rate in primary education increased from 92.9 per cent in 2000 to 101 per cent in 2005; in the latter year, net enrolment stood at 85.5 per cent in secondary education and 33.9 per cent in tertiary education. The adult literacy rate is 71.4 per cent. The number of illiterate males 15 years and older declined from 3.2 million in 2005/06 to 2.9 million in 2006/07, while the number of illiterate females in the same age group fell from 7.9 million to 7.7 million.

The proportion of students enrolled in the private pre-university system stood at only 8 per cent in 2006/07. The ratio of females to males in pre-university education, including Al-Azhar schools, rose from 63 per cent in 2005/06 to 68.1 per cent in 2006/07. As for higher education, the number of students in post-secondary and university education, including the Al-Azhar education system, increased from 2.5 million to 3.3 million during the same period. There were 18 public universities in 2006/07, and the number of private universities increased from 9 in 2005/06 to 15 in 2006/07. Government expenditure on education declined from 4.2 per cent of GDP in 2005/06 to 3.8 per cent in 2006/07, though it rose slightly as a percentage of total government expenditure (from 12.3 per cent to 12.5 per cent).

Between 2000 and 2006/07, life expectancy increased from 71 years to 73.6 years for females and from 66.7 years to 69.2 years for males. Infant mortality declined from 26.4 per thousand in 2000 to 19.1 per thousand in 2006/07. A new health insurance law is to be discussed in the current parliamentary session and is scheduled for implementation in 2011. The new system aims at widening the coverage of health insurance to the entire population, compared to only 42 per cent at present, including those in rural areas and in the informal sector. Strong public opposition led the government to reject the option of privatising the health insurance system. The proposed new system separates funding from service delivery in order to maximise efficiency.

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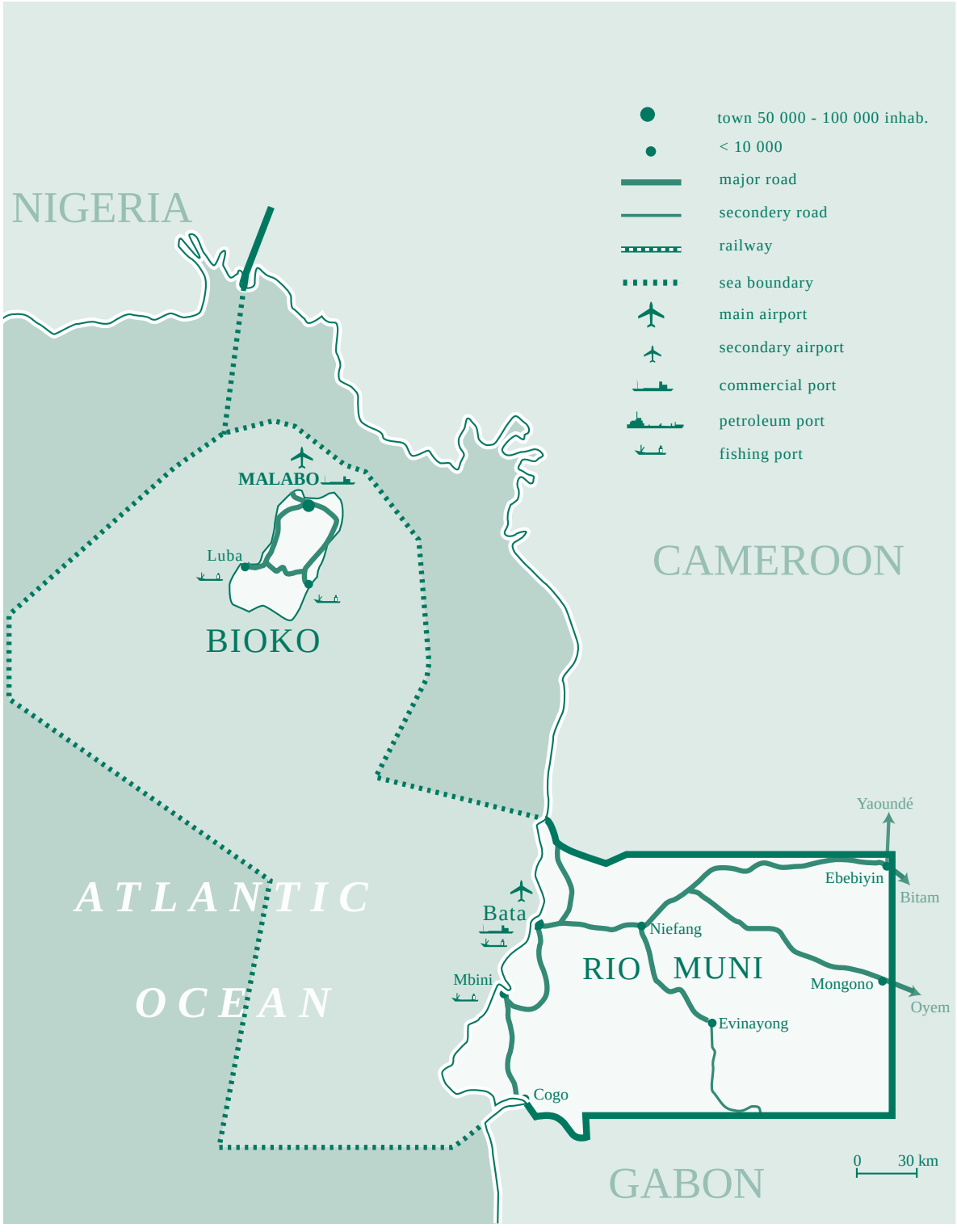
Equatorial Guinea



key figures

• Land area, thousands of km²	28
• Population, thousands (2007)	507
• GDP per capita, USD at constant 2000 prices (2007)	9 543
• Life expectancy (2007)	51.6
• Illiteracy rate (2007)	11.8

Equatorial Guinea



Equatorial Guinea

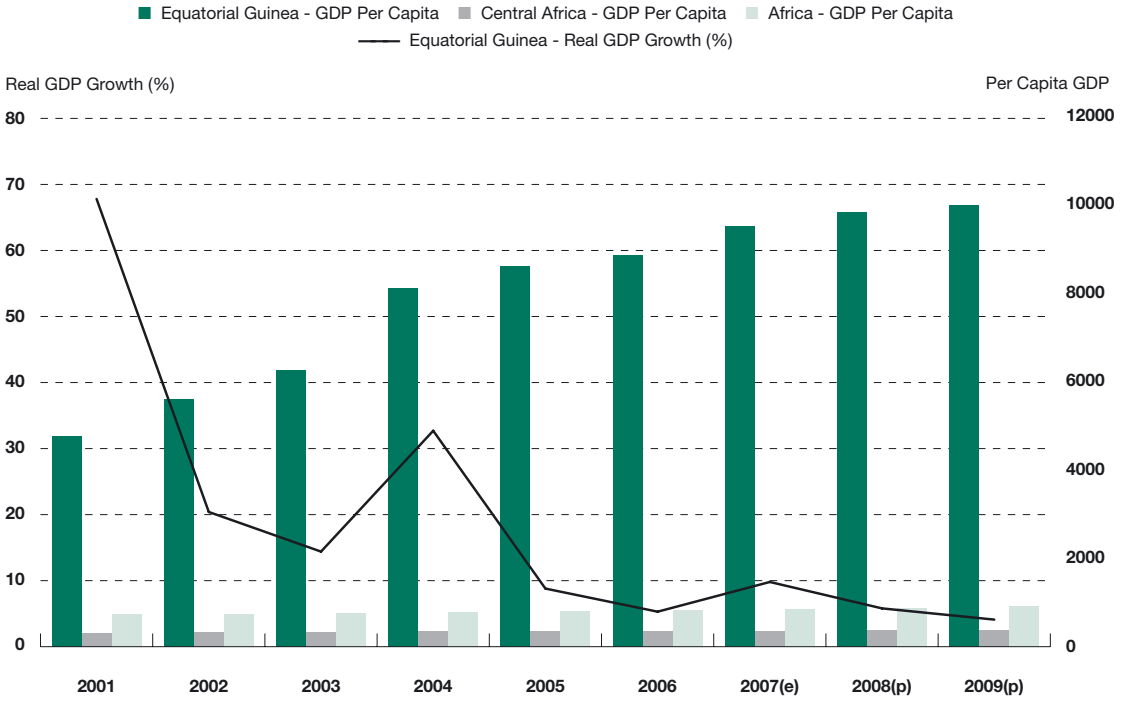
The strength of Equatorial Guinea's economic growth was confirmed in 2007, with real GDP growth of 9.8 per cent compared with 5.3 per cent in 2006. The boost to the country's economy is due mainly to improved oil and gas production and the buoyancy of public infrastructure-construction works. This was accompanied by continuous improvement in the performance of the construction sector, banking services, telecommunications, tourism and wood processing.

One important event that took place in 2007 was the second Economic National Conference, held in November, ten years after the first conference in 1997. The conference, entitled "Equatorial Guinea 2020 – Agenda for the Diversification of the Sources of Growth: Diagnosis and Strategy Lines", looked into guidelines to evaluate the country's enormous, still unexploited potential and to diversify the national economy, mainly by developing the fishing industry, tourism and financial services.

Petroleum-linked growth and macroeconomic stability have not helped reduce poverty and inequality.

The sustained economic growth and the increase in oil revenue, however, have had very little effect on poverty reduction in the country and on improving the general standard of living of the population. The poverty rate in Equatorial Guinea remains extremely high. The country also suffers from a high infant-mortality rate,

Figure 1 - **Real GDP Growth and Per Capita GDP**
(USD at constant 2000 prices)



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

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persistent epidemics, a poor rate of access to drinking water, low vaccination coverage and a weakly managed public administration, education sector and health sector.

Recent Economic Developments

Equatorial Guinea's economy recorded 9.8 per cent growth rate in 2007, up from 5.3 per cent in 2006. This exceptional progress is due to an improvement in oil production, especially in the production of liquefied natural gas (LNG), thanks to the building of new installations.

The contribution of hydrocarbons to GDP in 2006 was 87 per cent. The oil industry has without doubt become the engine of Equatorial Guinea's economy, a long way ahead of other industries, including agriculture and wood.

Oil production in 2007 was estimated at 370 000 barrels per day, or 135 million barrels per year, an 11.6 per cent rise in production compared to 2006. Cumulative crude oil production had decreased by 6.61 per cent the previous year, falling from 129.5 million barrels in 2005 to 120.9 million barrels in 2006. This slowdown, however, was compensated for in value by the large increase in Equatorial Guinea oil prices throughout 2006, which never fell below USD 60 (US Dollar) a barrel. The average export price was XAF 227 900 (CFA Franc BEAC) per tonne in 2006, compared with 188 000 in 2005. With proven reserves of 1.8 billion barrels, the country can depend on relatively high levels of production for about 20 years.

Besides oil, Equatorial Guinea is rich in natural gas deposits, especially methanol, with estimated reserves of 40 billion m^3. In 2006, production of methanol and other gases totalled 1.64 million m^3, compared with 1.49 million m^3 in 2005. In 2007, methanol and condensate production rose significantly, by about 10.2 per cent. Estimated production for 2007 is 3.16 million m^3, and the projection for 2008 is 3.28 million m^3.

The increased production in this industry is mainly due to the evolution in the production of butane and propane gas since capacity building was undertaken at the Punta Europa plant, where production has increased by 102 per cent since 2005. Natural gas, particularly methanol, provides a real alternative to address the decline in the extraction of black gold. The many oil enterprises operating in Equatorial Guinea should allow the country to acquire the necessary technology for a better exploitation of its energy potential.

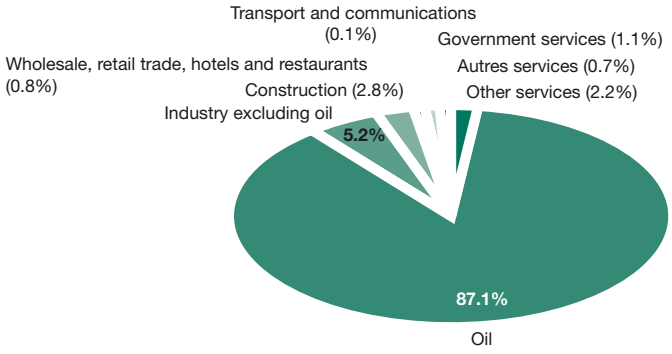
Regarding other primary-sector activities in 2007, gross wood production reached 399 400 m^3, compared with 443 800 m^3 in 2006 and 460 800 m^3 in 2005, showing a continuous decline in wood production. In contrast, timber production increased by 6.3 per cent thanks to a strengthening of the capacities of processing plants. Located mainly on the continental part of the country, the forest cover extends over 20 000 square kilometres of the country, or nearly 80 per cent of the territory. In order to preserve its forestry resources, the government of Equatorial Guinea has set limits on what land can be exploited and on the number of enterprises permitted to operate. This has reduced the area of exploited forests from 1.2 million hectares in 1994 to 400 000 hectares, and the number of enterprises from 52 in 1994 to about 15.

Excluding hydrocarbons, the primary sector represented only 1.5 per cent of GDP in 2006. The different programmes set up to improve food security have not had the desired effects. The reasons for this, in large part, are the persistence of an insufficient level of management staff, the lack of material and financial support to farmers, and the condition of the road infrastructure.

Cocoa and coffee are the main export crops. Cocoa production stabilised at 3 000 tonnes in 2006, a slight increase on the production in 2005. Cocoa has been hit by the rising costs of inputs, by the scarcity of labour and most of all, by the instability of producer prices. In 2006, the price of cocoa stabilised at XAF 826 / kilogram, down from XAF 1 076 in 2003, which is a 24 per cent fall in three years.

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Figure 2 - **GDP by Sector in 2006** (percentage)



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

StatLink http://dx.doi.org/10.1787/317702871877

Regarding coffee, the most recent data show a slight recovery, especially in the province of Kie-Ntem, which has experienced a relative rise in purchases from planters, despite the global decline brought about mainly by the fall in international prices.

The wood processing industry is grouped in the Rio Ekuku port area, south of Bata, a region specialising in sawing and peeled-veneer leaves. The favourable market conditions enabled a significant annual 11 per cent increase in processed-wood production between 2000 and 2006.

The energy industry (electricity and gas) is experiencing a strong period of growth thanks to the strengthening of its electricity-production capacity and the acquisition of new thermal power stations. Energy-sector activity remained solid in 2007, owing in part to high levels of electricity production and an increase in metered consumption. In late December 2007, electricity production had reached 181 375 kWh, compared with 136 950 kWh at the same period in 2006, representing a 32.4 per cent increase.

Manufacturing production could benefit from the increased standard of living of the population thanks to oil revenues and contribute to the country's economic growth, provided that certain obstacles are minimised: the insufficiency of transport infrastructure, the scarcity of qualified human capital and the excessively complicated administrative procedures involved in starting a business.

In contrast, construction is in full expansion. Over the past few years, the industry has been boosted by colossal levels of public investment, particularly for building schools, health centres and subsidised housing, the road network and public works.

With regard to fishing, Equatorial Guinea's territorial waters are rich in fish, but are still not well-exploited. Traditional fishing cohabits with industrial fishing, which comprises many national firms, including Guinea Pesca S.A., Alfa Marina S.A., Armement de pêche-Gabon and other authorised firms.

Total industrial fishing production is currently around 340 tonnes, but the new processing plant built by Cepesca S.A. in Mbini should increase total output in the next few years. As for traditional fishing, the latest figures published by the fishing authorities show that there has been a considerable decrease in this form of fishing during the current period. In 2007, the volume of fish caught decreased by 12.1 per cent to less than 350 tonnes due to the ageing small-scale fleet.

The structure of demand reflects Equatorial Guinea's dependence on oil. The country must also import most of its consumer goods, a situation set to continue into 2008 and 2009. There was sustained public investment in 2007 in order to strengthen the country's basic infrastructure. This public investment was 15 per cent higher than in 2006. Private investment, particularly in the oil industry, reached a record high in 2007, and made a significant contribution to consolidating the

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country's GDP. Equatorial Guinea's economy has become a very attractive target for foreign direct investment in the region. Household consumption was solid in 2007, increasing by 13.5 per cent in volume owing to increased household income due to higher wages in the public sector. Final consumption in the public sector increased by 6 per cent, largely because of the equipment and supplies needed by national enterprises and consumption by the public administration.

Table 1 - **Demand Composition**

	Percentage of GDP (current prices)		Percentage changes, volume			Contribution to real GDP growth		
	1999	2006	2007(e)	2008(p)	2009(p)	2007(e)	2008(p)	2009(p)
Gross capital formation	**76.4**	**40.2**	**12.3**	**8.3**	**5.0**	**13.3**	**9.2**	**5.6**
Public	6.8	17.0	15.0	5.0	5.0	6.8	2.4	2.4
Private	69.6	23.2	10.4	10.9	5.0	6.4	6.8	3.3
Total Consumption	**40.5**	**12.9**	**0.1**	**2.3**	**3.0**	**0.0**	**0.9**	**1.1**
Public	7.2	2.9	7.4	6.2	6.3	0.5	0.4	0.4
Private	33.3	10.0	-1.3	1.4	2.3	-0.5	0.5	0.7
External Demand	**-16.8**	**46.9**				**-3.5**	**-4.2**	**-2.6**
Exports	100.4	97.3	5.5	2.3	1.1	10.4	4.2	1.9
Imports	-117.2	-50.3	5.8	3.6	2.0	-13.8	-8.4	-4.6
Real GDP growth	**-**	**-**				**9.8**	**5.8**	**4.1**

Source: Bank of Central African States (BEAC) and domestic authorities' data; estimates (e) and projections (p) based on authors' calculations.

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The continuing needs of Equatorial Guinea's economy for input supplies (spare parts, tools and equipment, and consumer goods) should consolidate final consumption (public and private) in 2008 and 2009. Exports, however, are expected to decrease in volume in 2008 and 2009 due to the downward trend in oil production, with oil extraction having reached a certain maturity. The discovery of new gas reserves in the past few years has not compensated this downward trend. The hazards of oil production will significantly affect GDP growth in the next few years. Projections are based on growth's slowing down in 2008 and 2009, to 5.8 per cent and 4.1 per cent, respectively.

Macroeconomic Policies

Fiscal Policy

Overall balance was estimated at 22.8 per cent of GDP in 2007. This high proportion was due to a better collection of oil revenues, which reached an all-time high of more than XAF 2 000 billion.

Oil revenue represented 42.7 per cent of GDP in 2007, a slight fall on 2006 revenue, manifestly due to the instability of oil and natural-gas prices. Non-oil revenue, which had been stagnant since oil had begun to dominate national economic activity, has once again become significant since tax reforms were passed in February, introducing value-added tax and a new customs-taxation law aimed at improving the collection of non-oil tax revenues.

Total expenditure increased in 2007 to 22.8 per cent of GDP, compared to 21.4 per cent in 2006. In volume, total expenditure reached XAF 956.4 billion in 2006 and XAF 1 1184 billion in 2007, representing a 24.2 per cent increase from 2006.

Current expenditure in 2007 was stabilised at 4.5 per cent of GDP. This stability is a reward for the

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

	1999	2004	2005	2006	2007(e)	2008(p)	2009(p)
Total revenue and grants[a]	**18.8**	**31.3**	**37.5**	**47.6**	**45.7**	**44.8**	**43.9**
Tax revenue	4.0	2.1	1.5	1.7	1.6	1.4	1.4
Oil revenue	13.6	28.3	34.8	44.4	42.7	42.0	41.2
Total expenditure and net lending[a]	**16.8**	**19.7**	**16.4**	**21.4**	**22.8**	**20.4**	**21.4**
Current expenditure	10.0	5.0	4.5	4.4	4.5	4.1	4.3
Excluding interest	*9.0*	*4.8*	*4.3*	*4.3*	*4.4*	*4.0*	*4.3*
Wages and salaries	2.8	1.2	1.0	0.9	0.9	0.7	0.8
Interest	1.1	0.2	0.2	0.1	0.1	0.0	0.0
Capital expenditure	6.8	14.7	11.9	17.0	18.3	16.4	17.1
Primary balance	**3.0**	**11.8**	**21.4**	**26.3**	**23.0**	**24.4**	**22.5**
Overall balance	**2.0**	**11.6**	**21.2**	**26.2**	**22.8**	**24.3**	**22.5**

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

StatLink http://dx.doi.org/10.1787/321767423570

efforts made by the government of Equatorial Guinea to compensate for higher international oil prices and a higher wage bill.

Overall, the 2007 fiscal year was expected to close with a substantial surplus of 22.8 per cent, despite the budget position's having deteriorated with respect to 2006. The budget balance is expected to improve in 2008, but then to deteriorate in 2009 if there is a fall in oil prices, hence in total revenue.

As a member state of the Central African Economic Community and Monetary Union (CEMAC), which has subscribed to the Extractive Industries Transparency Initiative (EITI), the economic and financial policy of the government of Equatorial Guinea advocates the promotion of transparency in the management and use of oil revenues by placing surplus oil revenues in special funds. These funds are intended, in particular, for future generations and to support efforts to diversify the economy.

In 2007, fiscal policy focused on promoting quality basic infrastructure as part of the Millennium Development Goals (MDGs). This policy was accompanied by efforts to strengthen the human capital by prioritising education, health and national security, as well as by increasing expenditure on goods and services.

Projections for 2008 and 2009 are based on a downward trend in total national revenue, especially in oil revenue. The overall balance, however, should remain largely positive, and should not dip below 20 per cent of GDP.

Monetary Policy

As a member of the CEMAC, Equatorial Guinea implements the community's monetary policy. The Bank of Central African States (BEAC) ensures the stability of the parity of the CFA franc. At the end of 2007, the country's situation was characterised by the consolidation of external assets of the monetary system, the strengthening of the state's position as creditor and an increase in the money supply.

The broad money supply (M2) grew by 14 per cent during the period, moving beyond the XAF 320 billion bar, while the reserve ratio for the monetary base remained stable, at an estimated 99.2 per cent.

The inflation rate was 4.9 per cent at the end of 2007, just below the 5 per cent rate recorded in 2006. Nonetheless, this rate remains above the 3.5 per cent limit required by the CEMAC. It also reflects a slight increase in the prices of consumer goods, since the country imports most of its products and consumer

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goods, especially food and clothes, and capital equipment. A considerable decline in inflation is however expected in 2008 and 2009, mainly due to a return to stability in consumer prices and to a considerable increase in the country's food-crop production.

In 2007, the buoyancy of household consumption, helped in particular by the expansion of activities of labour-intensive industries such as construction, affected the evolution of consumer prices. Despite the measures taken in the last quarter of 2007 to control the prices of basic consumer staples, as well as the relative reduction in the cost of telephone communications and the ongoing state subsidies to motor-fuel pump prices, this pressure looks set to continue due to pay rises for civil servants, the scarcity of skilled local labour, and legislation requiring enterprises to hire Equatorial Guinea nationals.

The state's domestic and external debt-reduction policy made a large contribution to domestic credit, and public-treasury credit balances with the banking system reached record levels in 2007, 36 per cent higher than in 2006. Domestic credit was affected by excess public liquidity, but also by the weak capacity of the private sector to provide bank loans, leading to a total absence of state debt for the period.

External Position

Equatorial Guinea's main commercial partners are the United States (US), China, France, Spain and the United Kingdom (UK). The US remains its leading export partner by acquiring 35 per cent of Equatorial Guinea's exports, in particular hydrocarbons extracted from offshore fields in the Gulf of Guinea. The country's external position is built upon a narrow export base concentrated on natural resources, particularly oil and natural gas. These products are particularly affected by terms-of-trade shocks, making the country highly vulnerable to changes in international prices. Oil and methanol have dominated exports for the past decade at 96 per cent of GDP. Equatorial Guinea is the leading oil exporter in the franc zone, ahead of the Republic of the Congo and Gabon.

In 2007, exports of goods and services accounted for 92.5 per cent of GDP, compared with 96.3 per cent in 2006, thus dropping by 3.8 points. This slowdown in exports was mainly due to the opening of new oil fields in the Gulf of Guinea, which attracted labour to the new sites at the expense of the old ones. In addition, the increased production expected in 2008 and 2009 could be followed by a reduction in oil prices, which would affect the country's volume of exports.

Imports of goods and services recorded a substantial increase of 17.1 per cent in 2007 compared with 2006, with a total volume of XAF 2 630.3 billion. This rise was due to the growth in imports in the oil industry and the public sector. Demand for staples also rose, thanks to increased expenditure on goods and services by the public sector and the consolidation of household purchasing power.

There remained, however, a trade-balance surplus of 63.3 per cent of GDP for 2007, compared with

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

	1999	2004	2005	2006	2007(e)	2008(p)	2009(p)
Trade balance	38.7	64.5	68.4	65.6	63.3	65.7	63.6
Exports of goods (f.o.b.)	98.0	98.3	98.1	96.3	92.5	91.1	89.2
Imports of goods (f.o.b.)	59.3	15.0	29.8	30.7	29.2	25.4	25.7
Services	-55.5	-26.7	-19.5	-18.7	-18.6	-16.4	-14.9
Factor income	-13.7	-63.2	-58.3	-47.9	-45.7	-40.0	-36.3
Current transfers	0.6	-1.0	-0.9	-1.1	-1.3	-1.4	-1.7
Current account balance	**-29.9**	**-26.3**	**-10.4**	**-2.1**	**-2.3**	**7.9**	**10.7**

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

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65.6 per cent in 2006. Otherwise, there was a slight deterioration of the current external balance, at -2.3 per cent of GDP in 2007, as against -1 per cent the preceding year, as an effect of the lower trade-balance surplus and of the decline in the services balance, revenues and current transfers.

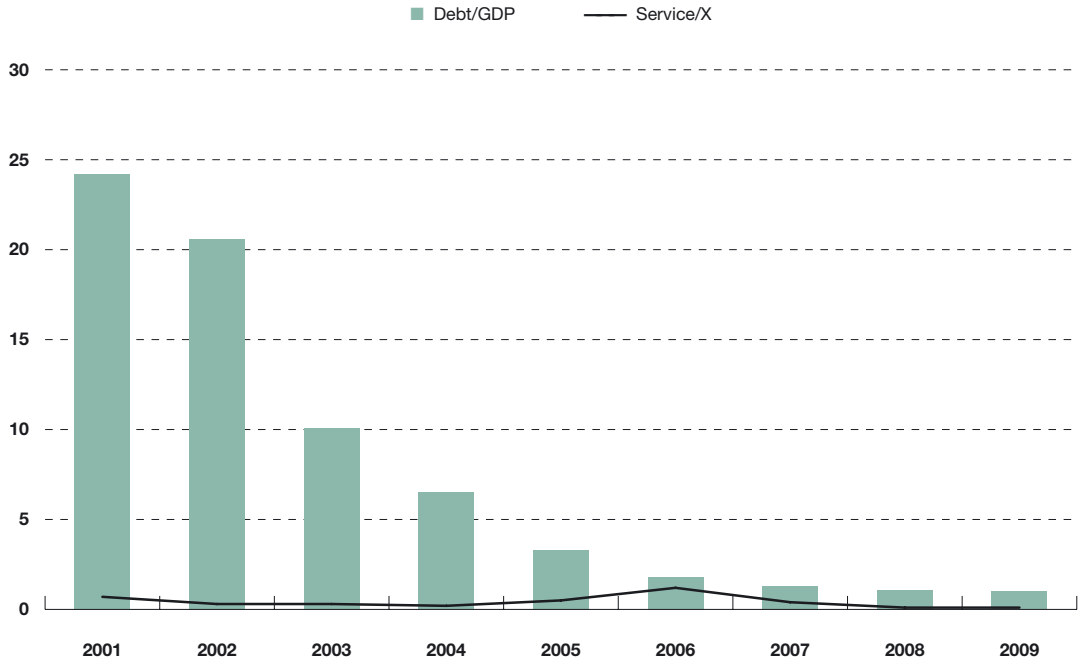
Also of note is the weak growth in credits to the economy (1.7 per cent in 2007 compared with earlier projections of 8.2 per cent), which is related to reduction in the levels of overdrafts granted to economic operators, in a context of inflows of external resources following the good performance of the oil markets.

The country's exceptional resources have helped to attract public and private capital. In 2006, Equatorial Guinea alone benefited from more than one-third of foreign direct investment in the Central Africa region, totalling more than USD 3.7 billion. The massive influx of foreign capital is an illustration of the growing interest of international investors for a young, expanding economy.

The increase in oil exports and the continued high oil prices have contributed to strengthening the country's foreign assets, which increased by 30 per cent compared to 2006. This performance was mainly due to the increase in the state's share of certain oil contracts, hopped up by the spiralling international prices of hydrocarbons.

With regard to public debt, the continued drive to consolidate external accounts and the increase in public resources of the past few years have improved the indicators of the country's external debt, which is the lowest in the region. This made it possible to renegotiate the country's bilateral debt with Spain in 2003 and with Italy in 2005; arrears owed to Spain were paid in 2004, and in 2005, there was advance repayment of part of the debt owed to Italy. Thus, the ratio of outstanding external debt in relation to GDP fell from 4.1 per cent in 2005 to 2.2 per cent in 2006, and to less than 1.8 per cent for 2007 and 2008.

Figure 3 - **Stock of Total External Debt** (percentage of GDP) **and Debt Service** (percentage of exports of goods and services)



Source: IMF.

StatLink http://dx.doi.org/10.1787/318724367354

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In contrast, debt service as a percentage of budget revenue increased from 1.1 per cent in 2005 to 1.9 per cent in 2006. Given the country's level of wealth per person and its low outstanding debt, Equatorial Guinea is not eligible for the Highly Indebted Poor Country (HIPC) initiative. This comfortable situation does not, however, in any way mean that the international community has no interest in the country: international aid takes the form of technical co-operation and expertise in areas related to human development. This aid is directed at helping Equatorial Guinea to achieve the MDGs, the country lagging far behind in education, health and general law.

Structural Issues

Recent Developments

Rational management of oil revenue represents a challenge for the authorities of Equatorial Guinea, for although revenue is considerable, results are below what the country should be achieving with the means it has available. Furthermore, the authorities made a commitment to increase transparency in the management of oil revenues when Equatorial Guinea signed up to the EITI in March 2005.

In 2003, administrative decentralisation law was passed to transfer powers to the country's 30 municipalities. Modernisation of the public sector was also a key objective in the recommendations made at the second Economic National Conference, held in Bata in November 2007.

The conference, entitled "Equatorial Guinea 2020", defined an agenda for the diversification of sources of growth, in particular by developing fishing, tourism and financial services. The conference also called for the public sector to be modernised.

The 2008 edition of the World Bank's report on the business environment, *Doing Business 2008*, gives Equatorial Guinea a world ranking of 165, down from 157 in 2005. On average, it takes 136 days to start a business in Equatorial Guinea, compared with 20 days in Cameroon and 14 days in the Central African Republic; it also takes 45 days to complete the formalities for an employment contract, compared with 23 days in Cameroon. This situation makes it impossible for a competitive private sector to emerge in Equatorial Guinea and for the country to diversify its economy. If it is to climb up to the ranking of countries that provide a truly attractive business environment, Equatorial Guinea must tackle the challenge of transforming the rules, the habits and the behaviour that undermine economic activity.

It should be noted that the business environment is improving thanks to higher taxation, the entry into force of regional regulations such as the Cemac regulations and the implementation of processes intended to harmonise business legislation.

Furthermore, the government is continuing in its efforts to liberalise the economy in the name of the freedom to conduct a business. There has been a considerable increase in the number of domestic and foreign private firms to have been awarded public contracts. These firms are involved in building infrastructure that is vital for the population: education, justice, health and subsidised housing. Nonetheless, contracts still have to operate within a local institutional reality that has not adapted to changes: administrative formalities are slow and complex, qualified staff is scarce and there is no reliable information system.

Efforts to diversify the economy necessarily include the development of road and maritime infrastructure and better air connections between the different regions. The road network, one of the country's weaknesses, is managed by the public authorities. In 2006, the length of asphalt roads doubled thanks to the financial and technical support provided by the African Development Bank (AfDB) and the European Union (EU). A new road connecting Bata to the eastern border was built with the support of China. Asphalt motorways now serve the Evinayoung region and connect Senye and Mbini, while the road from Malabo to Luba and Riaba on Bioko Island has been tarred. The two most important cities in the country, Bata and Malabo, will benefit from the current projects.

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With regard to air transport, the renovation and expansion projects for Malabo Airport and Bata Airport are supported by the AfDB and the Kuwait Fund for Arab Economic Development. Malabo Airport can now be used by large aircraft.

Maritime infrastructure is also being developed. In the port of Malabo, which has 204 metres of berths and an annual capacity of 200 000 tonnes, expansion work began in March 2006, with the project contracted to the Moroccan enterprise Somagec. When the work has been completed, in around 2009, the total length of berths at the port will be 1 400 metres, divided into three units meeting international standards. Vessels and container ships of all sizes will then be able to dock at the port of Malabo.

The construction sector has also been classified as priority, especially for the development of the capital, Malabo, by building the new town "Malabo II". Most state services and many enterprise headquarters are expected to be based in this huge new district, including the national oil enterprise GEPetrol. Housing will also be built there. The estimated total cost of the current projects is set at USD 750 million.

Subsidised housing is also a matter of concern for the authorities, and in June 2006 the head of state launched a large project to build 2 330 subsidised homes for underprivileged members of the population. This market has been contracted to Chinese enterprises (China Dalian) and to Moroccan (Get, Chaabi) and Lebanese (Seguibat) enterprises.

Banking in Equatorial Guinea is governed by the Bank of Central African States (BEAC). Four banks operate in the country. In addition to the BGFI Bank Guinée équatoriale, a subsidiary of the Gabon-based BGFI group (Banque gabonaise et française internationale), there is also the Caisse commune d'épargne et d'investissement (CCEI), a subsidiary of CCEI Bank-Cameroun; the Société générale de banques en Guinée Équatoriale (SGBGE), a subsidiary of the French group Société Générale; and a new bank, the Banco Nacional de Guinea Equatorial (BANGE), which began operating in September 2006. These banks cover most of the country and provide a range of banking services, loans for exports, commercial loans and real-estate loans.

With regard to finance, the aggregate balance-sheet total for 2007 was XAF 420 billion, an 11 per cent increase on the figure recorded in 2006. Gross loans to clients increased by 31 per cent during the same period, and net loans rose by 32.5 per cent to XAF 137 billion in one year.

According to the BEAC, reports issued by domestic banks and the latest checks carried out do not reveal the need for any additional provisions to the levels of 2006. Furthermore, 345.6 per cent of loans are covered by deposits and operations with clients yield XAF 239 million in surplus resources. In 2007, there was surplus cash flow of 63.8 per cent of the total balance, a 1.5 per cent decrease compared to the previous year.

With regard to solvency, all four banks seem to have good risk cover, weighted by a net-equity ratio of more than 8 per cent. As for the coverage of capital assets by fixed resources, three banks have a ratio greater than or equal to 100 per cent and are able to finance up to 50 per cent of their use with fixed resources for a residual maturity of more than five years.

Technical and Vocational Skills Development

The public system for vocational and technical training is suffering from a definite shortage of institutions and poor organisation. There are only two vocational training centres in the entire country, and their infrastructure is inadequate. They are Modeste Gene Roz, in Bata, and 12 Octobre, in Malabo. These two institutions constitute the country's entire potential for technical and vocational training in the public-education sector.

They offer few specialisations related to the needs of the national economy. Modeste Gene Roz, in Bata, is the larger of the two centres in terms of the number of trainees and staff. It was attended by 705 trainees in 2006/07, enrolled in one of four curricula: administration, auto mechanics, auto electrics, joinery.

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The 12 Octobre centre in Malabo, the capital, is the smaller of the two centres. Though it was opened only recently, it does not have sufficient equipment or qualified trainers. Although the building is new, the situation in the centre is deplorable, thus depriving the young population of an important training institution to prepare them for the workplace.

In both centres, the training is split into three levels. The first level, called "*Officialia*", consists of three years of theoretical and practical studies. The second level, "*Maestria*", provides vocational training, also a three-year course, leading to a vocational masters degree. The third level is a one-year bridge course to vocational training for those who have been through the general education system and is called "*Curso Acceso Technico*" (CAT).

Vocational training in the private sector is very recent in Equatorial Guinea. The main training provided by those centres that do exist is to become secretaries and data-entry clerks.

Vocational training is an important part of the national plan for the development of education for all (EPT), which itself is an integral part of Equatorial Guinea's strategic education programme, the implementation of which is related to all sectors of the country's society. The Economic National Conference held in November 2007 identified vocational training as a priority for government action within the framework of its poverty-reduction strategy (PRSP).

There are no clear statistics on the level of employment in the country, nor on the unemployment rate amongst the working population. Like most other African countries where the young account for more than 60 per cent of the total population, Equatorial Guinea suffers from a fairly high level of unemployment, which is higher in the cities, owing to high levels of rural-urban migration.

Existing training does not meet the needs of today's labour market. Surveys carried out amongst economic operators seem to suggest that unemployment in Equatorial Guinea is due more to an under-qualified workforce than to insufficient vacancies. There is a gap between the needs of enterprises and the skills available. The law on employment prioritises the domestic workforce: at least 65 per cent of professionals hired by an enterprise must be Equatorial Guinea nationals. This percentage is even higher for non-professional staff. New recruits must, if needed, be given refresher training, but unfortunately this is not always sufficient for the staff to acquire the necessary skills. Many enterprises complain that it is difficult to comply with the quotas for recruitment of Equatorial Guinea nationals due to the lack of available skills. The gap between supply and demand in employment is partly filled by hiring foreign workers. The migration policy may, therefore, be used as a strategic lever for a better regulation of the employment market.

The government has introduced a major reform to the vocational and technical training sector. This reform was adopted by the governing council, and it was announced that it would come into force at the start of 2008. The reform focuses on three areas: *i)* modernising the training facilities, *ii)* building up the staff, and *iii)* increasing and diversifying the branches.

To achieve the goal of modernisation, the government has issued a call for tenders to renew and purchase new equipment for both training centres. In addition to machines, the authorities envisage introducing good-quality educational material, particularly computer and audiovisual equipment.

Staff is another government priority. Grants have been allocated for training teachers specialising in specific fields in collaboration with Spanish and French co-operation.

Finally, the authorities have planned the introduction of new branches, based on the evolution of the labour market and the increasing demand of domestic and foreign enterprises operating in the country. The new branches will be: industrial designer, lathe operator, accounting and stock management, and industrial maintenance.

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The government authorities remain in charge of funding for vocational training, but the allocated amount is a tiny share of the ministry of national education budget: less than 5 per cent in the past few years.

Some sectors of the economy are expected to contribute towards the funding of vocational training. The state thus issued a decree in 2004 to open a technological oil institute, the Institut technologique du pétrole, which is managed in co-operation with the private sector. In addition to this initiative, the issue of vocational training is relevant to all sectors, especially those targeted for diversification of the economy: fish and aquaculture, finance, tourism and agriculture. Diversification will not be possible without a qualified workforce. An essential task is to identify the vocational-training needs.

Various donors, such as UNESCO, the ILO, and Spanish and French co-operation, jointly finance some projects as part of bilateral or multilateral co-operation with the government or the private sector.

Therefore, if we are to ensure a better match between the skills available on the market and the needs of enterprises, the major challenge in terms of employment is related to vocational training. The training sector is still not provided with sufficient equipment and management staff, and it remains essential to upgrade the sector in order to support the country's socio-economic evolution and enable various economic sectors to develop.

Political Context

Equatorial Guinea is governed by a strong presidential regime. Since taking power in 1979, President Teodoro Obiang Nguema Mbasogo was elected for a new seven-year term of office in December 2002, with more than 97 per cent of the vote.

The current political structure is based on the 1996 constitution, which provides for three branches of power: executive, legislative and judiciary. Executive power is exercised by the president of the republic, who appoints a prime minister as the head of the government, as well as the other members of the government. Legislative power is exercised by the national assembly, whose members are elected by universal suffrage for a five-year term. Judicial power is vested in various courts throughout the country; the highest court is the supreme court of justice. The head of state appoints the president of the supreme court and the other members of the supreme court for a five-year term.

The most recent legislative elections took place in March 2004. The party in power, the Partido Democrático de Guinea Ecuatorial (PDGE), holds an overwhelming majority, with 98 of the 100 seats in the national assembly.

The political field has recently been opened up, enabling various political parties to emerge, such as Convergencia para la Democracia Social (CPDS), Unión Popular (UP), Acción Popular de Guinea Ecuatorial (APGE), Unión Democrática y Social (UDS) and Convergencia Social Democrática y Popular (CSDP).

Over the course of a long process of consolidation of democracy and governance in the country, the foundations have been built for civil-society organisations to operate through two acts of parliament on associations and NGOs.

Social Context and Human Resources Development

Despite sustained growth and a considerable influx of revenues, the social situation in Equatorial Guinea is way behind all expectations. Based on human development indicators (HDIs), Equatorial Guinea was ranked 127th out of 177 countries in the Human Development Report (2007-2008) published by the United Nations Development Programme (UNDP), seven places below its 2006 ranking. This ranking, which places Equatorial Guinea amongst countries with average human development, was reached because

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of the increase in its per capita GDP and not because of improvements in social indicators (access to public care and services, increase in level of education and training).

Of the total population, 67 per cent were living in extreme poverty (income of less than one dollar a day) between 1994 and 2001. This figure rises to 70 per cent in rural areas, compared with 60 per cent in urban areas. According to a household survey for poverty evaluation (EEH) carried out by Equatorial Guinea in 2006, 76.8 per cent of the population is poor, which translates into a head-of-household poverty ratio of 66.4 per cent. This is a very poor ratio for a country where average income per capita was greater than USD 20 000.

The analysis shows that poverty affects relatively more women than men, and more the rural areas than the urban ones. The health situation in the country remains alarming, despite the relative improvement of a number of human-development indicators. For example, life expectancy at birth has increased to 50.4 years, but the infant mortality rate remains high, at around 123 per 1 000 live births, and the maternal mortality rate is 680 per 100 000 live births. Malaria remains the main cause of death, with 49 per cent of deaths of children under five linked to this disease. These statistics reveal the low coverage of vaccinations against diseases in the country; so far, through the expanded vaccination programme, 32.3 per cent of children have been vaccinated against measles, 34 per cent against tuberculosis, and 32 per cent against diphtheria, tetanus and whooping cough.

The HIV/AIDS prevalence rate has reached 7.2 per cent of the population aged 15 to 49. The government has taken a number of measures to deal with this situation, including strengthening health programmes for mothers and children, setting up a national AIDS council, and creating a capacity-building project, with funding from the World Health Organisation (WHO), to fight against HIV/AIDS.

Health infrastructure is improving, with 300 first-level and second-level health centres and about 10 municipal and provincial hospitals run by a public health-care fund (Ineseso), which pays for about half of the medical costs of the insured. A new 110-bed polyclinic with very modern facilities opened in Bata in May 2007. The new centre provides care in most medical disciplines, but the infrastructure and health equipment are insufficient and not well-maintained.

Despite implementing a plan to deploy the very first students to graduate in medicine, in 2006, these graduates were not evenly distributed between urban and rural areas. The human-resources development plan is not taken into account, thus preventing a rational distribution of human resources and delaying policies from being adopted to motivate health staff in their positions of employment. The government is forced to resort to hiring foreign medical staff, especially Spanish-speaking staff, from Cuba, Argentina and a few European countries.

The insufficient number of nursery schools, primary schools, secondary schools, universities and vocational training centres, and the lack of sufficient infrastructure (drinking water, sanitation, furniture, electricity, computer equipment) are the main problems that the education sector in Equatorial Guinea must deal with. Despite these deficiencies, the level of education is continually improving and primary-school enrolment reached 87 per cent in 2007, while secondary-school enrolment reached 25 per cent. This progress is mainly thanks to the increase in the number of schools in the different regions: there are now 784 primary schools (including 115 private schools) and 71 secondary schools (including 40 private schools); in 2007 there were 1 500 classes, compared with 1 378 in 1999.

Nevertheless, the undertrained teaching body and the lack of appropriate teaching materials hinder qualitative improvements to the education system. Particularly in secondary education, the number of qualified teachers is well below the number needed, especially in rural areas. Most qualified teachers are either members of religious orders or are foreigners, and most work part time. In 2007, the government invested USD 5 million to train 2 000 teachers, 36 educational advisers and 45 education inspectors.

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The sector also benefits from the support of many national and international institutions. In 2006, the United Nations had spent more than USD 5 million on training 2 000 teachers. The Spanish agency for international development co-operation (AECID) and the Spanish education ministry have contributed to developing school and university curricula, as have other countries such as France and China. Nonetheless, although the first economic conference, in 1997, allocated 15 per cent of the national budget to education, in recent years this allocation has been reduced: between 2002 and 2007, national expenditure on education represented less than 4 per cent of total government expenditure.

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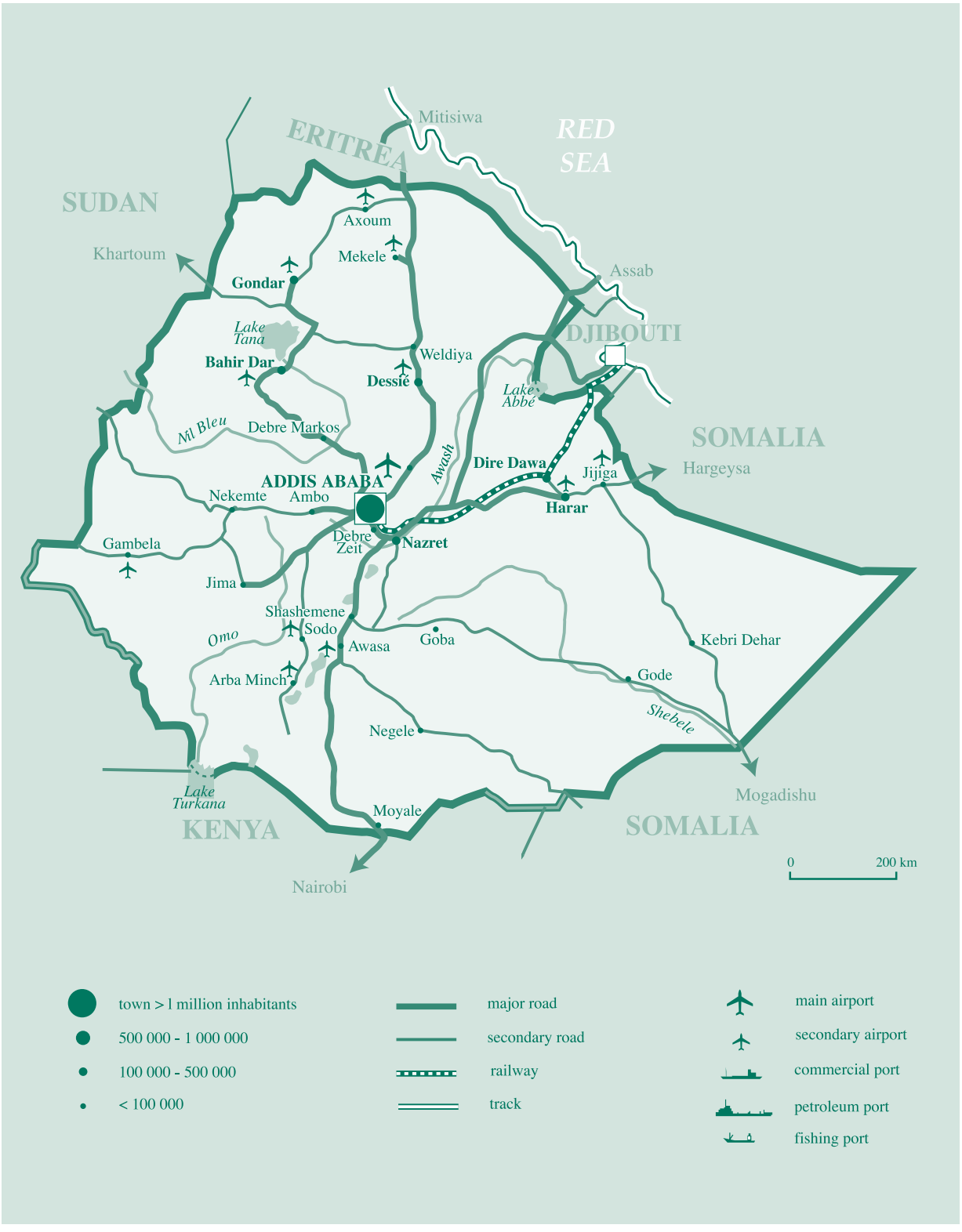
Ethiopia



key figures

• Land area, thousands of km²	1 104
• Population, thousands (2007)	83 099
• GDP per capita, USD at constant 2000 prices (2006/07)	141
• Life expectancy (2007)	52.9
• Illiteracy rate (2007)	52.5

Ethiopia


ERITREA
Mitisiwa
RED SEA
SUDAN
Axoum
Khartoum
Mekele
Gondar
Assab
DJIBOUTI
Lake Tana
Bahir Dar
Weldiya
Dessié
Lake Abbé
Mil Bleu
Debre Markos
SOMALIA
Awash
Dire Dawa
Jijiga
Hargeysa
ADDIS ABABA
Nekemte
Ambo
Harar
Debre Zeit
Nazret
Gambela
Jima
Shashemene
Sodo
Omo
Awasa
Goba
Kebri Dehar
Arba Minch
Gode
Shebele
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Moyale
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Nairobi
town > l million inhabitants
500 000 - 1 000 000
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major road
secondary road
railway
track
main airport
secondary airport
commercial port
petroleum port
fishing port

Ethiopia

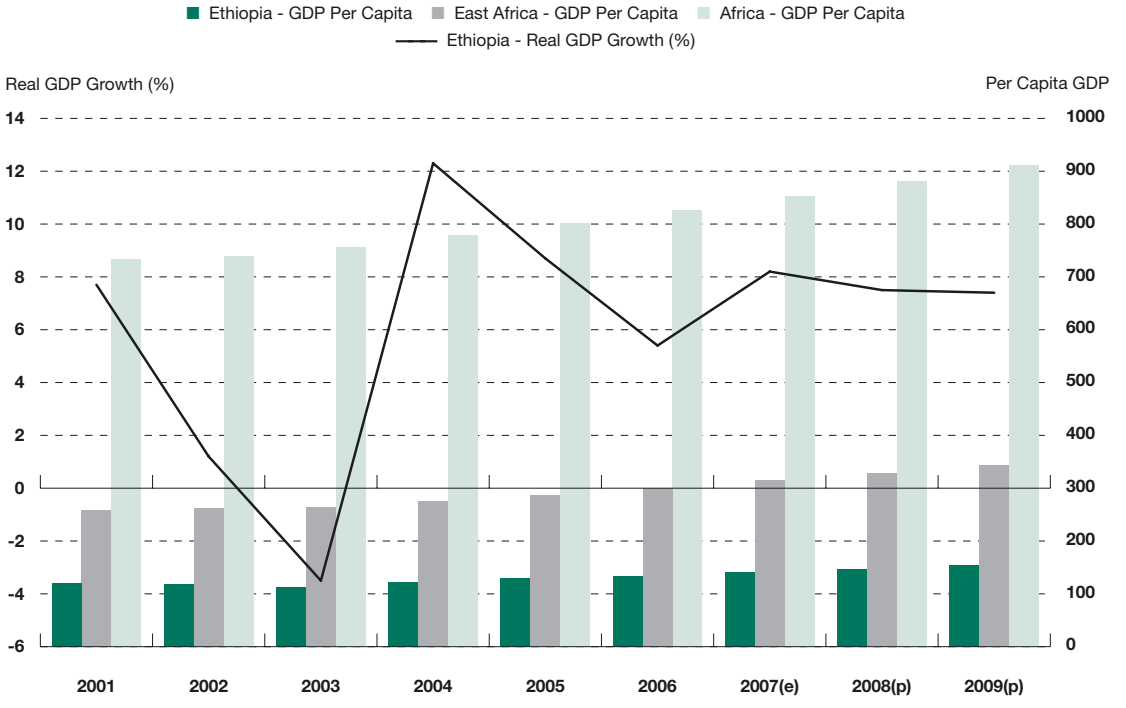
THE ETHIOPIAN ECONOMY CONTINUES the strong performance witnessed since 2004, with real GDP estimated to have grown by 8.2 per cent in 2006/07, well above the 5.4 per cent registered in 2005/06. This growth was broad-based, with industry, agriculture and services all expanding strongly.

The key objective of the government as enunciated in the Plan for Accelerated and Sustained Development to End Poverty (PASDEP) covering the period 2005/06-2009/10 is to achieve sustained, robust and pro-poor economic growth so as to accelerate progress towards the Millennium Development Goals (MDGs).

Tighter monetary and fiscal policies are needed to contain inflationary pressures.

Real GDP is projected to grow by 7.5 per cent and 7.4 per cent respectively in 2008 and in 2009, with all major sectors again contributing. Tourism should perform particularly well in 2007/08 on account of the Ethiopian Millennium celebrations.

Figure 1 - **Real GDP Growth and Per Capita GDP**
(USD at constant 2000 prices)



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

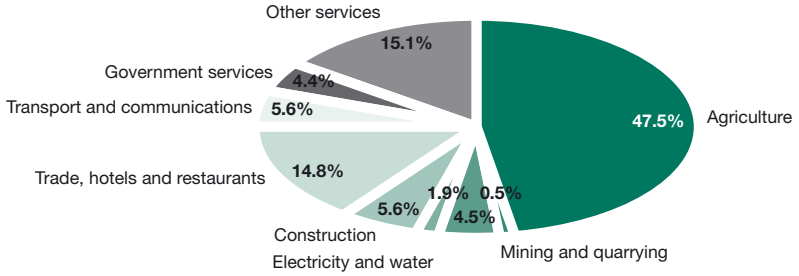
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Recent Economic Developments

The share of industry in GDP has grown from 10.3 per cent in 2000/01 to nearly 12 per cent in 2006/07. Industry recorded real growth of 11 per cent in 2006/07, up from 10.2 per cent in 2005/06. Manufacturing grew by 10.5 per cent in 2006/07, while mining and quarrying grew slowly by 6.0 per cent,

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Figure 2 - **GDP by Sector in 2006/07** (percentage)



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

StatLink http://dx.doi.org/10.1787/317526305677

down from 7.2 per cent in the previous fiscal year. The real growth rate of the services sector was virtually unchanged at 13.5 per cent in 2006/07. However, growth in retail and wholesale trade picked up to 15.7 per cent, from 14.2 per cent in 2005/06. Construction grew by 10.9 per cent in 2006/07, as against 10.5 per cent in 2005/06. The electricity and water sector also boomed, with real growth rising to 13.6 per cent in 2006/07, following 8.8 per cent in 2005/06. The transport and communications sector grew by 7.6 per cent, up from 5.7 per cent in 2005/06.

The economy is still dominated by agriculture, which accounted for nearly 47 per cent of GDP in 2007, down from a high of 56.7 per cent in 1996/97. The sector grew by 9.4 per cent in real terms in 2006/07, down from 10.9 per cent in 2005/06.

Coffee, which remains the largest export product, exhibited output growth of 40 per cent in 2006/07. Tea, the second-largest export, has also performed remarkably well in recent years.

With respect to food crops, in 2006/07 cereal production increased by 10.7 per cent and pulses by 24.2 per cent. Oilseeds grew only marginally by 2.2 per cent in 2006/07, after decreasing by 7.6 per cent in the previous fiscal year. Fruits and vegetables also performed poorly, dropping by 8.3 per cent.

The *meher* harvest, which takes place from October to December, accounts for more than 90 per cent of Ethiopia's annual agricultural production and is of crucial importance for food security. During the Sustainable Development and Poverty Reduction Programme (SDPRP), which preceded PASDEP, the government launched a National Food Security Programme to assist 5 million chronically food-insecure people. Another 10 million people suffering from temporary food insecurity due to drought and floods have benefited from the Productive Safety Net Programme (PSNP) funded by the World Bank. The PSNP has two components: a public works programme for employing the poor in building roads and other infrastructure, and free distribution of food to orphans, the elderly and others who are unable to work. The World Bank granted USD 175 million to finance the PSNP in 2007. The second phase of the programme is estimated to require USD 915 million, which will be co-financed by the United Kingdom, Canada, the United States and the European Union, World Food Programme and Ireland. The PSNP is also contributing to achieving the MDG of halving extreme poverty and hunger.

The government intends to introduce a number of policy initiatives in agriculture over the next five years to address structural constraints. These include building the capacity of farmers and extension agents, introduction of high-yielding varieties through agricultural research and extension services, establishment of appropriate marketing systems and expansion of small and medium-scale irrigation systems.

Private consumption is estimated to have grown by 9.8 per cent in 2006/07, and government consumption

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Table 1 - **Demand Composition**

	Percentage of GDP (current prices)		Percentage changes, volume			Contribution to real GDP growth		
	1998/99	2005/06	2006/07(e)	2007/08(p)	2008/09(p)	2006/07(e)	2007/08(p)	2008/09(p)
Gross capital formation	**19.6**	**20.5**	**15.0**	**12.6**	**11.2**	**2.8**	**2.5**	**2.3**
Public	13.2	12.2	15.0	13.0	12.0	1.7	1.5	1.5
Private	6.4	8.3	15.0	12.0	10.0	1.1	1.0	0.8
Consumption	**93.0**	**104.0**	**9.4**	**9.0**	**7.7**	**9.3**	**9.0**	**7.8**
Public	16.0	13.0	6.1	5.8	5.0	0.7	0.7	0.6
Private	77.0	91.0	9.8	9.4	8.0	8.6	8.3	7.2
External demand	**-12.6**	**-24.5**				**-3.9**	**-4.0**	**-2.7**
Exports	12.0	14.9	11.1	7.8	9.1	1.7	1.2	1.4
Imports	-24.6	-39.4	16.7	14.4	10.9	-5.6	-5.2	-4.1
Real GDP growth	**-**	**-**	**-**	**-**	**-**	**8.2**	**7.5**	**7.4**

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

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by 6.1 per cent. The contribution of private consumption to real GDP growth was 8.6 per cent and that of public consumption 0.7 per cent in 2006/07. Gross capital formation grew by 15 per cent in 2006/07, following 20.5 per cent growth in the previous year. Gross capital formation contributed 2.8 per cent to real GDP growth in 2006/07. The gross domestic savings ratio is only 6.0 per cent of GDP, however, which means that large capital inflows and corresponding current account deficits are required to fund investment.

On the expenditures side, the government maintained the restraint shown in recent years, with expenditure falling slightly from 24.0 per cent of GDP in 2005/06 to 23.9 per cent in 2006/07. Current expenditure declined from 12.5 per cent of GDP in 2005/06 to 12.2 per cent in 2006/07 and is expected to drop further to 11.8 per cent of GDP in 2007/08. Capital expenditure, in contrast, increased to 11.7 per cent of GDP in 2006/07 from 11.5 per cent in the previous fiscal year, due to strong emphasis on infrastructure development.

Macroeconomic Policies

Fiscal Policy

Total revenue and grants as a share of GDP rose from 19.0 per cent in 2005/06 to 20.8 per cent in 2006/07. Tax collection remained weak, with tax revenue declining marginally from 11.6 per cent of GDP in 2005/06 to 11.4 per cent in 2006/07. This points to the need for further strengthening of revenue collection institutions. Grants recovered to 4.9 per cent of GDP in 2006/07 from 3.1 per cent in 2005/06, as donor concerns about political repression eased. Grants under the World Bank's Protection of Basic Services programme surged 330 per cent to ETB 4 091 million (Ethiopian birr) in 2006/07.

Given the decline in expenditure relative to revenue as a share of GDP, the overall fiscal deficit improved to 3.1 per cent of GDP in 2006/07 from 5.0 per cent in the previous fiscal year. The deficit was financed by domestic and foreign borrowing amounting to 3.7 per cent and 0.5 per cent of GDP respectively. In the next few years, expenditure management is expected to remain prudent, with cuts in current expenditure and priority given to key social sectors such as health, education and agriculture, as well as support for infrastructure development. Priority social expenditure areas include food security and capacity building programmes, especially in education. Defence expenditures are also likely to rise sharply in 2007/08 owing to the escalation of the Eritrean border dispute. Since total revenue is projected to decline more than

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

	1998/99	2003/04	2004/05	2005/06	2006/07(e)	2007/08(p)	2008/09(p)
Total revenue and grants[a]	**18.1**	**21.9**	**20.5**	**19.0**	**20.8**	**20.2**	**20.7**
Tax revenue	9.7	13.3	12.6	11.6	11.4	11.6	11.7
Grants	2.8	4.9	4.6	3.1	4.9	4.1	4.5
Total expenditure and net lending[a]	**26.4**	**25.1**	**25.2**	**24.0**	**23.9**	**23.8**	**23.7**
Current expenditure	18.4	17.1	14.3	12.5	12.2	11.8	11.3
Excluding interest	*16.6*	*15.7*	*13.3*	*11.7*	*11.1*	*10.7*	*10.3*
Wages and salaries	4.9	6.3	6.0	5.6	5.0	4.6	4.2
Interest	1.7	1.3	1.0	0.9	1.1	1.1	1.0
Capital expenditure	8.1	10.1	11.5	11.5	11.7	12.0	12.4
Primary balance	**-6.6**	**-1.9**	**-3.7**	**-4.1**	**-2.0**	**-2.5**	**-2.0**
Overall balance	**-8.3**	**-3.2**	**-4.7**	**-5.0**	**-3.1**	**-3.6**	**-3.0**

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

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expenditure as a ratio of GDP, the fiscal deficit should grow to 3.6 per cent of GDP in 2007/08.

Monetary Policy

The main goals for monetary policy are to maintain price and exchange rate stability and safeguard the soundness of the financial system. Although the central bank has not explicitly adopted inflation targeting, the objective of monetary policy for the next five years is to contain inflation below 10 per cent. Broad money supply and domestic credit increased in 2006/07 by 19.7 per cent and 23.1 per cent respectively; these rates are consistent with the inflation objective only if real GDP growth remains strong and demand for money expands.

Inflation rose to 17.1 per cent as at the end of fiscal year 2006/07, up from 12.3 per cent in 2005/06 and 6.8 per cent in 2004/05. Both food and non-food inflation increased significantly in 2006/07, with the latter increasing strongly to 18.9 per cent from 14 per cent in the preceding fiscal year. The rise in non-food inflation was due to strong demand associated with large public investment projects and rising fuel prices, which in turn led to higher prices for construction materials, water and energy.

The National Bank of Ethiopia (NBE) has taken a number of steps to bring down inflation. The deposit rate was raised by a full percentage point to 4 per cent. The government sought to restrain some key prices directly by imposing a ban on the export of maize and distributing wheat and edible oil to the urban poor at subsidised prices.

The monetary authority's tools include sale and purchase of treasury bills and setting of the minimum deposit rate and reserve requirements. To mop up excess liquidity in the banking system, in 2006/07 the central bank increased the reserve requirement from 5 per cent to 10 per cent and aggressively sold treasury bills.

The NBE is continuing with the implementation of its five-year strategic plan, which features institutional reforms aimed at improving the soundness of the financial system, strengthening the bank's technical capacity to provide timely research and policy advice to government and enhancing the efficiency of the payment system.

The premium between the official and parallel foreign exchange rates fell to 1.85 per cent in 2006/07 from 3.97 per cent in the preceding year. The monetary authority expects the exchange rate of the birr against the US dollar to depreciate by 5 per cent in 2007/08.

External Position

Ethiopia's exports grew 18.5 per cent, reaching about USD 1.2 billion in 2006/07. Coffee accounts for about one-third of exports. A slight decline in the

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

	1998/99	2003/04	2004/05	2005/06	2006/07(e)	2007/08(p)	2008/09(p)
Trade balance	-14.1	-20.9	-24.5	-24.1	-24.1	-25.3	-25.8
Exports of goods (f.o.b.)	6.3	6.3	7.4	7.1	6.9	6.5	6.4
Imports of goods (f.o.b.)	20.4	27.3	31.9	31.2	31.0	31.8	32.2
Services	0.9	3.3	2.4	1.1	1.1	1.2	1.3
Factor income	-0.4	-0.7	-0.3	-0.3	-0.2	-0.1	-0.1
Current transfers	6.1	13.0	13.7	12.3	12.6	13.6	14.9
Current account balance	**-7.4**	**-5.3**	**-8.6**	**-11.0**	**-10.5**	**-10.6**	**-9.8**

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

StatLink http://dx.doi.org/10.1787/322608132718

unit price of coffee from USD 2.4/kg in 2005/06 to USD 2.37/kg in 2006/07 was more than offset by a sharp rise in the volume of coffee exported. As a result, export earnings rose 19.7 per cent in 2006/07 to USD 424.2 million. Although oilseeds remain the country's second-largest export item, the boom in oilseed exports subsided in 2006/07, with export earnings falling from USD 210 million to USD 190 million due to lower unit prices and a drop in production. The Ministry of Trade and Industry is developing an export business plan to boost the quality and quantity of oilseeds destined for Europe, China, Korea and Japan. Despite the 13 per cent increase in the unit price of meat, exports of meat and meat products declined by 18 per cent from USD 18.5 million in 2005/06 to USD 15.1 million in 2006/07.

Exports of some non-traditional agricultural commodities, notably flowers, have shown promise. The value of flower exports grew from USD 21 million in 2005/06 to USD 63 million in 2006/07. New entrants, both domestic and foreign, as well as expansion by existing farmers have boosted production and exports. Favourable climatic conditions for horticultural production, generous investment incentives and lower freight costs to the main European markets give Ethiopia a competitive advantage over other flower producers such as Kenya.

Imports grew by 11.6 per cent to USD 5.1 billion in 2006/07. The value of imports remained a little over four times the value of exports, such that even though exports grew faster than imports, the trade deficit rose to USD 3.9 billion in 2006/07 from USD 3.6 billion in 2005/06. High growth in capital goods imports reflects the growth of the industrial sector, notably construction. Capital goods accounted for a little over a third of total imports in 2006/07.

Over half of Ethiopian exports in 2006/07 went to European countries, notably Germany, Switzerland, the Netherlands and Italy. Close to a third of exports went to Asia, mainly China, Saudi Arabia and Japan. Within Africa, neighbouring countries such as Somalia, Djibouti and Sudan were the largest importers of Ethiopian products. Close to three-fifths of Ethiopian imports came from Asia, again mostly from China, Saudi Arabia and Japan. Over a quarter of imports came from Europe, mostly Italy, Germany and France. Close to a tenth of imports came from African countries.

Net services trade grew from USD 148.1 million in 2005/06 to USD 190.8 million in 2006/07, an improvement of 28.8 per cent, due largely to growth in net travel and transportation receipts. The current account deficit narrowed to 10.5 per cent of GDP in 2006/07, from 11.0 per cent of GDP in 2005/06, as a result of improvement in services and transfers.

The surplus on the capital account increased in 2006/07 to USD 780 million, from USD 633 million in the previous fiscal year, despite the 47 per cent drop in foreign direct investment and a modest decline of 12 per cent in long-term loan disbursements. The overall balance of payments improved from a deficit of USD 208 million in 2005/06 to a surplus of USD 85 million in 2006/07.

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Figure 3 - **Stock of Total External Debt** (percentage of GDP) **and Debt Service** (percentage of exports of goods and services)



Source: IMF.

StatLink http://dx.doi.org/10.1787/318617548261

In line with the changes in the overall balance of payments, which moved from a deficit to a surplus, the net foreign assets position of the country improved modestly to USD 1.583 billion in 2007 from USD 1.523 billion in 2006.

Ethiopia's total external debt at end-2006/07 had declined considerably to USD 2.3 billion, from USD 6 billion in 2005/06. This was due to debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI) coupled with lower external loan disbursement. External debt is projected to decline again in 2007/08 owing to further HIPC and MDRI debt relief. The government also signed a debt cancellation agreement with the Chinese government amounting to USD 18.8 million in 2007.

Structural Issues

Recent Developments

Privatisation is a key component of the market-oriented reforms initiated in the mid-1990s. Since the restructuring of the Privatisation and Public Enterprise Supervising Authority (PPESA), privatisation has accelerated. According to PPESA, 14 enterprises were privatised in 2007 in sectors such as tourism, mining, industry and agro-industry, bringing the total number of public enterprises privatised to 247[1]. Eight of these enterprises were privatised through equity sales and the remainder through joint ventures.

Enterprises slated for privatisation in 2007/08 include Addis Ababa Yarn Share Company, Combolcha

1. See Privatisation and Public Enterprises Supervising Agency (PPESA), Biannual News Magazine, Vol. 1, No. 2, July 2007.

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Textile Company, Yerer Flour Mill and Ethiopian Plywood Company. PPESA is also implementing a Corporate Reform Programme for Public Enterprises aimed at strengthening corporate governance and management standards in public enterprises.

The promotion of small and micro enterprises is also critical to private sector development. The government has been providing support to such enterprises in several areas such as training, business skill development, micro-credit, and information and marketing.

Under PASDEP, the government will focus on strengthening the capacity and competitiveness of the private sector through the implementation of the Private Sector Development Capacity Building (PSD-CB) project. The government will also continue to strengthen the public-private consultation mechanism through the Public-Private Consultative Forum, chaired jointly by the government and the Ethiopian Chamber of Commerce.

The business climate in Ethiopia is rated relatively favourably. Although Ethiopia's *Doing Business* ranking worsened slightly in 2007 (to 102nd out of 178 countries, as against 97th out of 175 countries in 2006), it still ranked above most countries in the region. For example, launching a business in Ethiopia requires only seven procedures compared to the regional average of 10.8. Nevertheless, potential entrepreneurs still face a number of challenges in Ethiopia. According to the World Economic Forum's *Global Competitiveness Report*, the three biggest challenges to doing business in Ethiopia are lack of finance, poor infrastructure and inefficient government bureaucracy.

The NBE introduced new rules governing the appointment of boards of directors of commercial banks. The Licensing and Supervision of Banking Business Directive requires that two-thirds of banks' board members be degree holders and possess at least ten years of experience. In addition, they cannot serve for more than two consecutive three-year terms and are prohibited from serving in two institutions at the same time. The new policy directives are likely to improve the governance of financial institutions by reducing corruption and conflicts of interest. The NBE's Financial Sector Capacity Building Programme aims to contribute to the development of a transparent, well-regulated and competitive financial sector, including a corporate regulatory framework and government bond markets.

As in SDPRP, rehabilitation and construction of roads is accorded high priority under PASDEP. The government intends to increase capital expenditure in 2007/08, with the Ethiopian Road Authority receiving the largest allocations.

The Universal Electrification Access Programme extends electricity to under-served rural areas. Generation capacity has expanded considerably and will increase further in the next few years, as four hydropower projects are under construction.

Despite substantial water resources, water distribution and management have been uneven and ineffective. In urban areas, groundwater supplies are depleted and the infrastructure is antiquated.

Telecommunications infrastructure in Ethiopia is amongst the least developed in the world, lagging well behind other countries in the region in both fixed and mobile use. There are approximately five lines per 1 000 people, and 87 per cent of the rural population lives more than 5 kilometres from the nearest phone service.

The state-owned Ethiopian Telecommunication Corporation (ETC) is making substantial investments to upgrade telecommunications infrastructure, notably by connecting more than 600 high schools to the internet. The government has also launched the Agri-net, which connects over 50 agricultural research centres in the country. The installation of fibre-optic cables has also advanced, notably with the completion of the Gondar-Metemma fibre highway. In line with the rural connectivity project, over 4 706 rural homes have been connected with basic phone lines, and testing of a radio station that would connect 5 000 homes has been completed. The government is overseeing an expansion of the mobile and fixed-line networks. As a result, there has been a slight increase in the number of fixed-line

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subscribers from 610 347 in 2004/05 to 740 257 in 2005/06. The number of mobile users rose from 410 000 in 2004/05 to 866 700 in 2005/06.

Technical and Vocational Skills Development

The Ethiopian government accords great importance to technical and vocational education and training (TVET)[2]. TVET in Ethiopia comprises both formal and informal training. Several public and private institutions provide TVET to the informal sector, although the qualifications they offer are not recognised due to lack of systematic testing and certification systems. In addition, a number of small and micro enterprises offer apprenticeships.

The priority sectors for TVET are agriculture, health and teacher training. TVET in agriculture is geared towards supporting the development of new industries such as nurseries, horticulture, spices, fruits and vegetables, and cotton. The number of TVET institutions providing non-agricultural training increased from 17 in 1997 to 199 in 2005, with the number of students rising from 3 000 to 106 300 over the same period.

There are currently 126 medium-level TVET institutions in the country, offering training in a variety of fields: textile and garment production, bakery and pastries, hotels and catering, electronics, electricity, auto mechanics, secretarial services and construction.

Despite this massive increase in provision, there are indications that the demand for TVET education services far exceeds supply. Thus, a high percentage of Ethiopians do not have access to TVET. Increasing access to TVET services is hampered by the lack of qualified TVET teachers and adequate funding.

The formulation and implementation of TVET policies is currently the responsibility of the Ministry of Education. The Ministry of Capacity Building (MCB) has since 2006 been implementing the Engineering Capacity Building Development Programme, with technical assistance from the German government. The programme is aimed at improving the competitiveness of the private sector through reform of TVET, non-formal education and universities. The government is considering reforms of TVET governance and management structures through the establishment of autonomous TVET authorities at federal and state levels, which will be governed by the TVET Council.

Joint review missions and annual review meetings were conducted to assess the implementation of the second Education Sector Development Programme (ESDP II). They revealed, among other things, that although considerable efforts have been made to enhance access to TVET, quality has not kept pace with expansion. Another finding is that most TVET graduates do not meet the expectations and requirements of employers.

To address the shortcomings of ESDP II, the government formulated ESDP III, covering the period 2005/06-2009/10. The broad objective of ESDP III is to attain the MDGs and other development goals by providing "necessary, relevant and demand driven education and training that correspond to the needs of the economic and social sectors for employment and self employment"[3]. TVET will be re-organised into an outcome-based system, with competencies and skills identified as being in demand on the labour market informing the design and content of TVET. Quality will be measured through an assessment of learners' achievements. A demand-oriented curriculum has already been developed with the involvement of experts in the field.

The government intends to increase enrolment in TVET programmes to 315 000 by 2009/10. Furthermore, 3 300 classrooms and workshops will be built and an additional 4 500 TVET teachers hired. Another important aspect of reform is progressive decentralisation, with responsibility for TVET devolved to lower levels of government.

2. See, for example, Federal Democratic Republic of Ethiopia, National Technical and Vocational Education and Training Strategy (2006).

3. Government of Ethiopia, National Technical and Vocational Education and Training Strategy, 2006.

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The sources of financing for TVET include government allocations, community contributions, student fees and assistance from bilateral and multilateral donors. In fiscal year 2004/05, the government spent ETB 4.6 billion on TVET, which represented 8.6 per cent of total expenditure on education. The contribution of local communities to financing covers about one-fifth of TVET expenditures. The contribution from student fees is expected to rise considerably by 2009/10. Italy, Belgium and Germany are the main bilateral donors supporting TVET in Ethiopia. GTZ, the German technical co-operation agency, is the largest donor, supporting existing TVET programmes as well as reforms.

The government intends to introduce new funding mechanisms. One of the options is to encourage private investment in TVET through provision of financial incentives and co-financing through voucher schemes and outsourcing of public training programmes. Employers will be encouraged to contribute to the financing of TVET through scholarships and donation of equipment.

Political Context

The tense political climate following the disputed May 2005 elections eased in 2006/07. The Commission of Inquiry appointed to investigate the violence that erupted in June and November 2005 finally released its report in early 2007. According to the report, 199 people were killed during the protest, including six police officers, and 30 000 people were arrested. The report accused the security forces of using "excessive force". Since then, one of the key members of the Commission, who charged that the report had been watered down, has been granted asylum in the United Kingdom (Economic Intelligence Unit, January 2007).

A breakaway faction of the opposition party Coalition for Unity and Democracy (CUD) split off, forming the Coalition of Unity and Democracy Party. Radical elements of the original CUD formed the Alliance for Freedom and Democracy (AFD) in May 2006, which continued to show strong support for imprisoned opposition leaders. Some of the outlawed opposition parties such as the Oromo Liberation Front and Ogaden National Liberation Front also joined the AFD.

In July 2007, 38 opposition leaders who were accused of fomenting violence, genocide and treason and attempting to overthrow the government were found guilty, but were pardoned by Prime Minister Meles Zenawi. In another step towards political reconciliation, the ruling party, Ethiopian People's Democratic Revolutionary Front, concluded a working agreement in mid-2006 with some of the opposition parties on parliamentary procedures and rules of conduct.

A less positive political development in 2007 was the establishment of a new ultra-nationalist Tigray for Unity and Democracy Party in the prime minister's home region of Tigray. The new party opposes the concessions to Eritrea. Whether the party will be able to pose a significant political challenge to the dominance of the Tigray People's Liberation Front in the Tigray region remains to be seen.

Relations between Ethiopia and Eritrea continue to be strained. Although Ethiopia has accepted in principle the ruling of the Eritrea-Ethiopia Boundary Commission (EEBC), it has been reluctant to hand over the contested town of Badme. Instead, Ethiopia has demanded new talks on the demarcation of the border, whereas Eritrea continues to insist on adherence to the original EEBC decision. The EEBC has given the two countries an ultimatum to begin demarcating the border by November 2007.

In the December 2006 invasion of Somalia, Ethiopia routed the Union of Islamic Courts (UIC), but the UIC is regrouping and has declared a "holy war" against Ethiopia. There are indications that Eritrea has been providing military support to the UIC, raising fears of a regional conflagration. Ethiopia has vowed to withdraw its troops from Somalia when the Transitional Federal Government (TFG) has established full authority over the territory with the support of the African Union peacekeeping force. The situation is far from stable,

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however, and Ethiopia may be bogged down in Somalia for some time.

The Somalian situation is also exacerbating the conflict in the Ogaden region of Ethiopia. Historically, the Ogaden National Liberation Front (ONLF) has had close relations with Somalia, supporting it in the war against Ethiopia over Ogaden in the 1970s. Armed attacks by the ONLF against the Ethiopian government have intensified in the aftermath of the Somali invasion. On 24 April 2007, the ONLF launched an attack on a Chinese-owned gas project in Ogaden, killing nine Chinese expatriates and 65 Ethiopians. This was followed by another attack on 28 May 2007 in Jigjiga and Degahabur, killing 17 people. In response to the attacks, the Ethiopian military launched an offensive against the ONLF. In efforts to hunt down the rebels, the Ethiopian army closed all the roads into the region to commercial and humanitarian traffic. As a result, the military campaign may have triggered a serious humanitarian crisis. In July 2007, the International Committee of the Red Cross (ICRC) was banned from Ogaden, although there are still 12 humanitarian and relief agencies operating in the region.

While the political situation has improved recently in some respects, governance remains weak. According to the World Bank's governance indicators, Ethiopia ranks in the bottom 10 per cent of countries on political stability. On voice and accountability, the country ranks in the bottom 10-25 per cent with a score of 15.8 (out of 100) in 2006, as against 19.3 in 2005. Similarly, Ethiopia's score on political stability and absence of violence declined from 8.0 in 2005 to 5.3 in 2006, due to the crackdown on opposition and suppression of civil liberties in the aftermath of the 2005 elections.

With respect to corruption, Ethiopia's score improved from 25.1 in 2005 to 36.9 in 2006 in the World Bank indicators. However, Ethiopia's ranking in Transparency International's Corruption Perception Index for 2007 was roughly unchanged, at 138th out of 179 countries compared to 130th out of 163 countries in 2006.

Social Context and Human Resources Development

PASDEP will continue the SDPRP's strong emphasis on female participation with a five-year National Action Plan for Gender Equality. The plan focuses on women's empowerment, promoting equal access to education and training, reducing violence against women and increasing women's participation in decision-making processes.

Robust growth, coupled with initiatives directly targeted at poverty reduction, has started to show some positive results. According to PASDEP, the proportion of people living in poverty declined slowly from 44.2 per cent in 2000 to 38.7 per cent in 2005. Both urban and rural poverty indices have declined. Despite the decline in poverty in recent years, Ethiopia is unlikely to meet the MDG of halving poverty by 2015. PASDEP aims to reduce poverty to 29 per cent by 2010.

Despite strong economic performance in recent years, the unemployment rate remains stubbornly high at 26 per cent. In some big urban centres such as Addis Ababa, unemployment may be as high as 40 per cent. One of the key objectives of PASDEP is to reduce unemployment through TVET and public works programmes.

In the area of health care, the government's strategy focuses on the most common diseases such as malaria, tuberculosis and HIV/AIDS. To improve health care delivery in rural areas, the government has launched the Health Extension Worker Programme (HEWP) under the Accelerated Expansion of Health Care Coverage. One of the accomplishments of the programme has been the training of close to 10 000 women in the provision of sanitation and immunisation services[4]. Health extension workers work under difficult conditions, travelling long distances and facing poor transport and communication facilities. In addition, the health reporting and management information system is weak.

4. See Center for National Health Development in Ethiopia, "Assessment of the Working Conditions of the First Batch of Health Extension Workers", 2006.

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The government has formulated a multi-sectoral HIV/AIDS plan, covering prevention programmes and anti-retroviral treatment (ART). As a result, the proportion of HIV/AIDS-positive women receiving ART has increased to 42 per cent, from only 15 per cent at the end of SDPRP. The government intends to intensify the fight against the pandemic during the implementation of PASDEP through a major mass media and community mobilisation campaign to raise awareness on HIV/AIDS.

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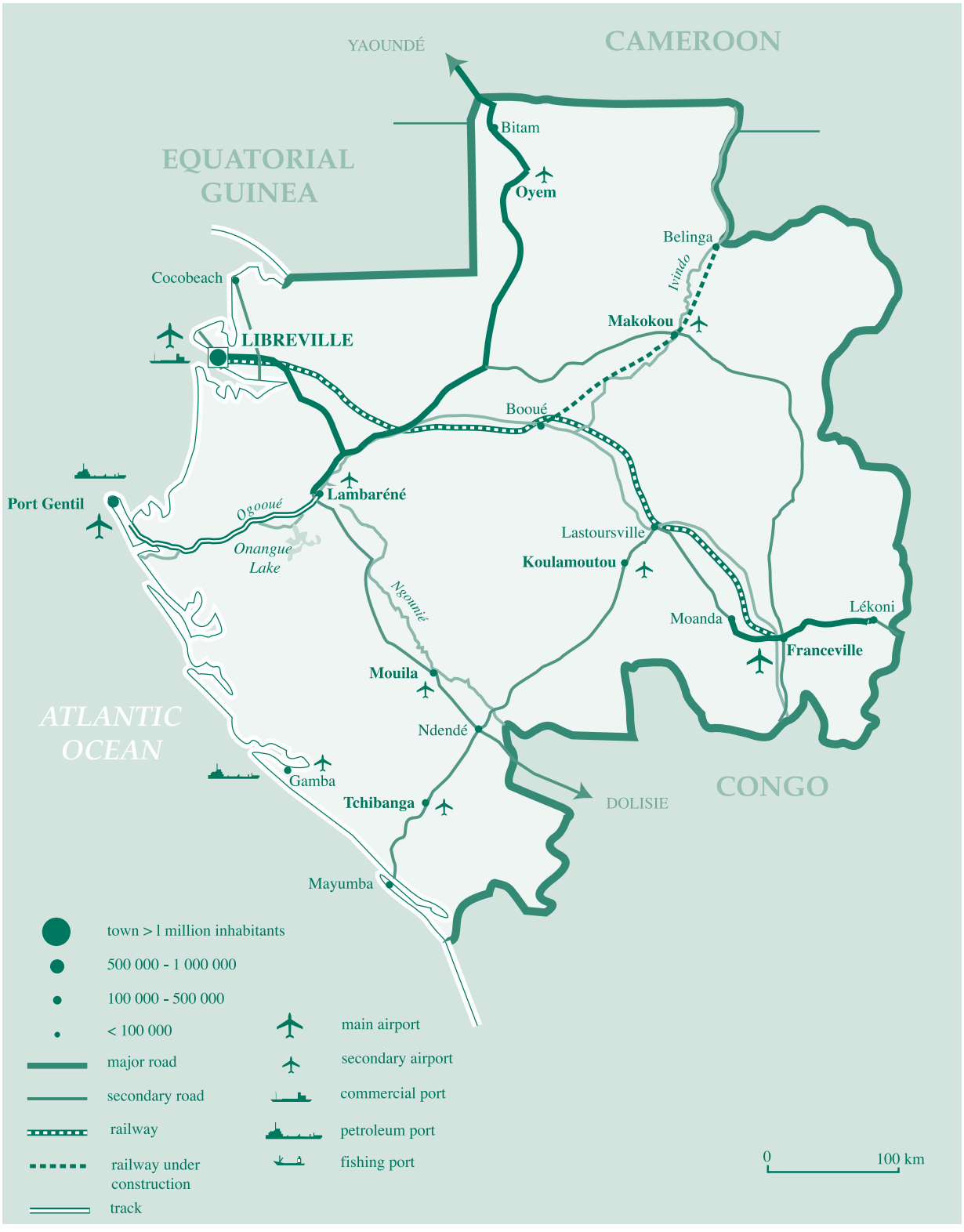
Gabon



key figures

• Land area, thousands of km²	268
• Population, thousands (2007)	1 331
• GDP per capita, USD at constant 2000 prices (2007)	4 431
• Life expectancy (2007)	56.7
• Illiteracy rate (2007)	n.a.

Gabon


YAOUNDÉ
CAMEROON
Bitam
EQUATORIAL GUINEA
Oyem
Belinga
Ivindo
Cocobeach
Makokou
LIBREVILLE
Booué
Port Gentil
Ogooué
Lambaréné
Onangue Lake
Lastoursville
Koulamoutou
Ngounié
Moanda
Lékoni
Franceville
Mouila
ATLANTIC OCEAN
Ndendé
Gamba
CONGO
DOLISIE
Tchibanga
Mayumba
town > 1 million inhabitants
500 000 - 1 000 000
100 000 - 500 000
< 100 000
major road
secondary road
railway
railway under construction
track
main airport
secondary airport
commercial port
petroleum port
fishing port
0
100 km

Gabon

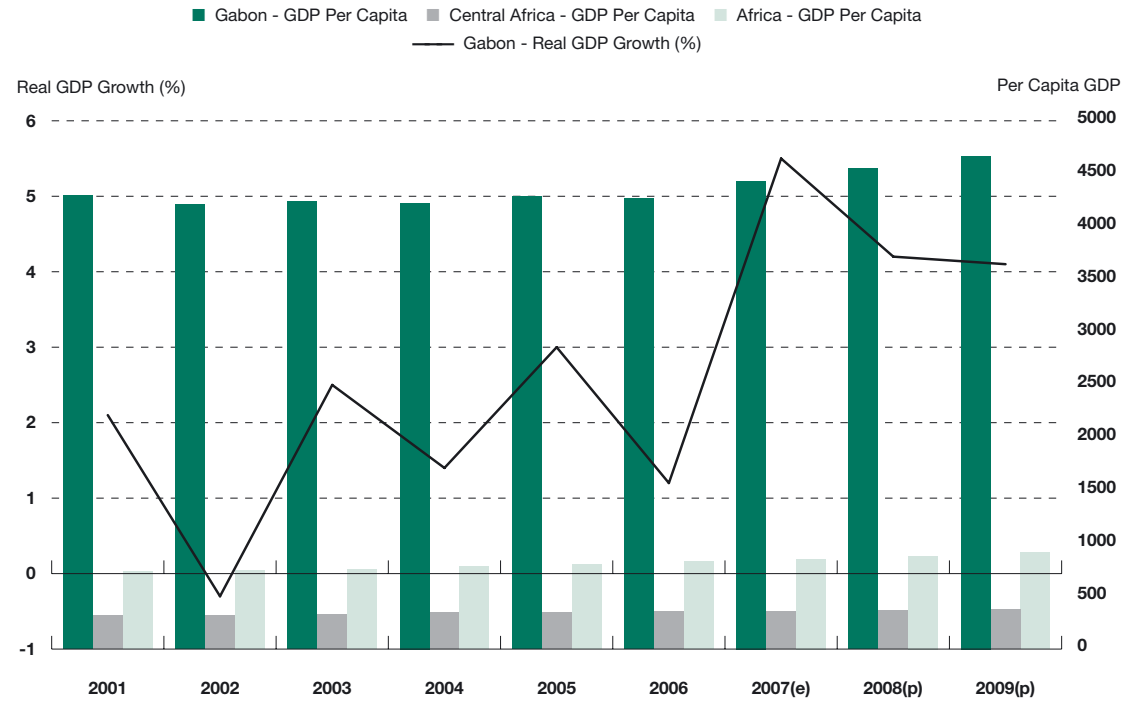
THE LEGISLATIVE ELECTIONS IN December 2006 inaugurated a year of institutional stability in Gabon. To no great surprise, the President's Gabonese Democratic Party (PDG) won 82 of the 120 seats in the National Assembly. This political stability provides the authorities with a favourable environment for deepening structural reforms aimed at diversifying the economy and rendering public finances viable in the long term.

In 2007, the economy grew by an estimated 5.5 per cent, against 1.2 per cent in 2006. This performance, the best since 2000, exceeds the rate of demographic growth (2.5 per cent). Although driven by the non-oil sector, growth continues to be strongly influenced by the performance of the oil sector. According to forecasts, growth will be 4.2 per cent in 2008, and will stabilise at this level in 2009.

Institutional weakness and skills shortages are jeopardising long-term development.

Inflation, estimated at 4.8 per cent in 2007 compared with 4 per cent in 2006, has been fed both by imported inflation and the effect on consumer prices of an approximately 25 per cent rise in the cost of petrol at the pump in March 2007. According to forecasts, inflation will be better controlled in 2008, and then contained at a rate of 2.9 per cent during the 2008/09 period. Budgetary surpluses and the overall balance of payments should

Figure 1 - **Real GDP Growth and Per Capita GDP**
(USD at constant 2000 prices)



Source: IMF and General Directorate of the Economy data; estimates (e) and projections (p) based on authors' calculations.

StatLink http://dx.doi.org/10.1787/316417742523

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be consolidated, buoyed by high world prices for the country's principal export products. Gabon will nonetheless have to persevere in its efforts to adjust to a context of diminishing oil reserves by ensuring that the ratio of primary budget deficit to GDP of the non-oil sector, estimated at 11.5 per cent in 2007, is brought down to 6 per cent. This corresponds to the level considered sustainable by the national authorities and the IMF.

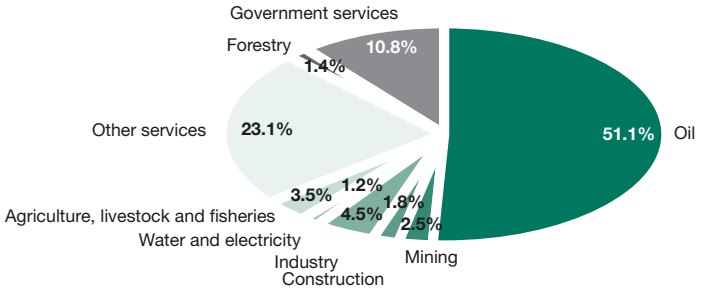
Within this context, the government has committed to deepening structural reforms in order to reduce the economy's heavy dependence on oil. It is targeting the private sector as a growth engine in order to rise to the post-oil challenge: but the state will have to strengthen its role as facilitator and regulator. In 2007, the process of developing a priority action plan was launched, as was a Medium-Term Expenditure Framework (MTEF) to improve the effectiveness of public resources and reduce poverty, which affects 33 per cent of the Gabonese population.

Recent Economic Developments

The economy of Gabon is characterised by low diversification. In 2006, the oil sector alone generated 51.1 per cent of GDP, even though its contribution to growth was negative (-10.4 per cent). The GDP share of other sectors, although better providers of jobs and strategic in reducing poverty, is marginal: 3.5 per cent of GDP for agriculture, 1.4 per cent for forestry and the environment, and 4.5 per cent for industry. In 2007, no significant change in the structure of the economy was observed, and the GDP share of the oil sector is still estimated at more than 50 per cent.

The primary sector accounted for 58.5 per cent of GDP in 2006, with the oil sub-sector contributing 87 per cent of this share. This was followed by agriculture/livestock/fisheries (6 per cent), other mining products (4 per cent) and forest exploitation (2.3 per cent). The economy of Gabon is therefore strongly dependent on oil: 64 per cent of state revenues and 82 per cent of export revenues are derived from this activity. In 2007, the steep rise in the price of oil per barrel led to substantial investment in the modernisation of production technologies in old oilfields. This resulted in an increase in production that had a positive impact on the overall growth of the economy. Gabon is the fourth-largest oil producer in sub-Saharan Africa, with around 289 700 barrels per day (b/d), and proven reserves of up to 2.5 billion barrels. Production has experienced a downward trend because of falling productivity in the principal oil well (Rabi-Kounga), whose output dropped from 220 000 b/d in 1997 to 39 000 b/d in October 2007. With the use of new technologies at old wells and the exploitation of marginal fields made more profitable by the rise in oil prices, production was nevertheless able to stabilise at around 12.5 million tonnes, against 18.4 million tonnes in 1997. Investment in the sub-sector was estimated at XAF 402.4 billion (CFA Francs BEAC) for 2006, against 388.5 billion in 2005, an increase of 3.6 per cent. In 2007, investment in the oil sector continued to rise, amounting to 452.1 billion, or 12 per cent

Figure 2 - **GDP by Sector in 2006** (percentage)



Source: Authors' estimates based on national data.

StatLink http://dx.doi.org/10.1787/317633066227

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higher than in 2006. In 2008 and 2009, higher projected world prices should encourage investment in the sector and, consequently, a rise in production levels.

While contributing less than 3 per cent to GDP, the mining sub-sector has registered sustained growth since 2003, estimated at a yearly average of 12 per cent during the 2003-06 period. Gabon has significant, but as yet insufficiently exploited, potential in the form of manganese, iron, diamonds, natural gas, gold and niobium. The only structured branch is manganese extraction, providing the third-largest export product from Gabon (after oil and wood). Its production is showing clear growth, due to sustained demand for steel on the world market, principally from China. Production rose by 8.3 per cent in 2006, from 2.75 million tonnes in 2005 to 2.98 million. In the medium term, Gabon could become the leading producer of manganese in the world due to the Franceville and Okondja deposits and those of Mbigou and Ndjolé. In 2006 COMILOG (Compagnie minière de l'Ogooué) invested an estimated XAF 26.3 billion into expanding capacity, 18.8 per cent more than in 2005. In 2007, manganese production was sustained, a trend that should continue in 2008. For iron mining in Bélinga, proven reserves of which stand at approximately 640 million tonnes, the outline of a partnership with China was defined in 2007. This project, called "building site of the century", comprises four elements: *(i)* construction of a railway line; *(ii)* construction of an electrical power station; *(iii)* construction of a deep-water port; and *(iv)* exploitation of the iron deposits in Bélinga. Gabon also possesses niobium, a high value-added metal used in the construction of highly specialised steels or alloys for the aeronautical industry. The currently known mining potential (manganese, iron, niobium) could in time generate 300 to 400 million dollars per year. The real value added of the entire mining sector should grow by 7.7 per cent in 2008, and this trend is predicted to continue in 2009.

The agricultural sector's contribution to GDP registered a downward trend. Although estimated at 4.2 per cent in 2001, this share only accounted for 3.5 per cent in 2006. However, in terms of volume, production in the sector is increasing, with renewed activity in market gardening, and cocoa- and coffee-growing. Growth of the sector stood at 3.6 per cent in 2006. Growth estimations for 2007 were slightly more optimistic, and this trend should be consolidated in 2008 and 2009. The agricultural sector was targeted as a high-potential sector in the context of the policy of economic diversification. From 1975 to 1995, the government encouraged this policy by promoting the farming of cash crops (rubber trees, cocoa, coffee, oil palms, etc.) and agro-industry (rubber, ranching, etc.). Some of the most dynamic branches of the agro-industry sector — including palm oil production — were privatised (notably by the Société d'investissement pour l'agriculture tropicale, SIAT Gabon). In fisheries, resource management is hampered by weak institutional capacity, poor knowledge of stocks and inability to monitor fishing agreements signed with external partners. The Exclusive Economic Zone (EEZ) that requires monitoring covers 213.000 km^2 and maritime and continental fishery reserves are estimated respectively at 210 000 tonnes and 24 000 tonnes.

Forest exploitation contributes only 1.4 per cent to GDP, but it represents the second largest source of employment in the country after public administration. Almost 85 per cent of country is forested, with a rich and diversified natural capital. Among African countries, Gabon has the highest ratio of forest area per inhabitant (20 ha) as well as the highest ratio by far of exploitable area to total forest cover. The renewed dynamism in the forestry sector observed in 2006 continued in 2007 due to sustained demand on world markets. Growth of this sector in real terms is estimated to be 15 per cent in 2007, against 2.3 per cent in 2006. This renewed dynamism is expected to continue in 2008 and 2009, but at a slower pace.

The secondary sector contributes 7.5 per cent to GDP. Chemical (paint, industrial gas, lubricants, etc.) and construction materials (including cement) industries generated the greatest share of this contribution (23 per cent), followed by the construction and public works sub-sector (22 per cent), electricity and water (15 per cent), the agro-food industry (14 per cent) and the wood industry (13 per cent). The wood industry

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(centred around sawing, chopping, slicing and joinery activities) is the most dynamic branch (because of sustained external demand), with an average annual growth rate of 10 per cent for the 2003-06 period. This remains the case despite a slight drop being registered in 2006 compared to 2005, due notably to difficulties in supplying small sawmills. This dynamism continued in 2007 (with a growth rate estimated at 12 per cent). The construction sub-sector also showed renewed dynamism, growing 5.6 per cent over the 2003-06 period: growth was sustained by the resumption of major roadworks as a result of the improvement in the state's financial situation since 2004. The same trend continued at a less sustained pace in 2007, and this should also be the case in 2008 and 2009. The improvement of infrastructure, particularly roads, constitutes one of the pillars of the government strategy of opening up production zones in order to encourage diversification of the economy.

The tertiary sector contributed 33.9 per cent to GDP in 2006. Services generated the largest share of this contribution (39 per cent), followed by the trade sub-sector (21 per cent).

In 2007, growth was sustained by both domestic demand (private investment and consumption, particularly that of households) and exports. Private-sector activity was the engine of this growth. Private-sector gross fixed capital formation contributed 3.4 per cent to growth in 2007. The sharp rise in oil prices and sustained world demand for Gabon's principal export products allowed companies operating in these sectors to commit to additional investment programmes, some companies with the aim of improving their productivity, and others of expanding their production capacity. This trend is expected to continue in 2008 and 2009, with investments planned in the mining sector, telecommunications and construction; however the pace will be less sustained than in 2007 to the extent that it relies on more non-oil activities than in that year. Household consumption is more dynamic, with the state having taken a commitment to reduce expenditure on purchases of goods and services by government departments. Despite higher prices, household purchasing power was maintained in 2007 due to the positive impact of the dynamism of the economy on employment and incomes. With projections of growth, particularly in non-oil sector activity, this trend should be maintained in 2008 and 2009. Exports were sustained in 2007 by oil sector performance and the dynamism of non-oil sector activities. In 2008 and 2009, exports should continue to be sustained by world demand for oil and steel. Imports were boosted by substantial investment programmes in both the oil and non-oil sectors in

Table 1 - **Demand Composition**

	Percentage of GDP (current prices)		Percentage changes, volume			Contribution to real GDP growth		
	1999	2006	2007(e)	2008(p)	2009(p)	2007(e)	2008(p)	2009(p)
Gross capital formation	**24.3**	**24.2**	**10.8**	**4.6**	**3.3**	**3.6**	**1.6**	**1.1**
Public	6.8	6.5	2.0	3.0	1.0	0.2	0.3	0.1
Private	17.5	17.7	14.0	5.1	4.0	3.4	1.3	1.1
Consumption	**55.6**	**42.9**	**4.8**	**5.3**	**5.2**	**3.1**	**3.4**	**3.4**
Public	16.8	11.5	2.5	2.0	2.0	0.4	0.3	0.3
Private	38.8	31.4	5.6	6.3	6.2	2.7	3.1	3.1
External demand	**20.1**	**32.9**				**-1.2**	**-0.8**	**-0.5**
Exports	56.4	65.4	4.3	1.9	1.8	2.1	0.9	0.9
Imports	-36.3	-32.5	7.2	3.6	2.8	-3.3	-1.7	-1.3
Real GDP growth						**5.5**	**4.2**	**4.1**

Source: General Directorate of the Economy data; estimates (e) and projections (p) based on authors' calculations.

StatLink http://dx.doi.org/10.1787/321146653151

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2007, and they should continue to grow, albeit at a slower pace, in 2008 and 2009.

Macroeconomic Policies

Fiscal Policy

Fiscal policy was developed in a context of declining oil production, which again in 2007 is expected to have generated more than 60 per cent of budgetary revenue. The aim of the policy is to improve the mobilisation of non-oil revenue and to control expenditure. The primary deficit to GDP ratio of the non-oil sector is the principal factor of adjustment of fiscal policy, and the assumptions underlying the preparation of the initial budget for 2007 were formulated within this context of seeking a prudent and rational management of resources. However, the rise in the price of oil per barrel was underestimated, and at mid-term through budget execution, oil was continuing its sharp upward climb, although the dollar exchange rate was clearly deteriorating and production was falling. This new state of affairs gave rise to a corrective Finance Act in June 2007 in which the state budget was revised upwards by 5 per cent. The additional resources expected were allocated principally for spending on infrastructure and social issues. Expenditure on transfers and subsidies (notably for the Gabonese oil refinery company, SOGARA) fell.

In 2007, the budget was executed with a primary surplus estimated at 11.5 per cent of GDP, which, due to a slight drop in oil revenues, was slightly below the 11.6 per cent surplus observed in 2006. The budget should be consolidated better in 2008 and 2009, with respective surpluses of 12.6 per cent and 12.9 per cent of GDP, due to the dynamism of the non-oil sector and the expected positive impact of structural reforms currently under way. These are aimed at improving non-oil revenue collection and reducing operating costs. Tax revenues should be 10.1 per cent of GDP in 2008, against 10.3 per cent in 2007. According to forecasts, current expenditure will be controlled at 15.5 per cent in 2008, against 17 per cent in 2007. Underpinning this prospect of an improved fiscal balance are the increased contributions to non-oil revenues (up by 19 per cent in 2007 compared to their 2006 levels) that have been observed by nearly all financial authorities. The effort to increase revenues has focused on: *(i)* improving the accounting of the new revenue classification system; and *(ii)* identifying taxpayers by creating a unique statistical and tax identification.

Expenditure is controlled by: *(i)* reducing student flows abroad so as to limit the funding of scholarship payments; *(ii)* continuing to strengthen the balance sheet by containing staffing levels; and *(iii)* restricting public sector recruitment. As well as current expenditure, capital expenditure declined in 2007 after the strong

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

	1999	2004	2005	2006	2007(e)	2008(p)	2009(p)
Total revenue (and grants)[a]	**28.3**	**29.4**	**31.4**	**31.7**	**31.3**	**31.0**	**31.1**
Tax revenue	11.0	11.9	10.2	10.3	10.3	10.1	10.2
Oil revenue	12.8	15.8	19.8	20.3	19.7	19.7	19.7
Total expenditure and net lending[a]	**27.2**	**21.8**	**22.8**	**22.5**	**21.7**	**19.9**	**19.5**
Current expenditure	23.0	17.6	18.4	17.7	17.0	15.5	15.1
Excluding interest	*16.2*	*13.6*	*15.6*	*15.4*	*15.1*	*13.9*	*13.8*
Wages and salaries	7.5	6.0	5.0	5.1	4.8	4.4	4.3
Interest	4.3	3.3	3.4	3.3	3.4	3.2	3.1
Capital expenditure	6.8	4.0	2.8	2.3	1.9	1.5	1.3
Primary balance	**8.0**	**11.5**	**11.4**	**11.6**	**11.5**	**12.6**	**12.9**
Overall balance	**1.2**	**7.6**	**8.6**	**9.2**	**9.6**	**11.0**	**11.6**

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

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expansion observed in 2006, which was an electoral year. The wage bill has also contracted, to 4.8 per cent of GDP in 2007 from 5.1 per cent in 2006, despite recruitment in the health and education sectors in 2007 — other current expenditure headings having been better managed. This development is in line with the restrictive policy led by the government aimed at achieving the long-term sustainability of public finances. Capital expenditure in 2007 is estimated at 1.9 per cent of GDP, against 2.3 per cent in 2006. This ratio should continue to contract, according to the forecasts for 2008 and 2009.

Gabon has adopted a measure of discipline in the management of public finances. In 2007 it continued to contribute from oil receipts to the Fund for Future Generations created in 1998, and it published its second Extractive Industries Transparency Initiative (EITI) report in April 2007, two years after the first. This report facilitates access to statistics regarding state financial resources, as well as their availability. Furthermore, the Large Enterprise Directorate has been operational since 2007 — these enterprises contribute more than 70 per cent to state revenues — and the General Director of Public Procurement is gradually managing to submit a substantial proportion of public contracts to tender procedures. This is in contrast to the previously widespread system of direct agreements. The development of a Priority Action Plan (PAP) and a Medium-Term Expenditure Framework (MTEF) advanced in 2007. Throughout 2008, 2009 and beyond, these planning instruments should become frames of reference for preparing and implementing the budget in order to link resources to specific results, both to strengthen efficiency in public expenditure and to achieve the MDGs (Millennium Development Goals) by 2015.

Gabon has been able to meet its financial commitments and has strengthened the management of its debt. In 2006, as much as 83 per cent of this was bilateral and 9 per cent was domestic. In the context of structural reforms, and in order to ensure the sustainability of the debt and reduce its effect on public finances, since July 2007 the government has been engaged in a debt buy-back with the Paris Club. This concerns 86 per cent of external debt, with a 15 per cent discount (20 per cent for France). The key purpose of this transaction is to make it possible to reprofile debt servicing for the 2008-12 period. This should translate into a much lighter burden of debt servicing. The early repayment took place between 2 December 2007 and 30 January 2008, and involved USD 1.5 billion financed by: *(i)* own resources of USD 300 million; *(ii)* a USD 200 million bond issue on the Central African Economic and Monetary Community (CEMAC); and *(iii)* a USD 1 billion bond issue raised on international markets. In order to be able to raise low-cost capital on international financial markets, Gabon submitted to the appraisal of rating agencies. It was given a long-term BB- rating and a short-term B rating by two agencies. After efforts to win over potential subscribers, the entirety of the sum was raised and an early debt repayment took place.

This initiative is part of efforts being made to provide a sustainable response to the weakness of the investment budget, as a means of supporting the strategy of economic diversification and human resources development. The outstanding external debt-to-GDP ratio is expected to fall to 21.4 per cent in 2008, against 40.9 per cent in 2004.

Monetary Policy

The main lines of Gabon's monetary policy are laid down by the BEAC (Bank of Central African states), which monitors price stability and the exchange rate of the CFA franc within CEMAC, of which Gabon is one of the six member states. As the institution of monetary emission for the Community, the BEAC imposes the respect of a certain number of convergence and multilateral supervision criteria on its members (inflation less than 3 per cent, positive or null basic fiscal balance, indebtedness less than 70 per cent of GDP, and non-accumulation of domestic and external arrears). In 2007, inflation measured by the consumer price index was 4.8 per cent, against 4 per cent in 2006. Hence in 2007, Gabon did not meet the inflation criterion, but the other criteria were respected. Money supply (M2) is growing due to the strengthening of foreign assets. The BEAC pursued its policy of easing interest

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rates in the context of a favourable climate encouraged by the consolidation of foreign assets within the zone, and by the higher overliquidity of the banking system.

In 2007, banking activity was marked by a 21 per cent rise in bank deposits during the first nine months of the year; this rise was linked to private-sector savings. Despite a highly selective credit policy and efforts to respect prudential norms, outstanding credit also rose strongly (by more than 22 per cent) following an attractive credit policy that benefited businesses (telecommunications, transport, construction) and households. The banking system contributed more towards investment, and less towards cash requirements. In 2007, the average interest rate for credit granted remained steady, after having tended to fall in 2006 (9.16 per cent in 2006, against 10.56 per cent in 2005).

External Position

In 2007, the balance of payments was characterised by a slight drop in the current account surplus, estimated

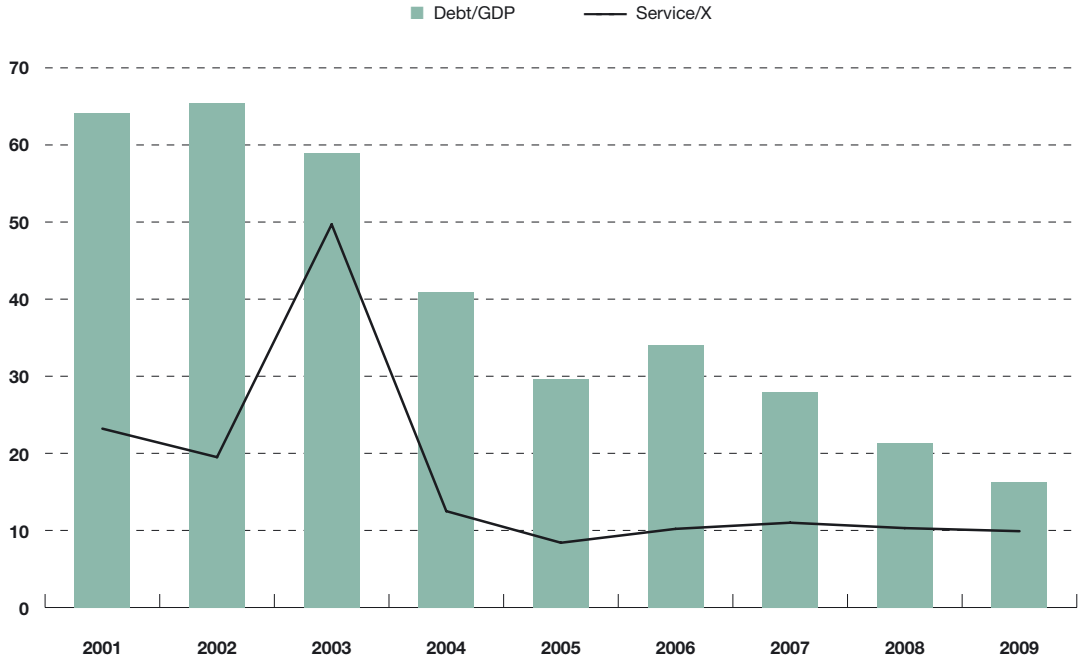
Table 3 - **Current Account** (percentage of GDP)

	1999	2004	2005	2006	2007(e)	2008(p)	2009(p)
Trade balance	34.3	41.3	49.7	46.8	45.0	47.1	45.6
Exports of goods (f.o.b.)	53.8	58.3	65.4	63.4	61.4	62.8	61.2
Imports of goods (f.o.b.)	19.5	16.9	15.7	16.6	16.4	15.7	15.6
Services	-12.6	-13.6	-10.9	-11.9	-12.8	-12.5	-12.7
Factor income	-12.2	-13.3	-16.4	-13.7	-13.2	-14.2	-15.5
Current transfers	-0.9	-2.7	-1.7	-1.8	-1.7	-1.8	-0.9
Current account balance	**8.6**	**11.7**	**20.8**	**19.4**	**17.4**	**18.6**	**16.4**

Source: General Directorate of the Economy data; estimates (e) and projections (p) based on authors' calculations.

StatLink http://dx.doi.org/10.1787/322632608472

Figure 3 - **Stock of Total External Debt** (percentage of GDP) **and Debt Service** (percentage of exports of goods and services)



Source: IMF.

StatLink http://dx.doi.org/10.1787/318632720607

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at 17.4 per cent of GDP, against 19.4 per cent in 2006. The structure of exports continues to be dominated by oil products (82 per cent of the total), wood (10.6 per cent) and manganese (3.6 per cent). The United states, with 53 per cent of the total, constitutes the primary destination for Gabonese exports. Four countries (United states, France, China and Japan) absorb 80 per cent of the country's exports. Imports are driven essentially by intermediary products for construction companies (19.5 per cent), tools and mechanical equipment (16 per cent) and food products (15 per cent). This import structure mirrors the dynamism of the economy. The principal suppliers of Gabon are: France (28 per cent), Belgium (11 per cent) and the United states (5 per cent). The overall balance of payments has clearly improved, going up from XAF 191 billion in 2006 to 248 billion in 2007, and bringing a substantial increase in foreign assets. This trend is expected to continue in 2008 and 2009.

In terms of its economic partnership with the European Union (EU), Gabon has aligned itself with the position of ACP (Africa, Caribbean, Pacific) countries, that is, to postpone the implementation of the Economic Partnership Agreement (EPA).

Structural Issues

Recent Developments

Gabon is facing three major challenges: *(i)* falling oil production in a context of weak diversification of the economy; *(ii)* a high level of indebtedness; and *(iii)* increasing poverty among the population. In an attempt to overcome these challenges, the government has outlined its strategy for action in a Growth and Poverty Reduction Strategy Paper (GPRSP) that was adopted in January 2006. This strategy outlines the policy directions for diversifying the productive base.

Implementation of the privatisation support programme was positive on the whole. However, delays were registered owing to the complexity of some transactions, weak institutional capacity and social tensions provoked by redundancies in privatised businesses caused by corporate restructuring plans. Of the approximately 40 public enterprises in the programme, 17 were privatised, 10 were liquidated, 10 were withdrawn from the programme and three are in the process of being restructured. With the cession of Gabon Telecom and the pan-African radio station Africa No°1 in 2007, the process is almost complete. It should be noted that privatisation has made certain businesses switch from being a public monopoly to being a private one, and that the cost and quality of service have not necessarily improved as a result, as the case of water and electricity demonstrates. The regulation of non-competitive sectors has not been properly guaranteed. Corporate restructuring has had to be carried out with greater or lesser success. Nevertheless, renewed dynamism of the economy in 2007 and the positive perspectives appearing for 2008 and 2009 should facilitate the reinsertion of those made redundant.

The improvement of transport infrastructure (particularly roads), sanitation, water and electricity constitutes one of the pillars of the government strategy aimed at opening up access to production zones. The road network, totalling 9 170 kilometres, shows many quantitative and qualitative inadequacies that are aggravated by poor maintenance. The network density of only 30 metres per square kilometre is the poorest in the sub-region. In 2007, the government asked its various external partners for support in implementing projects. Priority has been given to road infrastructure contributing to the process of sub-regional integration.

Sanitation in the capital Libreville should come into effect on completion of the watershed management project of Batavea, Saint Anne-Arambo, Sainte Marie-Awondo, and the Oloumi industrial zone. It is also on the agenda to draw up an urban sanitation development plan for Libreville, the capital, which is home to more than 43 per cent of the population. In the electricity sector, studies of the micro-hydroelectric power plants of Guiétsou, Malinga and Iboundji are under way. The national energy policy aims to strengthen existing production capacities by diversifying production sources.

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In the area of telecommunications, the high cost of fixed telephony and the long lead times for connection compared with other countries in the sub-region pose real constraints on the development of private-sector activity. The privatisation of Gabon Telecom, which should allow these constraints to be lifted, was seriously delayed before being brought to completion in 2007. Maroc Telecom holds 51 per cent of the capital of the new company. The telephone sector registered positive growth in 2007, and this trend should continue in 2008 due to the dynamism of the economy.

Governmental strategy for growth and poverty reduction targets the private sector as the growth engine. However, despite the harmonisation of corporate law which has been in effect since 2006 and the implementation of competition-monitoring mechanisms, several obstacles to the development of the private sector remain. In 2007, in order to make a start on finding solutions for some of these problems, the government carried out an operational audit of the judiciary system, an actuarial study of the social security system and a study on the implementation of an alternative conflict-resolution mechanism (arbitration and mediation centre) in business law. This last study provides for the training of the first arbitrators/mediators. Furthermore, 12 000 copies of the charter for investments and uniform acts of the Organisation for the Harmonisation of Business Law in Africa (OHBLA) were distributed to economic actors in 2007. The International Labour Office (ILO) took part in a workshop organised by the Ministry of Labour, Employment and Social Security at the end of 2007, to plan the implementation of fundamental labour rights and principles in Gabon.

The financial sector is poorly developed. With seven banking establishments (including the Housing Bank created in 2007), the portfolio of credit institutions in Gabon is considered healthy in regard to the banking supervision ratios of the Central African Banking Commission (COBAC). The financial system has made some advances, notably with the effective implementation in 2007 of new exchange regulations and the project for modernising and developing means of payment; there has also been the creation and implementation within the zone of an Automated Large Payments System (Sygma) and a Central African Clearing System, in order to encourage intra-zone banking. The financial market remains embryonic and the Central African Stock Exchange is slow in starting up effectively.

In 2007, the government carried out a strategic examination of agricultural potential via a study of the diversification of sources of growth. This is still being validated. The authorities have developed a sectoral programme in the domains of forestry and the environment. Some progress was made in 2007 in rendering the management of exploitation permits more transparent. The consolidation of reforms is expected in 2008 and 2009.

Technical and Vocational Skills Development

The overall diagnosis for education and training in Gabon is alarming. Despite a school enrolment rate of 95.6 per cent in 2006 and near-parity between boys and girls (93 per cent of boys and 92 per cent of girls in school), the Gabonese educational system is hampered by inefficiency and poor adaptation to the requirements of the labour market. In technical and vocational education (TVE), classes are overcrowded (70 pupils per class, with an estimated deficit of 2 377 classrooms) and under-organised. Teaching programmes are not well adapted to the requirements of the labour market, and qualified teachers are lacking in these areas.

TVET only represents 8 per cent of the entire educational system. There are few technical and vocational education institutions (16) or training establishments (11 centres, one school and one private association). The organisations are under-equipped and the teachers are rarely trained or retrained. The situation is even more deplorable in private institutions that are for the most part dilapidated and inadequate, and where the training provided does not match the promised qualifications. The absence of an accreditation system encourages this situation. Furthermore, the range of TVET programmes available fails to meet either the requirements for diversifying the sources of growth of the economy, or the needs

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of the labour market in priority sectors (agriculture, fisheries, forestry, mining, tourism and the hotel trade). More than 80 per cent of TVET graduates are not recruited in the sectors for which they were trained. The theoretical rate of return, 20 per cent, reflects the inefficiency of investments in the sector. The lack of qualified and trade workers weighs on factor costs (substantial wage bill and training costs) and results in a lack of competitiveness in Gabonese business. The strategic plan for 2007-10, presented in December 2007, plans to introduce a range of training programmes adapted to the labour market and sanctioned by a programme commission that will also cover the private sector.

Law N° 16/66 of 9 August 1966, concerning the overall organisation of education in Gabon, made it a state obligation to educate all young people from 6 to 16 years of age. Management of the educational sector is currently ensured by four ministries: *(i)* the Ministry of Technical Education, Vocational Training and Youth Integration; *(ii)* the Ministry of Higher Education; *(iii)* the Ministry of National Education and Civic Instruction; and *(iv)* the Ministry of Scientific Research and Technological Development. The Ministry of Technical Education, Vocational Training and Youth Integration, created in 2006 to correct problems of inefficiency and mismatch between training and employment, drew up a strategic plan for 2007-10 that integrates the orientations of the GPRSP in regard to TVET. The recent development and territorial planning Act (LDAT) of 2006 outlines the sectoral strategy for education and vocational training.

The 2007-10 strategic plan of the Ministry of Technical Education, Vocational Training and Youth Integration was presented to development partners in December 2007. It set out the following 15 strategic axes: *(i)* creating a functional and efficient administrative structure; *(ii)* improving the rate of return on infrastructure; *(iii)* developing financing mechanisms for vocational and technical training; *(iv)* improving governance in the sector; *(v)* developing partnerships nationally and internationally; *vi)* reforming TVET; *(vii)* optimising TVET human resources; *(viii)* harmonising training and employment; *(ix)* developing study programmes; *(x)* harmonising training cycles for certificates and diplomas; *(xi)* adapting continuing education to the environmental context; *(xii)* managing examinations and competitions operationally; *(xiii)* developing a communications network, and integrating new information and communication technologies into education; *(xiv)* creating an organising body for reinserting the unemployed and inserting young people into the economy; and *(xv)* setting up reinsertion and vocational insertion programmes. The expected outcome is that TVET will be re-established in line with the priorities of the GPRSP and of economic diversification.

In line with other African countries, Gabon launched a reform of TVET several years ago, and the 2007-10 strategic plan has confirmed this commitment. This reform is supported by the government's Gabon 2025 Vision, the recent law on regional planning (LDAT) and the orientations of the GPRSP. It centres on: *(i)* the new computerised personnel and pupil management system; *(ii)* implementing a competence-based approach in secondary education; *(iii)* adopting the bachelor's degree-master's degree-doctorate (LMD) system in higher education; *(iv)* opening up new fields of training in line with the diversification of sources of growth; *(v)* creating, modernising and fitting out training organisations; *vi)* teacher training and strengthening of teaching capacity; and *(vii)* creating partnerships with the private sector.

TVET financing methods are quite varied. For many years, the national budget allocated to education has oscillated between 10 and 15 per cent. The scheduled TVET investment budget for 2008 is XAF 3.8 billion, or 13.9 per cent of the government's investment budget: this is an increase of 40.7 per cent compared to 2007. TVET financing is executed according to the priorities of the ministry's strategic plan and the priority action plan approved by the finance ministries.

Added to government financing are contributions from donor funding, including: *(i)* the African Development Bank, which is a principal donor, having

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concluded a XAF 13.12 billion loan in December 2009; *(ii)* the EU, which in 2007, in support of vocational training, allocated a grant of XAF 2.95 billion from the 9th European Development Fund (EDF), which is to end in 2009; and *(iii)* the French Development Agency (AFD), through the provision of technical assistance with a XAF 459 billion budget until 2009. A EUR 10 million fund for constructing or modernising sectoral training centres, which will take effect from 2008, has also been set up by the European Union as part of the 10th EDF for Gabon. This fund will concentrate on two sectors: *(a)* technical and vocational training and education; and *(b)* infrastructure.

The 2000 Finance Act established a professional tax of 1.2 per cent of the wage bill. To date this tax has not yet been levied, because payment methods and the mechanics of managing it have not yet been decided. The Gabonese Employers Confederation (CPG) and the government are still in discussions on this issue. Given the constraints on the market caused by a shortage of qualified personnel, some businesses are financing the creation of tailor-made training centres to meet the specific needs of their employees and businesses in the sector.

Finally, a vocational insertion and reinsertion aid fund (FIR°) was created in 1993 and financed by government subsidies (XAF 300 million in 2007, with a similar amount planned for 2008). One of its aims is to contribute to the financing of all or part of the in-service training positions corresponding to a specific labour-market need. It also aims to contribute to the fight against unemployment by creating in-service training positions to perfect the skills of, or retrain, young graduates seeking their first job and redundant business employees seeking work.

The major challenge in developing technical competency in Gabon is to create synergies between all of the stakeholders in order to transform TVET structures into centres of excellence that are accessible to all and capable of responding to employment requirements and the need to diversify the economy of the country.

Political Context

The political situation in 2007 was characterised by greater political stability. The legislative elections of December 2006 gave an absolute majority of 100 of the 120 seats in the National Assembly to the ruling Gabonese Democratic Party and the President's other parties, with the opposition winning 16 seats and the independents four seats. The fifth legislative term of the National Assembly began on 24 January 2007 with the election of the Bureau of the National Assembly which comprises a dozen elected members, all from the presidential majority: the deputies of the opposition unanimously refused to take part, judging the three posts that were proposed to them to be insufficient. The President of the Assembly was re-elected. These legislative elections were marked by an abstention rate of 55.9 per cent, mainly in the large towns (82.7 per cent in Libreville). The local elections planned at the end of 2007 were postponed to April 2008.

In 2007, no progress was made in developing legislation for implementing the decentralisation bill. The problem of the financial autonomy of local institutions and their weak capacities in relation to the tasks that have been transferred to them should be at the heart of national considerations during 2008-09.

In January 2007, a new governmental team of approximately 50 members (of which 13 are women) was formed, with the outgoing Prime Minister as its head. The distribution of ministerial posts respects a degree of ethnic balance that should contribute to maintaining the country's political stability. The year 2007 was not marked by significant political changes, and peace was preserved in Gabon at a time when the development of many central African countries has been impeded by armed conflict.

In terms of governance, some progress was recorded in 2007. With regard to improving accountability by making reporting mandatory, budgetary settlements procedures are being applied with acceptable frequency. The Court of Auditors regularly reports on the execution of the budget, and parliamentary audits are active. However, the results of these audits are not published,

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and their conclusions and recommendations are not always followed by results. The process of preparing the budget and allocating resources to priority projects, particularly projects with an external funding component involving the mobilisation of non-state contributions, has been much improved. Efforts must be continued in the fight against corruption and in strengthening the legal and judiciary system in order to create an environment favourable towards the development of the private sector and the respect for human rights. There is a National Good Governance Programme (PNBG) that monitors the coherence of various governmental actions as well as the implementation of the "governance" component of the GPRSP. These initiatives should enable Gabon to improve its position in the World Bank's *Ease of Doing Business* Index. In 2007, it was 141st out of 178 countries ranked.

Social Context and Human Resources Development

On the social level, 2007 was marked by progress in implementing the GPRSP launched in January 2006. The authorities have better assessed the importance of both the planning process and the allocation of budget resources in their efforts to achieve poverty reduction and human resources development objectives. A priority action plan places the accent on sectoral strategies for growth and poverty reduction in the key sectors of health, education, agriculture and infrastructure. A Medium-Term Expenditure Framework (MTEF) is being developed; this is based on a multi-annual programming of budgetary resources in order to strengthen the coherence between the investment and operational budgets and to link resources to results-based indicators. The preparation process for the 2008 budget has therefore been considerably improved in terms of indicators of joint ministerial follow-up and co-ordination. As regards the MDGs, with the support of United Nations agencies, in 2007 the government developed a Ten-Year Plan for Achieving the MDGs, along with a financing plan evaluating the investments necessary for reaching the MDGs by 2015.

The provisions made in 2007 in favour of training focus particularly on free public education and public financial aid (bursaries, free school transport, secondary boarding schools). Structural reforms from primary to higher education are under way, with the aim of reinforcing admission capacities, facilities, teaching and supervisory personnel, and teaching and administrative executives. Staffing levels were improved in 2007 in order to improve the quality of public education. Encouraging signs of progress were noted concerning enrolment rates (137 per cent in primary and 92 per cent in secondary education in 2006). However, results in national examinations have deteriorated year-on-year. For the 2006/07 school year, pass rates stood at 35.72 per cent for the baccalaureate and 23.40 per cent for the junior secondary education certificate (BEPC). In 2007, 15.3 per cent of the government budget, or 3.7 per cent of GDP, was allocated to this sector. With the MDGs in mind, the government has set the following quantitative objectives: *(i)* achieve an enrolment rate of 30 per cent in 2008 and 100 per cent in 2015 for children from 4 to 5 years old; *(ii)* reduce the repetition and dropout rate by 10 per cent in 2008 and by 25 per cent in 2015; *(iii)* bring the primary and secondary education retention rates up to 50 per cent by end-2008 and to 100 per cent by 2015; *(iv)* bring the pupil/class and pupil/teacher ratios down to 50 in urban areas in 2008 and to 35 in 2015. The budget dedicated to the education sector has therefore increased slightly for 2008, by 0.8 per cent.

In the area of health, an epidemic of chikungunya virus broke out in 2007; there was also a return of tuberculosis and sleeping sickness, as well outbreaks of Ebola haemorrhagic fever (four epidemics from 1995 to 2001). Morbidity and mortality rates remain substantial, particularly those linked to HIV/AIDS, malaria, tuberculosis and diseases that could be avoided through vaccination. These epidemics were controlled by public hospitals taking systematic charge of those affected. The government also continued to refine the National Health Development Plan (PNDS), which is expected to be approved in 2008. In order to strengthen capacities for patient care, the programme to recruit additional medical personnel was continued in 2007,

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as was a hospital construction programme. The creation of a network of regional mobile outpatient treatment centres (CTA) was also pursued, as part of the programme for caring for HIV/AIDS patients. In Gabon, according to national sources, the HIV/AIDS prevalence rate has stabilised at approximately 8.1 per cent in sentinel sites. It went from 1.8 per cent in 1986 to 2.8 per cent in 1993 and to 7.7 per cent in 2002. The age group most affected is that between 15 and 49 years. According to the same sources, there are approximately 52 110 people infected in the country. Antiretroviral treatments are available in the capital, Libreville.

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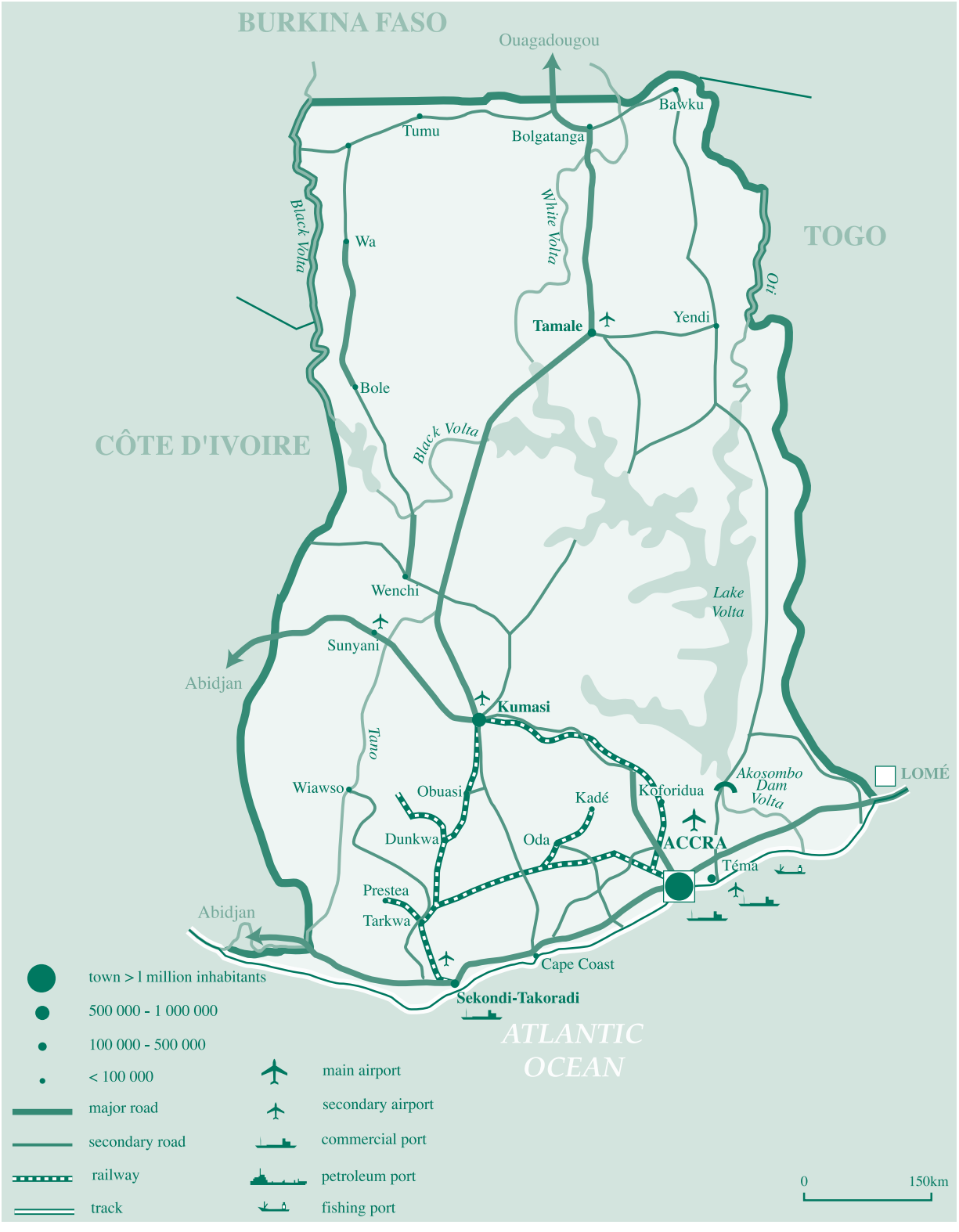
Ghana



key figures

• Land area, thousands of km²	239
• Population, thousands (2007)	23 478
• GDP per capita, USD at constant 2000 prices (2007)	306
• Life expectancy (2007)	60.0
• Illiteracy rate (2007)	21.1

Ghana


BURKINA FASO
Ouagadougou
Bawku
Tumu
Bolgatanga
Black Volta
White Volta
Wa
TOGO
Oti
Tamale
Yendi
Bole
CÔTE D'IVOIRE
Black Volta
Wenchi
Lake Volta
Sunyani
Abidjan
Kumasi
Tano
Wiawso
Obuasi
Kadé
Koforidua
Akosombo Dam Volta
LOMÉ
Dunkwa
Oda
ACCRA
Téma
Prestea
Tarkwa
Abidjan
Cape Coast
Sekondi-Takoradi
ATLANTIC OCEAN
town > 1 million inhabitants
500 000 - 1 000 000
100 000 - 500 000
< 100 000
major road
secondary road
railway
track
main airport
secondary airport
commercial port
petroleum port
fishing port
0
150km

Ghana

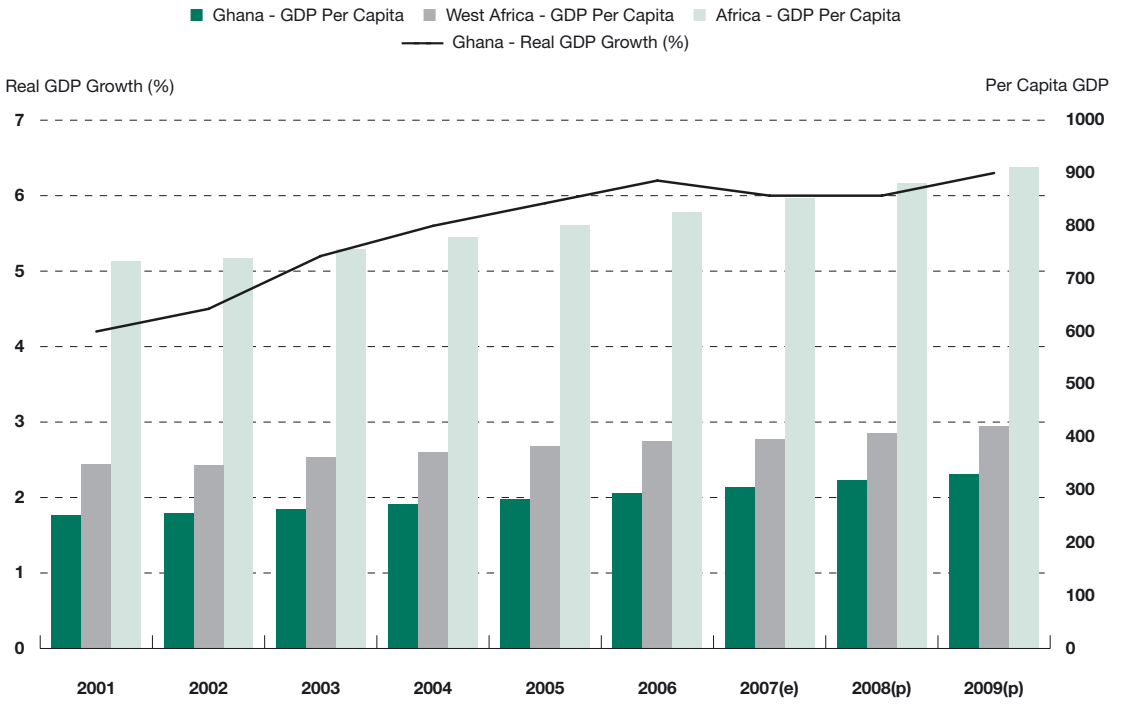
THE GHANAIAN ECONOMY is exhibiting a changed economic outlook, with improving growth reflecting both strong economic fundamentals and a positive response to them from the private sector. Improved macroeconomic policies, in particular an anti-inflationary monetary policy and a consolidated fiscal policy, are contributing to the growth upsurge. The private sector is responding positively to the improved business environment, with rising bank lending and capital inflows suggesting increased investor confidence in the domestic market.

Real GDP growth is estimated to have reached 6 per cent in 2007, a slight improvement from the average annual rate of 5.6 per cent in 2000-06 that has enabled Ghana to accelerate the implementation of its poverty reduction strategy. Such growth is projected to remain around 6 per cent in 2008 and to reach 6.3 per cent in 2009. Moreover, although the agricultural sector still dominates economic activity, economic growth is becoming more broad-based, and industrial expansion will be further fuelled by finding lasting solutions to the country's perennial energy crises.

Sustained reforms have placed the country on the brink of becoming an emerging market.

Ghana's record of deepening democracy bodes well for continued economic expansion, but more can be done. Tackling the growing perceptions of corruption in public life, especially as the country pursues further

Figure 1 - **Real GDP Growth and Per Capita GDP**
(USD at constant 2000 prices)



Source: IMF and Ministry of Finance and Economic Planning data; estimates (e) and projections (p) based on authors' calculations.

StatLink http://dx.doi.org/10.1787/316438253405

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decentralisation, further reducing poverty, and improving technical and vocational educational training are necessary for Ghana to achieve more accelerated growth and to attain middle-income status.

Recent Economic Developments

Ghana's primary development objective is to accelerate economic growth while maintaining macroeconomic stability, based on the Growth and Poverty Reduction Strategy (GPRS II). The GPRS II Medium Term (2006-09) Strategy is meant to put the country on a path to middle-income status by 2015. The current focus is on human resources development and the promotion of the private sector.

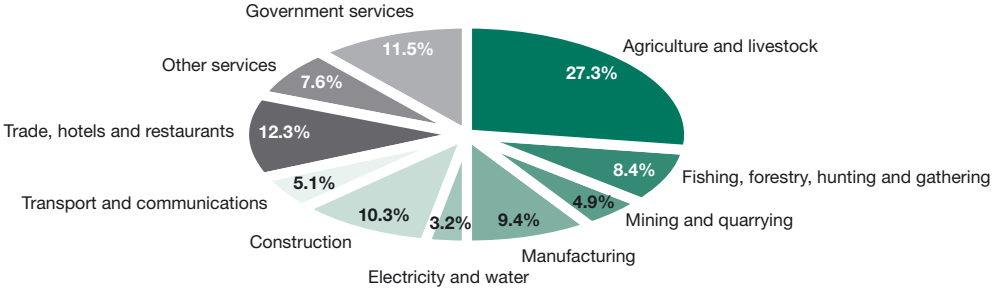
The economy continues to respond positively to this programme. In 2007, for the second consecutive year, real GDP growth remained in excess of 6 per cent, in spite of a crippling energy crisis. This growth was led by services, with agriculture and industry also performing well. Economic activity is expected to remain strong, with real GDP growth projected to continue to grow at about 6 per cent in 2008 and 2009 as the energy crisis eases and infrastructural investment expands.

The agricultural sector recorded a growth rate of 4.3 per cent in 2007, down slightly from 4.5 per cent in 2006 but remaining the largest component of GDP at 34.7 per cent. This decline was primarily due to erratic rainfall in 2007, especially in the northern part of the country. Longer-term problems facing the sector include deforestation and depletion of fishing stocks.

Cocoa output in 2006/07 remained at near-record levels of 600 000 metric tonnes, where it has been since 2003/04. High cocoa production levels reflect high producer prices, effective disease and pest control programmes, and various incentives, including an enhanced bonus programme. In fact, the producer price in 2006/07 represented an unprecedented 72.2 per cent of the world price, exceeding the government's 70 per cent target. The 2006/07 cocoa bonuses were also at a peak and represented, in real terms, a doubling of the previous high achieved in 2001/02. Other incentives included educational scholarships for farmers' dependants and housing assistance scheme, through which the government is providing affordable housing to farmers.

The industrial sector was hurt by the energy crisis of 2007, in which electricity output fell by over 15 per cent, following an expansion of 24 per cent in 2006. Ghana's energy crisis is caused by two things: poor and under-maintained infrastructures and falling water levels in Lake Volta, which is the source of the country's electrical energy from the Akosombo hydroelectricity plant. Recent rapid increases in economic activity in Accra has put more pressure on the system, which explains the recent dramatic outages. This shortage of electricity contributed to a dip in the growth of industrial output from 9.5 per cent in 2006 to a still-impressive 7.4 per cent in 2007. This decline in growth was truly a setback to the government's objective of pushing industrial

Figure 2 - **GDP by Sector in 2006** (percentage)



Source: Authors' estimates based on Central Bureau of Statistics data.

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Table 1 - **Demand Composition**

	Percentage of GDP (current prices)		Percentage changes, volume			Contribution to real GDP growth		
	1999	2006	2007(e)	2008(p)	2009(p)	2007(e)	2008(p)	2009(p)
Gross capital formation	**21.5**	**30.2**	**17.3**	**11.4**	**6.2**	**4.1**	**3.0**	**1.7**
Public	9.8	12.2	25.0	8.0	5.0	2.4	0.9	0.6
Private	11.7	18.0	12.0	14.0	7.0	1.7	2.1	1.1
Consumption	**96.1**	**95.3**	**7.3**	**7.0**	**6.8**	**6.9**	**6.6**	**6.5**
Public	15.0	16.5	3.7	3.4	3.4	0.5	0.4	0.4
Private	81.1	78.8	7.9	7.6	7.3	6.4	6.2	6.1
External demand	**-17.5**	**-25.5**				**-5.0**	**-3.6**	**-2.0**
Exports	32.1	38.6	0.1	3.8	4.8	0.0	1.1	1.3
Imports	-49.6	-64.1	10.6	9.5	6.4	-5.0	-4.7	-3.3
Real GDP growth	**-**	**-**	**-**	**-**	**-**	**6.0**	**6.0**	**6.3**

Source: Central Bureau of Statistics data; estimates (e) and projections (p) based on authors' calculations.

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growth above 12 per cent per annum to increase the sector's share in GDP; indeed, industry's contribution to GDP growth declined from 2.5 percentage points in 2006 to 1.7 percentage points in 2007. The frequent power outages took their biggest toll on manufacturing, which, also suffering from tax increases and stiff import competition, contracted 2.3 per cent in 2007 after growing 6.5 per cent in 2006. The mining and quarrying sub-sector, on the other hand, enjoyed a boom in 2007, boosted by the higher world prices of metals. This sector expanded by about 30 per cent in 2007, with a significant increase in gold production due to the opening of the Newmont mine.

In 2007, the service sector, which makes up about 30 per cent of GDP, expanded by 8.2 per cent, up from 6.5 per cent in 2006. This represents the highest growth rate in six years, accounting for 2.5 percentage points of the overall GDP growth rate. Finance, insurance and real estate, along with education, health, and tourism, were the leading sub-sectors. Tourism, in particular, has been on an upswing in recent years, with visitor arrivals and spending increasing by an estimated 49 per cent and 72 per cent respectively between 2000 and 2007. Specific events in 2007 gave a further boost to tourism, including the year-long Golden Jubilee celebrations, the African Union Summit, and the preparations for the January 2008 African Cup of Nations football tournament. The growth of tourism reflects the government's successful strategy of establishing Ghana as a "homeland" for Africans in the Diaspora, as previously the majority of visitors had been Ghanaian expatriates.

Investment performance continues to improve significantly. In 2007, there was a sharp increase in both public and private capital formation. Reductions in the stock of external debt and domestic public debt over the last few years have improved the savings-investment balance and the growth dynamics of the country, with savings from debt relief increasingly pushing up investments rather than consumption. In 2007, debt reduction enabled the government to commit more resources to capital expenditure, with the volume of public capital formation rising by 25 per cent. The increase in volume of domestic private and public capital formation is projected to remain strong in 2008 and 2009, albeit to grow at a lower rate than in 2007, as long as confidence in the economy is maintained. In particular, the volume of private investment is expected to rise significantly in 2008 due to improvements in the business environment. Also, the increased capacity in gold production and cocoa output, which are at record levels, is expected to lead the way to moderate increases in export volumes in 2008 and 2009. Export volumes were stagnant in 2007, reflecting lack of progress in export diversification.

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Macroeconomic Policies

Fiscal Policy

With fiscal stability achieved, the government is now implementing a so-called "Growth with Stability Compact" aimed at scaling up investment while ensuring that fiscal stability is not compromised. Under this Compact, the government has introduced the following: a fiscal rule using the total public debt/GDP ratio as a target; a "Value-For-Money" Unit in the Ministry of Finance and Economic Planning to ensure proper selection of projects for inclusion in the public investment budget; an enhanced public debt management strategy based on more careful analysis; and an enhanced Public-Private Partnership (PPP) policy to encourage the private sector to participate in key infrastructure projects.

In 2007, fiscal management improved due to the introduction of Public Financial Management (PFM) reform. This involved the installation of a computerised budget and public expenditure management system; the deployment of a new computerised payroll management system and the integration into the budget process of agencies that depend on government subsidies; the enhancement of cash management systems; and the development of a single treasury account. The new Public Expenditure Tracking Surveys in the education and health sectors also helped to improve expenditure management. All of this fiscal restraint contributed to the "crowding-in" of private investment through net domestic debt repayment, while also increasing fiscal resources for development. The policies were largely successful, insofar as the net domestic public debt/GDP ratio continued to fall, from about 24 per cent in 2002 to about 12 per cent in 2007.

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

	1999	2004	2005	2006	2007(e)	2008(p)	2009(p)
Total revenue and grants[a]	**18.0**	**29.7**	**27.8**	**26.8**	**27.0**	**27.0**	**27.2**
Tax revenue	14.8	21.3	19.4	20.8	21.1	21.6	22.1
Grants	1.7	6.4	5.2	5.2	5.1	4.6	4.3
Total expenditure and net lending[a]	**26.2**	**33.3**	**30.7**	**33.8**	**35.2**	**35.8**	**35.6**
Current expenditure	16.4	20.9	18.7	21.6	20.7	20.8	20.4
Excluding interest	*10.8*	*16.6*	*15.1*	*18.7*	*18.2*	*18.2*	*17.8*
Wages and salaries	5.6	8.7	8.5	9.6	8.9	8.4	8.1
Interest	5.6	4.3	3.6	2.9	2.5	2.6	2.6
Capital expenditure	9.8	12.4	12.0	12.2	14.5	15.0	15.1
Primary balance	**-2.6**	**0.8**	**0.7**	**-4.1**	**-5.7**	**-6.2**	**-5.7**
Overall balance	**-8.2**	**-3.5**	**-2.9**	**-7.0**	**-8.2**	**-8.8**	**-8.4**

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

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In 2007, fiscal space was created by increased debt relief. Also, programme and project grants rose significantly, by 32 per cent and 15 per cent respectively. With the government maintaining a strong domestic tax effort, total revenue increased from 26.8 per cent of GDP in 2006 to an estimated 27.0 per cent of GDP in 2007. Tax collections have improved since 2004, when the revenue-collecting agencies were allowed to retain 3 per cent of their receipts. Tax revenue is projected to increase in 2008 and 2009 as efficiency in tax collection is enhanced. However, the sustainability of a strong domestic tax effort will require the government to undertake measures to increase the tax base, which is currently narrow and characterised by a high dependence on petroleum taxes.

Expenditures increased in 2007, rising to 35.2 per cent of GDP from 33.8 per cent in 2006, due largely to the government's attempts to mitigate the energy crisis. The government incurred large costs in: purchasing emergency thermal plants and expensive crude oil to operate these plants; imports of compact fluorescent lamps (CFLs), distributed free of charge; the purchase of prepaid meters; and large investments

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in energy infrastructure. Consequently, the overall budget deficit for 2007 is estimated to have risen sharply to 8.2 per cent of GDP from 7.0 per cent of GDP in the preceding year. The budget outcome is projected to deteriorate further in 2008, risking the gains that have been achieved in fiscal stability.

Monetary Policy

The Bank of Ghana's (BoG) monetary policy objective continues to be to reduce inflation to single digits, within a formal inflation-targeting framework. In July 2007, the BoG re-denominated the cedi by setting ten thousand cedis to one Ghana Cedi, or one hundred Ghana Pesewas.

In the course of inflation-targeting, the monetary authorities are working to stabilise growth of the monetary aggregates. In 2007, the broad money supply (M2) increased by 33.6 per cent, a slight improvement from the 34.6 per cent growth in 2006. Although this monetary growth remains large, it mostly represents stronger demand for financial intermediation, with bank credit to the private sector increasing by over 60 per cent during the year.

The rate of inflation fell to 9.4 per cent in 2007 from 10.9 per cent in 2006, and this despite the additional lagged effects of the increases in petroleum prices in 2006. The fall in inflation in 2007 was due in part to lower growth in food prices. The rate of inflation is expected to subside further in 2008 and 2009 if prudent fiscal and monetary policies are maintained. However, inflation could be pushed up if there are further shocks to fuel prices or food prices.

Interest rates on treasury securities remained stable, and in 2007, the BoG issued a 5-year bond, the government's longest-dated security so far. This new bond is part of the government's plan to improve the liquidity of the money market. The average rate on the 91-day Treasury bill was 10.6 per cent in 2007, remaining largely unchanged from 10.3 per cent in 2006. Towards the end of 2007, the BoG tightened monetary policy through an increase in its prime interest rate from 12.5 per cent to 13.5 per cent.

Ghana's managed floating exchange rate regime appears to be working well, with fewer BoG interventions needed to smooth fluctuations in the foreign exchange market. Higher levels of remittances, steady donor inflows and strong earnings from exports continue to help offset the effects of higher oil prices, enabling the cedi to maintain its relative stability against major international currencies. In 2007, the cedi depreciated 2 per cent against the US dollar, which is similar to the average annual depreciation over 2004-06. The recent relative stability of the cedi and the decline in inflation suggest that Ghana has broken the vicious cycle of high inflation and depreciation of the early 2000s.

External Position

Ghana's trade policy aims to enhance international competitiveness and to secure greater market access for Ghana's products. In particular, the government 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.

In June 2007, ECOWAS adopted the "ECOWAS Strategic Vision," which seeks to convert West Africa into an economically borderless region, and thereby to enhance progress in the often-postponed goal of sub-regional free trade. Also in 2007, in negotiations with the European Union on an Economic Partnership Agreement (EPA), ECOWAS adopted the position that the finalising of EPAs should be postponed until January 2011 instead of the January 2008 EU deadline so as to allow for continued negotiations of several contentious issues. In the meantime, Ghana and the EU signed an interim agreement, the *Stepping Stone Economic Partnership Agreement*, which establishes trade rules to prevent any serious trade disruption at the expiration of the Cotonou Agreement, in 2007.

Ghana's current account deficit widened in 2007 to 8.6 per cent of GDP from 6.9 per cent of GDP in 2006, reflecting the increase in the trade deficit to 24.0 per cent from 21.6 per cent of GDP in 2006, due essentially to a higher-than-expected oil import bill.

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While earnings from Ghana's main export commodities, gold and cocoa, increased by 31 per cent and 15 per cent respectively, oil imports increased even more, rising by nearly 32 per cent. This illustrates that Ghana's dependence on a few primary commodity exports, due to the continued lack of significant progress in diversifying exports, makes the nation susceptible to terms of trade shocks. Improved progress in export diversification is not expected in the next few years, and with the price of crude oil expected to rise even further, Ghana's trade and current account deficits will likely worsen in 2008 and 2009.

In spite of the current account deficit, the overall balance of payments was in surplus in 2007, reflecting a large capital account surplus. The surplus on the balance of payments rose to USD 650 million in 2007 from USD 155 million in 2006. The capital account was aided by proceeds from the government's sovereign bond issue and by private capital inflows, especially

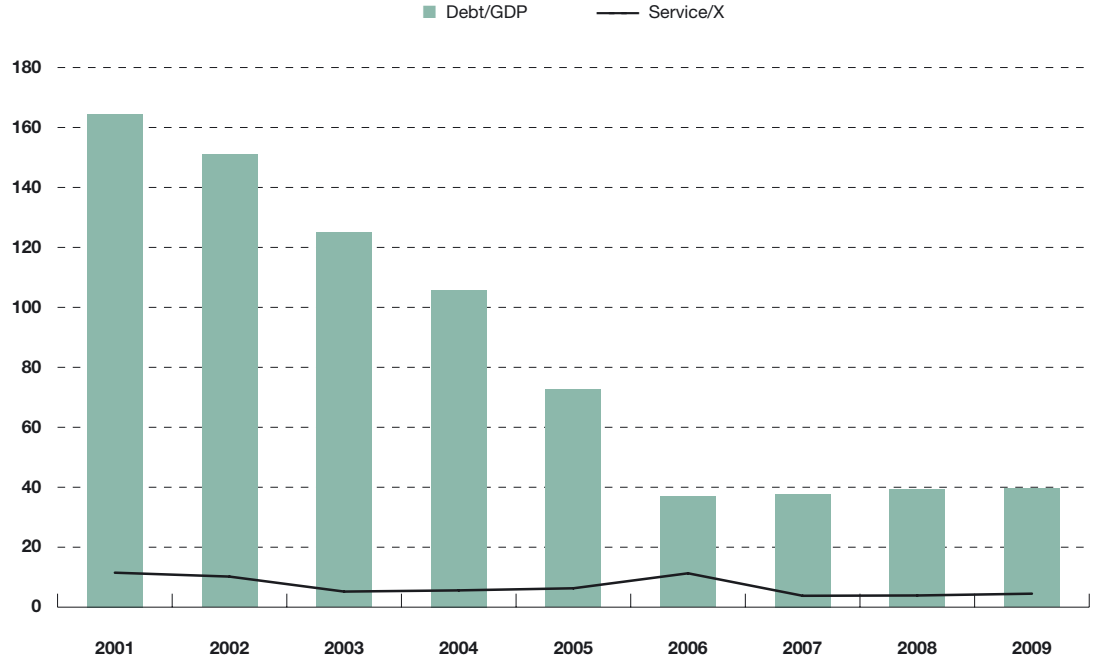
Table 3 - **Current Account** (percentage of GDP)

	1999	2004	2005	2006	2007(e)	2008(p)	2009(p)
Trade balance	-16.2	-17.6	-23.7	-21.6	-24.0	-26.7	-28.8
Exports of goods (f.o.b.)	26.0	30.9	26.1	28.9	27.4	26.8	24.3
Imports of goods (f.o.b.)	42.2	48.4	49.9	50.5	51.4	53.5	53.1
Services	-1.4	-4.4	-1.3	-2.5	-2.6	-2.4	-2.3
Factor income	-2.1	-1.9	-1.5	-0.7	-0.3	-0.2	-0.2
Current transfers	8.0	20.6	19.2	17.9	18.3	19.0	20.3
Current account balance	**-11.6**	**-3.2**	**-7.4**	**-6.9**	**-8.6**	**-10.3**	**-11.0**

Source: Central Bureau of Statistics data; estimates (e) and projections (p) based on authors' calculations.

StatLink http://dx.doi.org/10.1787/322643382100

Figure 3 - **Stock of Total External Debt** (percentage of GDP) **and Debt Service** (percentage of exports of goods and services)



Source: IMF.

StatLink http://dx.doi.org/10.1787/318714210523

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external remittances. However, Ghana's international reserves position, which stood at USD 2.44 billion in October 2007, declined from 3.3 months of import cover in 2006 to 2.9 months of import cover in 2007, due to the rapidly rising cost of imports.

Ghana's total external debt has seen a substantial reduction as a result of debt cancellation under the Multilateral Debt Relief Initiative (MDRI). The external debt as a percentage of GDP, which stood at about 72.6 per cent of GDP at end-2005, declined significantly, to 37.0 per cent at end-2006. At the end of September 2007, Ghana's total external debt represented 37.7 per cent of GDP. However, the composition of the debt remained largely unchanged in 2007: multilateral creditors continue to dominate, with about 60.4 per cent of total external debt in spite of the substantial MDRI debt relief, while bilateral creditors constitute 32.8 per cent and commercial creditors make up the remaining 6.8 per cent.

Structural Issues

Recent Developments

Ghana continues to undertake structural reforms and institution-building, focusing recently on energy, public-sector reform and privatisation. In 2007, the government prepared a comprehensive energy policy to guide investment in the sector. The policy is accompanied by the rationalisation of electricity prices, whereby prices are determined by market forces to ensure full cost recovery and facilitate private-sector participation. Further, a number of short-, medium- and long-term interventions targeted at resolving the chronic shortages of electric power were pursued in 2007. A significant step forward was the successful negotiation of the USD 622 million loan for the construction of the Bui Dam and Bui City, the second largest investment project in the history of the country after the Akosombo Dam. Ghana discovered crude oil deposits in commercial quantities in 2007, which could be a major boost to energy security and to growth. Moreover, in line with reform and institution-building, the government has put in place legal and regulatory frameworks and fiscal rules to ensure that the oil resources are utilised in a judicious manner. A technical team has also been constituted to undertake analysis of the long-term impact of the oil discovery.

The government continues to make efforts to raise public-sector productivity and to rationalise public-sector wages and compensation. A Fair Wages and Salaries Commission Act was passed by parliament in 2007 to kick-start these reforms. As a prelude, the government carried out job evaluations of 5 100 workers to assess disparities in remuneration.

The government has adopted a new policy to invigorate its stalled privatisation programme by restructuring some of the state-owned enterprises (SOEs) as a first step towards divestiture. As part of this process, some SOEs were given full commercial mandates and autonomy to borrow from local and international capital markets. In 2007, the government identified 18 companies for privatisation and sold its shares in 5 SOEs and 5 joint venture companies. The government intends to complete the divestiture of the remaining companies in 2008.

Ghana has recently enacted several pieces of legislation that will increase the efficiency of financial markets. In 2006, the government submitted the Foreign Exchange Bill, the Credit Reporting Bill, the Central Depository System Bill and the Anti-Money Laundering Bill to parliament. The Foreign Exchange Bill institutionalises the current liberal external trade and payment regime, and removes the documentation and bureaucratic requirements associated with exchange controls. The Credit Reporting Bill provides for a registry on the creditworthiness of potential borrowers. The Central Depository System Bill ensures certainty and safety of titles to equities and government debt instruments, and thereby helps foster the development of the stock market. The Anti-Money Laundering Bill protects the integrity of the financial system from criminal abuse. The Foreign Exchange Bill and the Central Depository Bill were passed in 2006 and 2007 respectively. In 2007, an amendment to the Banking Act 2004 (673) — the Banking (Amendment) Act 2007 (738) — was passed by parliament, permitting and regulating offshore banking services. Barclays Bank

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of Ghana became the first institution to be issued a licence to operate offshore banking services.

The government is seeking to foster the development of the local bond and stock markets. In 2007, emphasis was placed on preparing the domestic capital market to meet the long-term funding needs of key public-sector institutions, such as the utilities, universities, and municipal and district assemblies. To this end, the listing on the Ghana Stock Exchange of two key SOEs — the Ghana Oil Company (GOIL) and the State Insurance Company (SIC) — put an end to the noticeable absence of public-sector institutions on the capital market. Further, a bill to establish the Ghana Investment Corporation (GIC) — an independent investment authority to encourage private-sector participation in the financing of infrastructure in the energy, railways, roads and water sectors —was drafted

Enhancing Growth through Natural Resource and Environmental Management

Ghana is taking steps towards environmental sustainability and natural resource management. Policies seek to encourage reforestation of degraded forest, manage protected forest and wildlife areas, combat desertification, minimise land degradation, and limit the impact of climate change and variability.

A number of measures are being implemented to preserve forests and other renewable resources. Under a microcredit investment scheme of the National Plantation Development Programme which was launched in 2001, about 480 individuals were given financial assistance for reforestation in 2006. Moreover, 60 communities across the country were given assistance under the Plantation Development Fund, and the Northern Savanna Biodiversity Conservation Projection (NSBCP) assisted 138 communities under its Alternative Livelihood Programme. Other measures have been taken to regulate and manage the development of Ghana's mineral resources, such as the repeal of the old mining law (PNDCL 153 of 1986) and its replacement with the new Minerals and Mining Act of 2006 (Act 703), which incorporates international best practices in the mining industry. In 2006, 189 mineral rights covering 29 prospecting licences, 24 reconnaissance licences, 32 quarry licences, 97 sand-winning licences, 4 salt licences and 2 mining leases were granted.

With regard to land administration, additional land secretariats were established in 2006 to provide support to traditional landowners to better administer their lands. The government also approved legal and institutional reforms for land administration, including a one-stop-service land administration office. In addition, a total of 20 geodetic reference points have been identified to improve the quality of land surveying in the country.

The Environmental Protection Agency (EPA) has completed air- and noise-quality monitoring, reconnaissance surveys, and the final draft of a manual for school-based environmental clubs. The EPA issues environmental permits and certificates to firms operating in the tourism, manufacturing, mining, transportation, health, general construction and agriculture sectors. As of the end of 2007, over 100 Environmental Impact Assessment Reports have been completed and the requisite permits issued, and a final draft of the National Sanitation Policy has been completed.

These measures notwithstanding, indicators of environmental sustainability and natural resource management at end-2007 show mixed results. Restoration of degraded forest, wetlands and drylands increased from 16 800 hectares in 2005 to 17 500 in 2007. On the other hand, the estimated cost of environmental degradation increased from 5.5 per cent of GDP in 2005 to nearly 6 per cent in 2007, calling for more to be done.

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in 2007, and the government initiated a nationwide survey on how to extend financial services to the population.

In 2006, the African Development Bank (AfDB) became the first supranational borrower to issue a bond denominated in Ghanaian Cedis. This two-year bond, worth USD 45 million, was hugely successful, and given the strong demand, the AfDB was able to raise the issue by 50 per cent. The AfDB is also in the process of issuing cedi denominated bonds in the Ghanaian market: this would facilitate long-term local currency financing to support development projects through direct project lending or lines of credit to financial institutions. These transactions will help to deepen the bond market in Ghana. The successful entry of Ghana into the Eurobond market is another first for the country. Ghana raised USD 750 million international capital funds on its sovereign bond issue. About 40 per cent of the bond was placed with US investors, 30 per cent with UK investors, with the remaining going to the rest of Europe. The 10-year bond would yield 8.5 per cent at par. The oversubscription of the bond, together with the wide range of international investors, is an indication of confidence in the Ghanaian economy.

Technical and Vocational Skills Development

In Ghana, employment generation through skills development is a central development policy objective, requiring improvements in Technical and Vocational Education and Training (TVET) for both school dropouts and the workforce. In 2007 there were 440 public and 500 private TVET institutions.

The most prominent form of TVET in the country has been the traditional apprenticeship system. This training focuses on practical skills, and usually takes place within the family and the community, or else at the work place. According to the World Bank, between 60 and 80 per cent of skills development in the Ghanaian labour market takes place through the apprentice system. Currently, about 60 per cent of junior-secondary school leavers who do not continue into higher education enter into apprenticeships.

However, the TVET system in Ghana has suffered from fragmentation under different ministries, agencies and private institutions, with each developing and offering its own programmes. These programmes have been uncoordinated and usually fail to provide the skills sought by industry. The lack of a well co-ordinated TVET policy framework has resulted in duplicated efforts and wasted resources, and thus makes it difficult for external development partners to assist the TVET sector.

Since the launch of the GPRS as a framework for development, the government has developed a new orientation on TVET. The Council for Technical, Vocational, Educational and Training (COVET) Programme was established in 2006 as an autonomous body to oversee the TVET sector, and the Skills Training and Employment Placement (STEP) Programme was initiated to offer microcredit loans and vocational training to low-skilled unemployed youth by placing them as apprentices with experienced craftsmen. By 2005, about 27 500 young people had acquired some skills or vocational training under the STEP. Subsequently, the Ghana Youth Job Corps Programme was initiated in 2006 as a merger of the STEP and National Youth Fund (NYF).

A major constraint facing TVET in Ghana is the lack of adequate funding. Currently, the government provides much of the financial support, with the assistance of only limited involvement of non-governmental organisations (NGOs) and external donors. In comparison with other post-basic school programmes, TVET receives the least resources, and so the need to diversify the sources of funding has become imperative. To reduce the over-reliance on central government for TVET funding, there are now mechanisms in place to source funding from the Ghana Education Trust Fund, the Skills Development Fund, the private sector, and poverty reduction funds. The challenge is to find a funding structure that will ensure equitable contributions from government, local communities, industry and the beneficiary trainees.

TVET in Ghana also faces other challenges. Currently, there is a multiplicity of testing and certification standards, with a proliferation of useless

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TVET certificates. The oversight of TVET institutions is almost non-existent. The quality of instruction is often unsatisfactory, as a result of poorly trained instructors, lack of instructional support, and poor remuneration. There is also an acute shortage of high-level personnel needed to conceptualise and manage the system. In short, the TVET system does not at present meet the needs of either employers or job seekers.

Political Context

Ghana celebrated the 50th anniversary of its political independence in 2007 against a background of deepening democracy and improving governance. Ghana's unreserved commitment to the African Peer Review Mechanism (APRM) is a statement of its determination to pursue good governance. Also, the government's unique *People's Assembly* at which the President responds openly to questions from the general public underscores the determination to uphold accountability and good governance. Nonetheless, governance problems remain, including increasing perceptions of corruption that were given some weight with revelations of rampant misappropriation of public funds at Public Accounts Committee Sittings in 2007.

Decentralisation in service delivery can create additional opportunities for corruption. The challenge of controlling corruption for the government thus increases as it pursues further decentralisation. Indeed, while a draft comprehensive policy on decentralisation has been developed with a framework to guide the fiscal relations between the central and the sub-national governments, corruption remains a problem. The District Assemblies' Common Fund tax revenues were increased to 7.5 per cent in 2007 — up from the 5 per cent share they had been allocated since 1993 — and 25 more districts were created.

Social Context and Human Resources Development

In 2007, the government published data on poverty levels from 1991 to 2006, utilising data from the fifth round of the Ghana Living Standards Survey (GLSS 5). The indicators show a decline in poverty from 39.5 per cent in 1998/99 to 28.5 per cent in 2005/06 and a drop in extreme poverty from 26.8 per cent in 1998/99 to 18.2 per cent in 2005/06. Unemployment and underemployment remain major problems, however, reflecting the failure of economic growth to generate substantial labour absorption, as well as the lack of relevant skills of the majority of the workforce. As the government continues to withdraw from the economy, it is important to spur entrepreneurship, especially small and medium-sized enterprises (SMEs), to absorb the unemployed.

The GPRS II health policy objectives continue to increase access to, and improve the quality of, health care and nutrition services, establishing fees that cover costs while protecting the poor, improving health infrastructure, and enhancing efficiency in service delivery. Health care facilities are increasing and improving across the country: 176 new facilities were constructed, with over 138 projects under way in 2007; a programme to replace and re-equip existing health institutions is also being implemented. Under the latter programme, over 90 health centres and 6 district hospitals were upgraded in 2007; 20 hospitals are being equipped with automated laboratories; and 30 hospitals are receiving anaesthetic equipment and medical gas systems. Finally, the National Health Insurance Scheme appears on-course to providing resources for health care delivery in the country, as more people contribute to the scheme. By June 2007, about 6 million (34 per cent) of the population had registered for the scheme.

The results of the GLSS 5 and the Ghana Multiple Indicator Cluster Survey (2007) show improvements in some health indicators in the country. In particular, the under-five malaria fatality rate has declined steadily from 3.7 per cent in 2002 to 2.1 per cent in 2006. Also, the proportion of under-fives who were malnourished (underweight) declined from 22 per cent in 2003 to 18 per cent in 2006. Furthermore, the government has achieved its target of reducing the prevalence rate of HIV, which fell to 2.7 per cent in 2007, surpassing the 3.1 per cent target. Yet grave health problems remain. Guinea worm infestation is a continuing

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problem that requires more attention. Although the government continues to subsidise the provision of safe water in Guinea worm endemic areas, the number of cases of infestation continues to rise. Also, malaria remains the main cause of mortality and morbidity in Ghana, accounting for about 21 per cent of under-five mortality, 44.5 per cent of outpatient morbidity, 36.9 per cent of all hospital admissions and 19 per cent of all deaths in health institutions in Ghana. Progress in controlling malaria has been very slow, especially for the most vulnerable group — the under-fives — for whom the malaria fatality rate has stagnated since 2004. Largely as a result, the under-five mortality rate has remained high, at 111 per 1 000 in 2006, the same as in 2004.

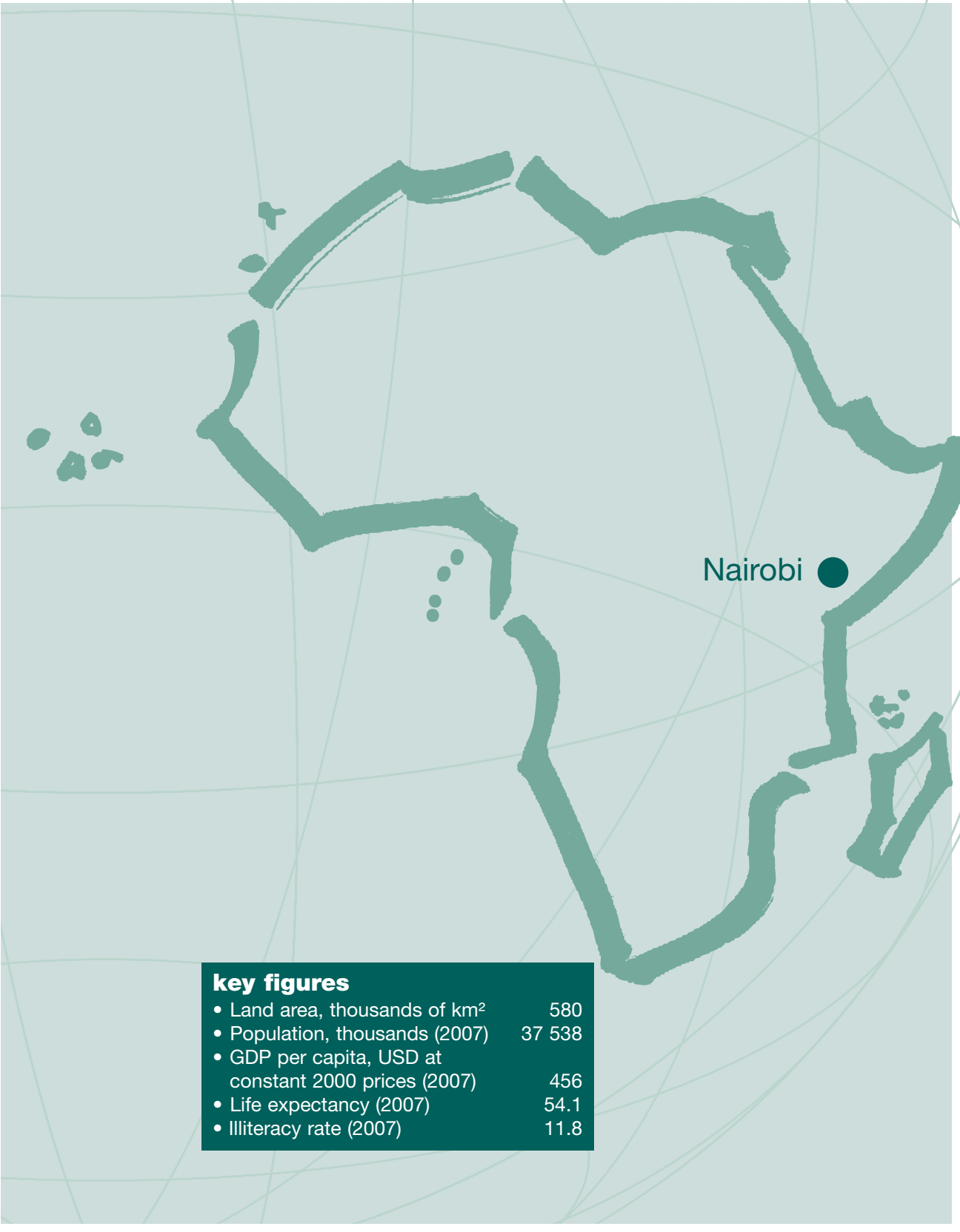
The government is seeking to increase access to education as well as the quality of education, and to raise gender parity in schools. Under its Education Strategic Plan, the government continues to provide free and compulsory basic education. The government's objective is to achieve universal primary education by 2015 and gender parity in primary schools by 2008.

A comprehensive package of education reforms was introduced in 2007, focusing on: raising the quality and number of teachers; attaining gender parity; promoting science, technology and research; and integrating pre-schools into the basic education system.

A number of educational policies appear to be having positive results, such as the extension of the school feeding programme to all basic public schools in 2007, efforts to provide free and compulsory basic education, and capitation grants that cover fees and levies, cultural activities, sports, and school development. According to national sources, school enrolment growth rates have improved at all levels: between 2005/06 and 2006/07, the Gross Enrolment Ratio (GER) increased from 75.2 per cent to 83.6 per cent for kindergarten and from 92.1 per cent to 93.7 per cent for primary schools, and the Gender Parity Index at the primary level also increased, from 0.95 to 0.96. In addition, the government's incentive packages, aimed at attracting teachers to the most deprived areas in the country and including bicycles, radios, accelerated promotion, and increased access to training, appeared to be bearing fruit. The pupil/teacher ratio improved from 38:1 in 2005/06 to 34:1 in 2006/07 in the Northern Region, from 48:1 to 42:1 in the Upper East Region and from 40:1 to 34:1 within the Upper West Region. However, in spite of these significant gains, according to UNICEF, about 800 000 children of primary school age are still not attending school.

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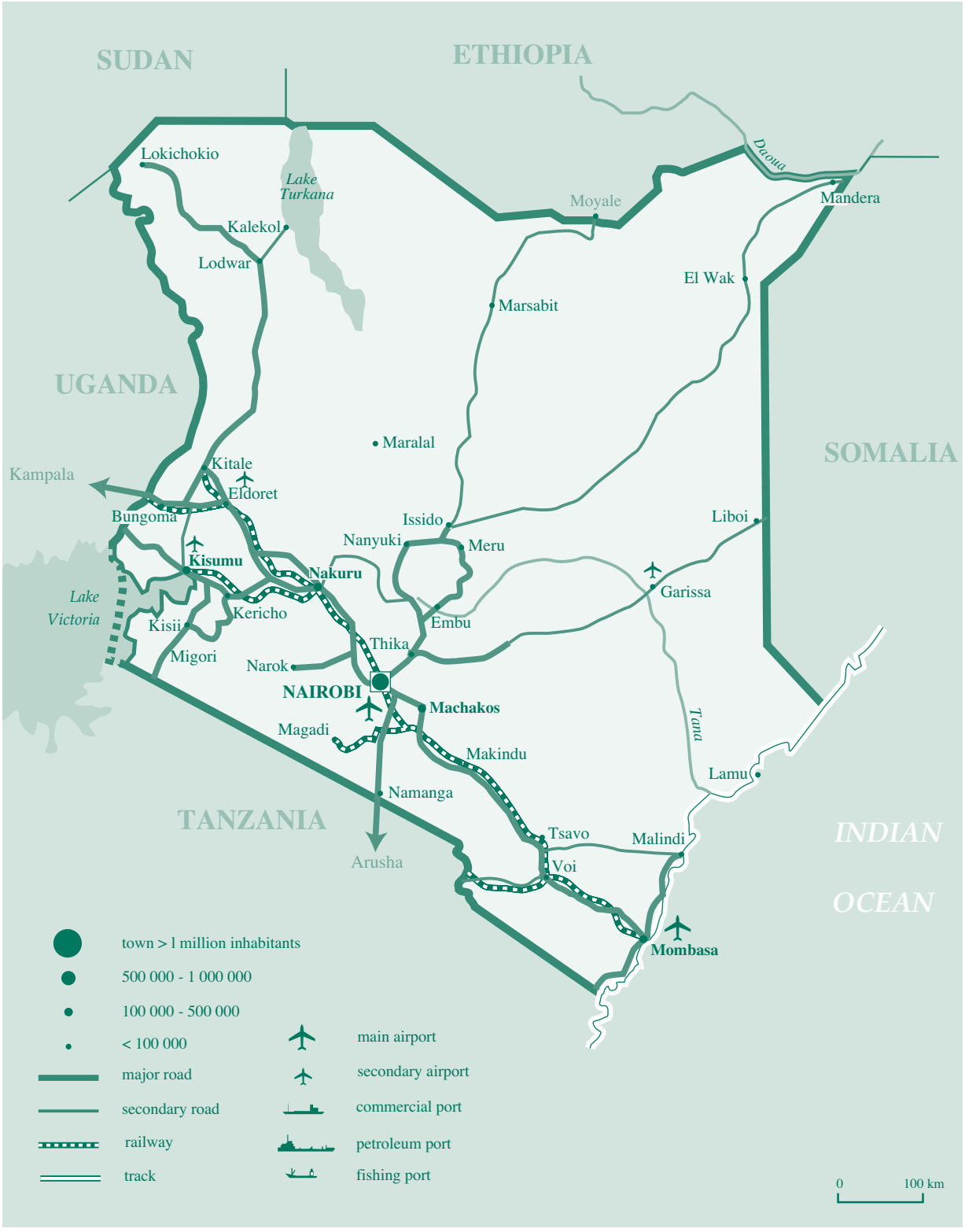
Kenya



key figures

• Land area, thousands of km²	580
• Population, thousands (2007)	37 538
• GDP per capita, USD at constant 2000 prices (2007)	456
• Life expectancy (2007)	54.1
• Illiteracy rate (2007)	11.8

Kenya


SUDAN
ETHIOPIA
SOMALIA
UGANDA
TANZANIA
INDIAN
OCEAN
Lokichokio
Lake
Turkana
Kalekol
Lodwar
Moyale
Daoua
Mandera
El Wak
Marsabit
Maralal
Kampala
Kitale
Eldoret
Bungoma
Issido
Liboi
Nanyuki
Meru
Kisumu
Nakuru
Garissa
Lake
Victoria
Kericho
Kisii
Embu
Migori
Thika
Narok
NAIROBI
Machakos
Magadi
Tana
Makindu
Lamu
Namanga
Tsavo
Malindi
Arusha
Voi
Mombasa
town > l million inhabitants
500 000 - 1 000 000
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major road
secondary road
railway
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main airport
secondary airport
commercial port
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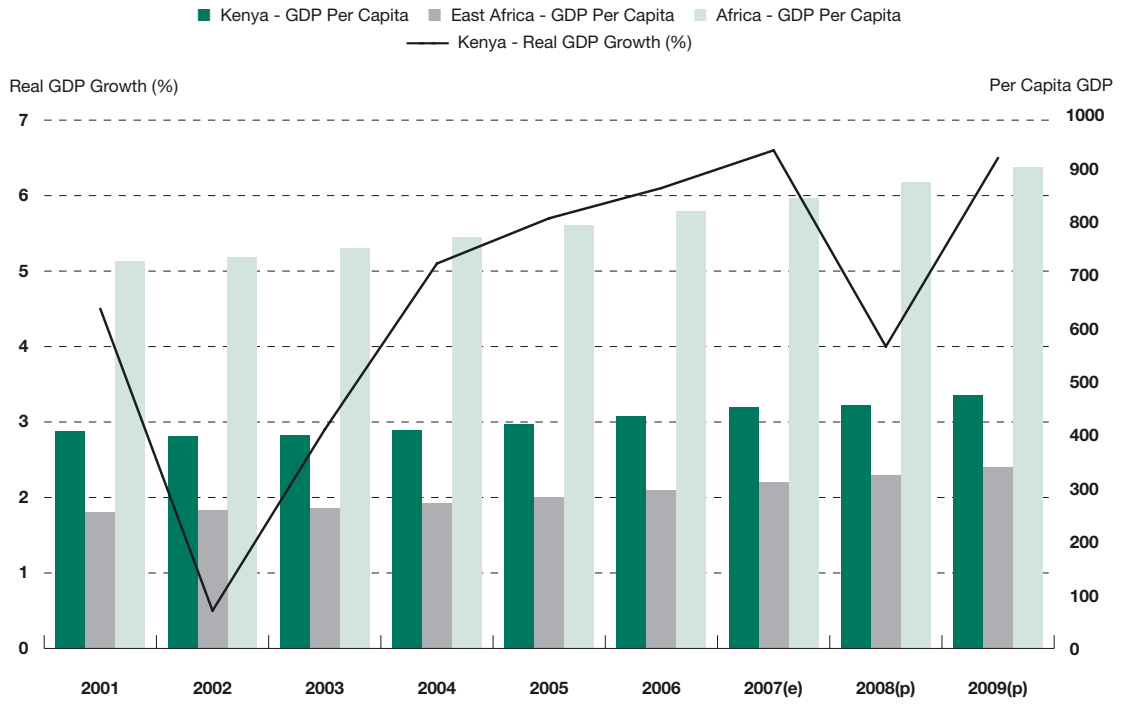
Kenya

THE KENYAN ECONOMY GREW at an estimated rate of 6.6 per cent in 2007, up from 6.1 per cent in 2006. This reflects broad-based economic growth in most sectors. Under the Economic Recovery Strategy (ERS) which ended in 2007, investor confidence was restored, farm prices improved, and rural electrification proceeded in many parts of the country. Before the eruption of the current crisis following the disputed presidential elections, the economy appeared to be on track to maintain or improve upon its performance in 2007. However, it now appears likely that growth will be much less than expected in 2008. Assuming that the crisis is short-lived, the impact is expected to be modest, followed by a small increase in growth in 2009. The implementation from 2008 of Vision 2030 — a strategy comprising successive five-year plans, the first of which provides for increased investments in infrastructure and other key sectors — is expected to provide continued impetus to growth.

The political crisis could drive two million Kenyans into poverty, reversing economic gains.

During the period May 2005 to May 2006, overall poverty was measured at 46 per cent, compared to 56 per cent seven years earlier, with a significant 35 per cent reduction in rural poverty. Access to clean water and affordable healthcare services also improved during ERS, and school enrolments increased.

Figure 1 - **Real GDP Growth and Per Capita GDP**
(USD at constant 2000 prices)



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

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Recent Economic Developments

The growth of real gross domestic product (GDP) is estimated to have been 6.6 per cent in 2007, compared to 6.1 per cent in 2006. This growth was supported by the agriculture, manufacturing, wholesale and retail trade, tourism, transport and communications, and financial services sectors, as well as increased efficiency in the economy's management. Per capita income increased to USD 456 in 2007, up from USD 439 in 2006. Prospects for 2008 have been dampened somewhat by the recent crisis. Tourism receipts are likely to be depressed. Exports are likely to have been affected by disturbances in the port city of Mombasa, and both private consumption and private investment are likely to slow. A recovery is expected to ensue, resulting in higher growth in 2009 (Table 1)[1]. Real GDP is projected to grow at 4 per cent in 2008 and then accelerate to 6.5 per cent in 2009 (Figure 1).

The agriculture sector, which accounted for 27.1 per cent of GDP (Figure 2), recorded a better performance in 2007 than in 2006, largely due to recovery from the drought that was experienced in late 2005 and the first quarter of 2006. However, food supply remained satisfactory following increased harvests of maize, beans and millet due to adequate rainfall received in most parts of the country. In 2007, the sector grew by 12 per cent during the first quarter, compared to 0.3 per cent recorded in 2006, and by 5.8 per cent in the third quarter, compared to 7.8 per cent in 2006, with all major crops recording growth in production. This was the result of a recovery from the drought experienced in the first quarter of 2006. The tea sub-sector is growing, albeit slowly, partly as a result of good rains. However, tea prices have been gradually declining due to excess supply. In 2007, the horticultural, coffee and sugar cane sub-sectors posted positive growths, both in value and quantity.

The manufacturing sector, accounting for 11.5 per cent of total GDP, continued to be robust, recording higher expansion in 2007 than in 2006. This was a result of strong growth in various sub-sectors, including food, beverages and tobacco that registered an improved performance. In addition, favourable weather conditions led to an improved supply of raw materials to a number of agro-based industries, especially the dairy and grain-milling sub-sectors. Strong growth was also recorded in cement, textiles, clothing and footwear.

Table 1 - **Demand Composition**

	Percentage of GDP (current prices)		Percentage changes, volume			Contribution to real GDP growth		
	1999	2006	2007(e)	2008(p)	2009(p)	2007(e)	2008(p)	2009(p)
Gross capital formation	**15.6**	**19.4**	**10.1**	**5.7**	**10.0**	**2.3**	**1.3**	**2.4**
Public	4.6	5.0	45.0	7.0	10.0	2.6	0.6	0.8
Private	11.1	14.4	-2.0	5.0	10.0	-0.3	0.8	1.6
Consumption	**89.6**	**93.0**	**4.5**	**3.8**	**4.9**	**4.1**	**3.3**	**4.3**
Public	16.0	16.3	3.9	4.0	3.7	0.6	0.6	0.5
Private	73.6	76.7	4.6	3.7	5.1	3.5	2.8	3.8
External demand	**-5.3**	**-12.4**				**0.2**	**-0.7**	**-0.2**
Exports	21.3	25.1	7.6	1.2	4.0	2.5	0.4	1.3
Imports	-26.6	-37.5	4.9	2.4	3.3	-2.3	-1.1	-1.5
Real GDP growth	-	-	-	-	-	**6.6**	**4.0**	**6.5**

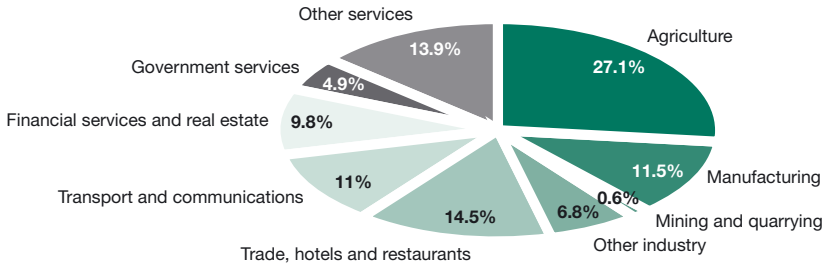
Source: National Bureau of Statistics data; estimates (e) and projections (p) based on authors' calculations.

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1. Gross investments as a percentage of GDP rose from 18.4 per cent in 2006/07 to 21.6 per cent in 2007/08, of which the share of public investments doubled from 4.2 per cent to 8.2 per cent during the period, while that of private investments declined marginally from 14.2 per cent to 13.2 per cent during the period, as reflected in Table 1.

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Figure 2 - **GDP by Sector in 2006** (percentage)



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

StatLink http://dx.doi.org/10.1787/317710843065

Cement consumption, which is a key indicator of activity in the construction sector, is estimated to have increased by 14.1 per cent in 2007, compared to 12.3 per cent in 2006. The growth was mainly caused by increased government investments in infrastructure and the initiation of several Constituency Development Fund (CDF) projects and increased budgetary allocations for road construction, maintenance and rehabilitation activities. Loans and advances from commercial banks to the sector increased by 23.1 per cent in 2007, compared to 28.5 per cent in 2006.

The total electric power generated increased by 8.9 per cent from 4 808.9 million (KWH) in the first ten months of 2006 to 5 236.5 million (KWH) in the first ten months of 2007. Consumption of electricity increased by 8.5 per cent from 3 921.4 million (KWH) in the first ten months of 2006 to 4 253.3 million (KWH) in the first ten months of 2007, in line with increased economic activity. The price of imported crude oil increased by 1.4 per cent from USD 65.7 per barrel in the first ten months of 2006 to USD 66.6 per barrel in the first ten months of 2007.

During the first ten months of 2007, tourist arrivals increased by 13 per cent compared to a similar period in 2006, while earnings rose by 27.6 per cent from USD 688 million to USD 878 million during the same period. This compares with growth of 14.9 per cent in 2006. However, tourist arrivals fell drastically by more than 80 per cent during January 2008, due to the crisis in the country. Hotel bed-night occupancy in the first and second quarters of 2007 increased by 19.6 and 36 per cent respectively, when compared to corresponding periods in 2006. Similarly, visitor arrivals increased by 13 and 15.9 per cent in the first and second quarters of 2007. This growth has been supported in part by increased marketing campaigns and tapping of markets in Eastern Europe and the Asian subcontinent, together with improved diversification strategies.

Growth in the transport and communications sector was driven by road transport and communications, and the continued buoyancy of the tourism sector. In 2007, fuel products transported through the Kenya Pipeline Company (KPC) pipeline system increased by 5.1 per cent, from 3.2 million m^3 in the first ten months of 2006 to 3.3 million m^3 in a similar period of 2007. This compares with growth of 9.2 per cent in 2006. In a similar period, cargo throughput at the Port of Mombasa increased by 9.9 per cent, from 12 million tonnes to 13.1 million tonnes. In the telecommunications sub-sector, the growth momentum continued in 2007 with the mobile subscriber base increasing by 27.4 per cent, from 7.3 million in December 2006 to 9.3 million in July 2007. This compares to 36.5 per cent in 2006. Similarly, fixed telephone lines rose from 286 729 in June 2006 to 297 888 by March 2007, an increase of 3.9 per cent.

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Macroeconomic Policies

Fiscal Policy

The government is committed to pursuing prudent fiscal policies over the medium term, focusing on strong revenue collection underpinned by deepening tax administration reforms and modernisation. It plans to contain the growth of total expenditures, thus creating the fiscal space to shift resources from recurrent to capital expenditures. In particular, the government plans to shift resources significantly towards Vision 2030 priority economic and social sectors, and to contain the growth of domestic debt to sustainable levels so as to ensure that private-sector borrowing is not crowded out.

The government budget, which was 24.8 per cent of GDP in 2005/06, is estimated to have declined to 22.9 per cent of GDP in 2006/07, and is projected to rise to 25.6 per cent in 2007/08 (Table 2), mainly due to increased development budget to support the infrastructure development. The overall fiscal balance on a commitment basis (excluding grants) for 2006/07 recorded a deficit equivalent to 1.7 per cent of GDP, against a target deficit of 5.6 per cent of GDP. This compares to a deficit equivalent to 3.3 per cent of GDP in 2005/06. The fiscal balance on a commitment basis, including grants, recorded an estimated surplus equivalent to 0.6 per cent of GDP, against a target deficit equivalent to 3.7 per cent of GDP. Expenditures are projected to be 25.6 per cent and 24.6 per cent of GDP in 2007/08 and 2008/09 respectively, with recurrent expenditures declining and development expenditures increasing, as compared with 2005/06.

The stock of pending bills declined from KES 18.3 billion (Kenyan shillings) in 2003 to KES 9.4 billion by end June 2007. The bulk of pending bills were for recurrent expenditures, accounting for 57 per cent during the period June 2002 to June 2006, while pending bills for development projects accounted for 43 per cent. The policies being undertaken to reduce the occurrence of pending bills include: implementation of a mandatory accounting system to ensure accurate recording of commitments; identification of the genuine stock of pending bills by the pending bills committee, with a commitment to clear them quickly; and termination of stalled projects that continue to add to the stock of pending bills.

The government wage bill rose from KES 108.7 billion in 2005/06 to KES 128.8 billion in 2006/07, accounting for 32.2 per cent of total revenue. Government policy in the medium term aims to reduce the growth of the wage bill to about 6.7 per cent of GDP

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

	1998/99	2003/04	2004/05	2005/06	2006/07(e)	2007/08(p)	2008/09(p)
Total revenue and grants[a]	**23.0**	**22.3**	**22.3**	**21.5**	**21.3**	**21.2**	**20.5**
Tax revenue	20.0	19.0	19.2	18.4	18.5	18.0	17.6
Grants	0.6	1.3	1.1	1.3	0.8	1.3	1.0
Total expenditure and net lending[a]	**22.6**	**23.3**	**22.2**	**24.8**	**22.9**	**25.6**	**24.6**
Current expenditure	18.9	20.0	18.9	20.3	18.5	19.5	18.6
Excluding interest	*14.3*	*17.6*	*16.6*	*17.7*	*16.1*	*17.1*	*16.9*
Wages and salaries	7.2	7.9	7.7	7.3	7.0	6.5	6.1
Interest	4.6	2.5	2.2	2.7	2.3	2.4	1.7
Capital expenditure	3.6	3.2	3.3	4.4	4.4	6.0	6.0
Primary balance	**5.0**	**1.5**	**2.3**	**-0.7**	**0.6**	**-2.0**	**-2.6**
Overall balance	**0.4**	**-0.9**	**0.1**	**-3.3**	**-1.7**	**-4.4**	**-4.3**

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

StatLink http://dx.doi.org/10.1787/321838205856

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by 2008/09, through public-sector management reforms.

Fiscal revenue collection increased from KES 311.3 billion in 2005/06 to KES 379.1 in 2006/07. This is projected to reach KES 487.3 billion in 2008/09. Despite the growth in revenue, performance has been below the targets set for the year by KES 12.9 billion. This under-performance was mainly attributed to lower-than-expected revenue from excise taxes and import duties. Ministerial Appropriation in Aid (AIA) also recorded a shortfall of KES 10.4 billion against the target of KES 41.9 billion. With further reforms, it is expected that revenue collection will be more closely aligned with the set targets.

Despite the steady rise in oil prices, this has had no impact on public finance. Oil dealers are usually very quick to make upwards adjustments of their pump prices, and hence a complete pass-through to the consumer occurs. In a move to address the public concern over the price hikes, parliament passed an Energy Bill (2006) which the government has been reluctant to enforce, since this would amount to a partial retreat from the recent liberalisation of the oil sector. However, the government has embarked on deliberate efforts to increase the number of outlets under the state-owned National Oil Corporation.

In line with the Poverty Reduction Strategy Paper (PRSP), the government identified core poverty projects and programmes in the budget which are given priority and cushioned from budget cuts. These are intended to have a positive impact on the lives of the poor, including: increasing incomes for the poor; improving the quality of life; enhancing security; empowering the poor; improving governance; and promoting equity and equality in society. The overall expenditure on these programmes by the end 2006/07 was KES 50.9 billion.

Kenya has a three-year Medium Term Expenditure Framework (MTEF) in place. The government has implemented an Integrated Financial Management System (IFMIS), and is now in the process of initiating an output-based expenditure programme to complement the MTEF budgeting process.

Monetary Policy

Monetary policy in Kenya is conducted mainly by the Central Bank of Kenya (CBK) in consultation with the monetary policy advisory committee and the Ministry of Finance. However there are plans to harmonise monetary concepts and definitions within the East African Community (EAC) (comprising Kenya, Uganda, Tanzania, Rwanda and Burundi) by the end of 2009. Kenya has already implemented the IMF's Monetary and Financial Statistics (MFS) 2000 manual, and subsequently introduced a parallel run in September 2007 before fully adopting the methodology under the General Data Dissemination System (GDDS) II programme. This is in line with EAC summit recommendation for fast-tracking the EAC towards a customs union, then a monetary union, and eventually a political federation by 2016.

The CBK pursues its monetary policy objectives through open-market operations (using Treasury bills and any other eligible securities to achieve a desired level of money in the economy) and varying the cash reserve requirement (CRR) at the CBK. The CRR has been maintained at 6 per cent of commercial bank deposits since July 2003. The CBK also engages in foreign-exchange market operations, in order to discourage speculation rather than to influence domestic liquidity.

Monetary policy seeks to contain end-period inflation to the government's objective of 5 per cent. In 2007 it aimed to limit the growth in both reserve money and broad money to 12.7 per cent, in line with the estimated growth in real GDP. However, both money supply and reserve money expansion continued to remain well above the desired level, following a significant build-up in the net foreign assets (NFA) and net domestic assets (NDA) of the banking system. Money supply, M3, grew by 18.8 per cent in the year to June 2007, compared with 16.1 per cent in June 2006 — above the target growth of 14 per cent for the June 2007 quarter — while M2 grew by 16 per cent in June 2007. Monetary policy has since been tightened in order to achieve inflation of 5 per cent by the end of June 2008. While there are concerns over the volatility of international oil prices, the stability in the shilling

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exchange rate (which is expected to be sustained) will help contain inflation pressures, particularly in the transport and energy sectors. So far, there is no evidence that the oil price increase has generated any decrease in reserves. On the contrary, the Kenya shilling has continued to appreciate against the US dollar.

In 2007, the headline inflation rate was 9.8 per cent, compared to 14.5 per cent in 2006. However, the core inflation rate (excluding food and energy) remained close to the 5 per cent target, largely due to prudent fiscal and monetary management and the strengthening of the Kenya shilling against the US dollar. Inflation is projected to rise to 10.1 per cent in 2008 before declining to 7.4 per cent in 2009.

The Central Bank Rate (CBR) was lowered from 10 per cent to 8.75 per cent on 15 June 2007, to align it with other short-term money-market interest rates. There was also a narrowing of interest rate differentials among notes of different maturities. Thus, the interest rate of the 91-day Treasury bill increased during the period January-June 2007, from an average of 5.73 per cent in December 2006 to 7.6 per cent in October 2007. The average 182-day Treasury bill rate, however, declined over the same period, from 8.87 per cent to 7.8 per cent in June 2007. Commercial banks' average lending rates declined from 13.74 per cent in December 2006 to 12.56 per cent in October 2007. The spread between lending and deposit rates declined from 9.63 per cent in December 2006 to 8.53 per cent by October 2007. Interest rates are expected to remain stable in the medium term as they move towards the CBR.

There are potential short-term risks to the outlook for inflation. In particular, further volatility in world crude prices would have an impact on domestic prices through increased energy prices, and through spillover effects on the prices of other goods and services.

External Position

The duty- and quota-free access to EU markets under the Cotonou Agreement lapsed on 31 December 2007. In anticipation, the Customs Union of the East African Community (EAC) and the EU signed an Interim Framework Agreement on 27 November 2007 in Kampala, Uganda. The Agreement is to act as a stepping stone towards an Economic Partnership Agreement (EPA) that will cover trade in goods, market access, development co-operation and fisheries.

The Agreement, to be applied provisionally from 1 January 2008, provides a mechanism for the continuation of negotiations beyond 31 December 2007. This gives the EAC members duty- and quota-free access to the EU market, with transitional arrangements for rice and sugar. It also provides for the liberalisation of 81 per cent of EAC imports from the EU, with a transitional period of 25 years.

In 2007, the current account deficit was estimated at 1.5 per cent of GDP, compared to 2.3 per cent in 2006. This is projected to reach 2.6 per cent of GDP in 2008 before returning to 1.6 per cent in 2009 (Table 3). However, services recorded a surplus in 2007 equivalent of 4.4 per cent of GDP, due to increased

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

	1999	2004	2005	2006	2007(e)	2008(p)	2009(p)
Trade balance	-7.6	-10.0	-11.2	-14.3	-12.7	-13.4	-12
Exports of goods (f.o.b.)	13.7	16.7	18.1	15.4	13.6	12.5	11.7
Imports of goods (f.o.b.)	21.3	26.8	29.3	29.7	26.3	25.9	23.7
Services	2.8	3.8	3.9	4.5	4.4	4.3	4.4
Factor income	-1.2	-0.8	-0.6	-0.3	-0.3	-0.3	-0.3
Current transfers	5.3	6.2	6.5	7.8	7.2	6.7	6.2
Current account balance	**-0.7**	**-0.8**	**-1.4**	**-2.3**	**-1.5**	**-3.3**	**-1.6**

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

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earnings from tourism and unilateral private transfers, which also increased during 2007.

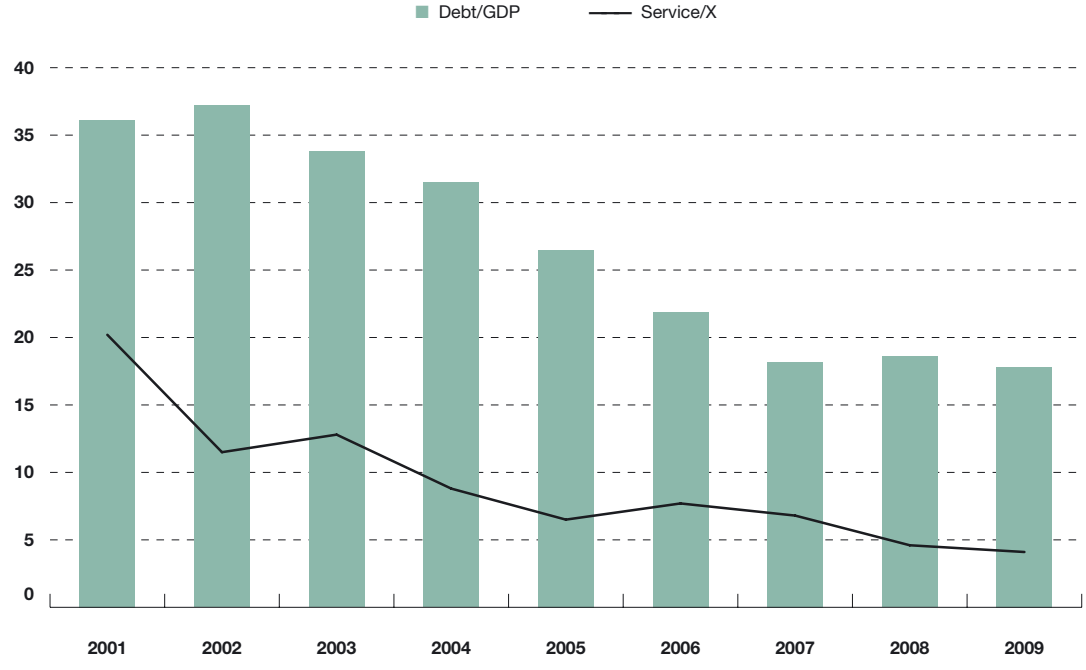
Horticulture, tea, articles of apparel and clothing accessories, and coffee continue to be the leading merchandise export earners, collectively accounting for 53.4 per cent of total domestic export earnings in 2006. Horticultural earnings increased by 9.2 per cent in 2006, while tea earnings increased by 11.7 per cent; coffee earnings increased by 0.8 per cent, and earnings from articles of apparel and clothing accessories — mainly from the Export Processing Zones (EPZ) — by 11.4 per cent. During the year to October 2007, merchandise exports increased by 17.4 per cent compared with the same period in 2006, as a result of the increased export value of coffee, tea, horticulture, oil, manufactured goods and raw materials. Tea, horticulture and coffee collectively accounted for 37 per cent, while manufactured goods accounted for 12.5 per cent of the value of exports, in the year to October 2007.

The value of imports, including machinery and transport equipment, manufactured goods, chemicals and oil, increased by 26.6 per cent during the year to October 2007 compared with a similar period in 2006. Machinery and transport equipment accounted for 32.2 per cent, and petroleum products for 21 per cent, of the total value of merchandise imports.

The capital and financial account recorded a surplus of USD 1 572 million in the year to October in 2007, up from USD 1 153 million in the year to October in 2006. This was mainly driven by increased inflows of capital transfers and direct investment short-term capital.

Kenya's public and publicly guaranteed debt increased from KES 789.1 billion at the end of June 2006 to KES 801.3 billion at the end of June 2007, equivalent to 40 per cent of GDP. This represented an increase of KES 12.2 billion, or growth of 1.5 per cent, during the

Figure 3 - **Stock of Total External Debt** (percentage of GDP) **and Debt Service** (percentage of exports of goods and services)



Source: IMF.

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fiscal year 2006/07. The increase in the stock of debt during the fiscal year was attributed to an increase of KES 46.9 billion in domestic debt, which was partly offset by a decrease of KES 34.7 billion in external debt. However, domestic debt as a percentage of GDP has been consistently on the decline, and stood at 18 and 18.2 per cent at the end of June 2006 and end of June 2007 respectively. The stock of domestic debt in absolute terms increased by 13.1 per cent, from KES 357.8 billion at the end of June 2006 to KES 404.7 billion at the end of June 2007.

Total external debt as a proportion of GDP declined from 21.9 per cent in June 2006 to 18.2 per cent in June 2007. In absolute terms, Kenya's external debt has been on a downward trend since June 2004, due to reduced access to external financing and strengthening of the Kenya shilling. The external debt stock was estimated at USD 6.1 billion at the end of September 2007, which reflected an increase of 2.3 per cent from the June 2007 position of USD 6 billion. Loans from multilateral agencies constituted a larger portion of Kenya's external debt due to their concessionary lending terms (low interest rates and long-term repayment periods). Overall, external debt comprises 60 per cent of multilateral and 35.2 per cent of bilateral, while commercial banks' and export suppliers' credit accounted for 0.1 per cent and 4.7 per cent respectively. Japan is Kenya's leading development partner, as evidenced by Japanese ODA to Kenya amounting to USD 1.1 billion in September 2006.

Structural Issues

Recent Developments

The authorities have continued to make progress in implementing structural reforms, despite delays in passing key legislative reform bills by the last parliament. The Governance Action Plan (GAP) for the Governance Strategy for Building a Prosperous Kenya (GSPK) is being implemented as scheduled, with the enactment of the Miscellaneous Act (which amends various pieces of legislation and contains important governance reforms). The last parliament approved the Political Parties Bill 2007 in September 2007, the enforcement of the Witness Protection Act 2006, and the establishment of a Public Complaints Standing Committee in June 2007 so as to increase transparency and public access to government information. The government continued to deepen public financial management reforms during 2007, while scaling down the role of the state in the economy. The ten targeted benchmarks of the Public Expenditure Management Assessment and Action Plan have been met; also, the risk-based audit approach has been rolled out and the IFMIS is now operational in the headquarters of all 24 ministries. In addition, the Public Procurement Oversight Authority (PPOA) is now operational, as required under the Public Procurement and Disposal Act.

During 2007, the government further moved to improve the business environment in order to enhance private-sector development, by eliminating 205 business licences and simplifying another 371 under the new Licensing Laws (Repeals and Amendment) Act, 2006. The number of licences that have been removed and simplified since 2006 now stands at 315 and 379 respectively, out of a total 1 325. In 2007, Kenya was ranked among the top ten global reformers in the ease of doing business by the World Bank's *Doing Business Report 2008*. In 2007, Kenya was awarded the UN Public Service Award in the category of "Improving Transparency, Accountability and Responsiveness in the Public Service" for introducing comprehensive performance contracts across all cadres in the public service and introducing a requirement that all ministries deliver on services to the public in 100 days. In addition, the Ash Institute for Democratic Governance and Innovation at Harvard University's John F. Kennedy School of Government nominated the Kenyan government for an international award for improved performance in the public service. In September 2007, the Standard and Poor's Ratings Services maintained its sovereign credit rating for Kenya of "B+" for foreign currency and "BB-" for local currency long-term sovereign debt.

In 2005, the government enacted the Privatisation Act to ensure transparency in the privatisation of state-

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owned enterprises and thereby strengthen accountability. The Act creates an independent Privatisation Commission mandated to oversee the government's divestiture programmes. The Privatisation Commission of Kenya was gazetted in December 2007 with 1 January 2008 as the commencement date of the Act. This brings to an end a protracted controversy over the absence of a regulatory framework to oversee the disposal of state-owned enterprises, such as the recent sale of KenGen (Kenya's electricity generating company), Mumias (a sugar-producing company) and the Safaricom Initial Public Offering (IPO)[2], which was rescheduled for early 2008.

In January 2007, the government launched the Kenya Private Sector Development Strategy (PSDS), which set out a road map that would help the country build a strong, thriving private sector over the next five years. The PSDS seeks to increase the co-ordination of activities across the government, and to improve the harmonisation of activities by the government, development partners, the private sector and civil society through appropriate institutional and management structures. A PSDS Implementation Plan (PIP) has been developed; this focuses on: fast-tracking existing and new government initiatives by addressing constraints to public services delivery through specific catalytic activities; supporting the accelerated implementation of macroeconomic reforms in key areas such as trade, deregulation and access to finance; and funding specific initiatives to fast-track the growth and competitiveness of small and medium-sized enterprises (SMEs).

In 2007, the government continued to rehabilitate and expand investment in physical infrastructure in order to support the productive sectors and thereby contribute to poverty reduction. Infrastructure — comprising roads and public works; water and sanitation; energy; transport and housing; and also, strengthening local government — is envisaged as a key pillar for economic growth in Vision 2030.

The Public Procurement and Disposal Act, 2005 became operational on January 1, 2007. The Act creates an autonomous Public Procurement Oversight Authority (PPOA). The PPOA is expected to make the public procurement system in the country more transparent, ensure accountability and reduce wastage of public resources.

Key financial-sector reforms include: enacting the Banking (Amendment) Act, 2006, ceding supervisory powers to the CBK and capping accrual interest on non-performing loans; the Insurance (Amendment) Act, 2006; and amendments in the Finance Act, 2006. Following the enactment of the Microfinance Act, 2006, the CBK has prepared a set of prudential regulations that will implement the Act once the effective date is gazetted by the Minister, taking into consideration the unique features and characteristics of microfinance, as distinct from traditional commercial banking. These regulations have been based on international best-practice recommendations. The Insurance (Amendment) Act, 2006 has provided for the establishment of an Independent Insurance Regulatory Authority that will further strengthen regulation of the insurance industry and improve insurance penetration.

The Nairobi Stock Exchange (NSE) is now well established, with 20 member firms. The number of listed firms on the NSE is currently 58, out of which 52 are equities and 6 are corporate bonds.

The value of private pension funds grew by 21.6 per cent to KES 148 642 billion in 2006. During this period, the value of assets held by the National Social Security Fund (NSSF) also increased, to KES 63 661 billion. The growing size of the pension funds along with their preference for investing in long-term instruments has enabled the government to launch longer-term bonds. It is expected that pension funds will invest significant amounts in 15-year treasury bonds launched in November 2007.

The National Environment Management Authority (NEMA) was established under the Environment Management and Co-ordination Act (EMCA) of 1999, which came into force on

2. The government plans to sell 25 per cent of its 60 per cent stake in Safaricom, in a transaction estimated to be worth KES 34 billion.

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14 January 2000. The Authority is mandated by the Act to exercise general supervision and co-ordination over all matters relating to the environment, and to be the principal instrument of the government in the implementation of all environmental policies. At the beginning of 2005, NEMA issued a requirement that all industrial establishments, including existing enterprises, have to carry out an Environmental Impact Assessment.

There have been a number of recent reforms in the agricultural sector. The dairy industry sub-sector and its management have been restructured. This has seen milk delivery go up by 125 per cent between 2001 and 2005, while the price increased by over 100 per cent over the same period. The regulatory capacity of the Coffee Board has also been enhanced. Direct sales of coffee are now allowed alongside the auction system. Coffee co-operative debts worth KES 4.2 billion were written off by the government, and rice irrigation schemes in western Kenya and coastal regions were rehabilitated. Governance in the co-operative sector has been improved, thus making credit more easily accessible to farmers. A draft Savings and Credit Co-operatives (SACCOs) Regulatory Bill is expected to be tabled in parliament and be enacted into a SACCO Regulatory Framework. Finally, a draft land policy was completed in 2006, and comments from different stakeholders are now being incorporated in the document.

Technical and Vocational Skills Development

The government has developed a national policy on Technical and Vocational Education and Training (TVET) which was formalised in Sessional Paper No. 1 of 2005, *Policy Framework for Education, Training and Research.* Among other things, the government has embarked on gender parity in TVET promotion activities and is committed to increasing female enrolment from the current 5 per cent to 30 per cent.

Entrepreneurship has been integrated with TVET to the extent that it is now being referred to as TIVET (Technical, Industrial, Vocational and Entrepreneurship training). The current reforms being undertaken aim at improving skills to meet the needs of the economy in line with the changes in technology.

There are four national polytechnics located in Nairobi, Kisumu, Mombasa and Eldoret and one Technical Teachers Training College located in Nairobi that offer technical education. The national polytechnics offer courses ranging from certificate to higher national diplomas, while those in Mombasa and Nairobi have been empowered to offer technology degrees. Other TVETs, which are spread across the country include: 17 institutes of technology; 21 technical training institutes; over 600 youth polytechnics; and close to 1 000 commercial colleges. Altogether, there were 71 167 students enrolled in TVET programmes in 2006, out of which 4.87 per cent were female.

Although quality assurance systems are inadequate, the legal framework is presently being developed by the government. One of the quality assurance processes in place is that examinations are conducted by one central examining body (Kenya National Examinations Council). In addition, a student attached to an employer is usually placed under a knowledgeable supervisor who has to give an independent report on that student's abilities.

A total of 123 institutions have been participating in the industrial attachment pilot project. To date, 2 012 students have participated, out of which 313 have been university students, 1 699 from other training institutions, and 23 lecturers/instructors from technical training institutions. Extensive sensitisation has been undertaken with over 350 employers, of whom 136 are participating in the pilot project. Standardised guidelines plus monitoring and evaluation instruments for industrial attachment have been developed and are in use. A National Industrial Training Council approves a token financial support to the attached students under the pilot project.

The country largely focuses on certificates and diplomas offered at the technical institutes. However, the existing capacity at the various levels of youth polytechnics, middle-level colleges and universities is

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inadequate to absorb most of the primary and secondary school graduates. There is need for skills development for these graduates through a well-harmonised, flexible and demand-driven TIVET system to meet the market demand.

Important skills shortages exist due to multiple deficiencies of the TVET system, including: inflexible TVET curricula; mismatch of skills learned and those demanded by industry; inadequate mechanisms for quality assurance; inadequate physical facilities for training, coupled with a lack of sufficient modern equipment; expensive training materials and textbooks; and low participation of the private sector in curriculum design. The higher up one goes in the hierarchy of technical-training levels, the less one finds emphasis on manipulative and practical skills. TVET systems do respond considerably to the overwhelming skills-training needs of the informal economy: apprenticeship is practised on a large scale, especially in urban areas for self-employment.

The TVET investment programmes are managed by steering committees under the Director of Technical Education. Priorities are set for the period 2005/06 financial year through 2009/10, with a total investment of about KES 2 747 billion, in terms of new students, equipment, tools, upgrading, rehabilitation, and maintenance of existing structures and equipment. The main actors in financing are the government, private-sector non-governmental organisations (NGOs), individuals, and foreign governments and agencies.

TVET financing is mainly through training levy and state budget. The TVET institutions are financed in part by parent-teacher associations (PTA) through annual PTA subscription fees. For its part, the government supports the teachers' monthly salaries, while support staff depend on the fees paid by students for their pay. The institutions can also meet capital expenditures through grants and funding by the government or donors. The funds acquired in this case can be for specific projects, meeting budgetary deficits or for giving bursaries to needy students. Real public and private/donor expenditures excluding operational costs on education and training have increased strongly over the last five years (Table 4). However, in 2006/07,

Table 4 - **TVET Real Public and Private/Donor Expenditure 2002/03-2006/07**
(million KES)

Financial Year	2002/03	2003/04	2004/05	2005/06	2006/07
Public	260	300	350	405	465
Private	100	150	205	260	304

Source: Domestic authorities' data.

StatLink http://dx.doi.org/10.1787/323382868640

allocation to TVET accounted for 0.7 per cent of the total budget and 2.7 per cent of the education budget.

The lessons learned from an assessment of the existing TVET system are that existing capacity and capability in middle-level colleges and youth polytechnics are inadequate to absorb the primary and secondary school graduates who are left out of the universities or colleges. The implementation of Free Primary Education (FPE) has exerted great pressure on the existing facilities by producing a large number of primary graduates prepared to move into the TVET system. These, and other deficiencies described above, are challenges that require to be addressed.

Political Context

The ruling party National Rainbow Coalition (NARC) and the former ruling party, Kenya African National Union (KANU) disintegrated further in 2007, leading to the formation of the Party of National Unity (PNU), the Orange Democratic Movement (ODM) and ODM-Kenya. The original ODM campaigned

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against the proposed new constitution, and the government side lost the constitutional referendum in the November 2005 referendum. During the December 2007 general elections, ODM had Raila Odinga as its presidential candidate while ODM-Kenya had Kalonzo Musyoka, both of whom served as cabinet ministers under President Kibaki. President Mwai Kibaki ran for a re-election on a PNU ticket. PNU affiliate parties include KANU, Safina, Democratic Party of Kenya (DP) and NARC-Kenya among others. The Leader of the Official Opposition during the ninth parliament, Uhuru Kenyatta, and the former President, Daniel Arap Moi, supported the incumbent President, Mwai Kibaki for re-election.

General elections in Kenya are held every five years for the Presidential, Parliamentary and Civic positions. The 27 December 2007 elections attracted the highest number of parliamentary aspirants, with 2 548 candidates vying for the 210 parliamentary seats, compared to 1 033 in 2002, and 15 332 civic candidates contesting 2 486 seats. The elections also attracted the largest number of women candidates, with 269 seeking parliamentary seats, compared to 44 in the 2002 General Elections, while another 1 478 vied for civic seats. Nine parties fielded presidential candidates, including the front-runners, President Kibaki (PNU), Raila Odinga (ODM) and Kalonzo Musyoka (ODM-Kenya). A record 108 political parties sponsored candidates to vie for parliamentary seats, while 117 parties fielded civic candidates. At the constituency level, some seats had as high as 33 parliamentary candidates; there were very few seats with only two or a very small number of candidates.The Electoral Commission of Kenya (ECK) accredited 4 000 observers and 2 000 local and foreign media representatives.

The 27 December 2007 elections had a voter turnout of 70.4 per cent of the 14 044 959 registered voters. The polls were closely contested, with Mwai Kibaki of PNU garnering 4 584 721 votes (47 per cent), and his closest challenger Raila Odinga (ODM) garnering 4 352 993 (44 per cent), while Mr. Musyoka had 879 903 (8.9 per cent) of the total votes cast. However, the credibility of the presidential-vote tallying was described as questionable by both domestic and international observers, with violent protests from the ODM supporters. The outcome of the presidential election sparked widespread and ethnically motivated violence resulting in over 1 000 deaths, more than 300 000 people displaced, and widespread destruction of property. The political crisis could drive an estimated 2 million Kenyans into poverty, reversing the gains made over the last few years, and could have an impact on business confidence if this political stalemate is not resolved. The African Union has appointed a team of eminent African persons as mediators, led by the former UN Secretary General Kofi Annan and assisted by former President Benjamin Mkapa of Tanzania and former First Lady Graça Machel of South Africa, to help solve the political crisis arising from the presidential election results dispute. Together with government and opposition representatives, they have constituted a Kenya National Dialogue and Reconciliation Team to resolve the crisis in the country.

The new parliament has also the highest number of women legislators — 15 in total — since independence. The poll's outcome saw over 60 per cent of the last parliament's members voted out, including 20 cabinet ministers and several seasoned politicians. The ODM emerged stronger, with 99 seats, while PNU had 43 seats, ODM-K 16 seats and KANU 14 seats. The opposition ODM and its affiliates have 104 seats, while PNU and government-affiliate parties have 103 seats. President Kibaki announced his appointment of Raila Odinga as Prime Minister of a coalition goverment on 13 April 2008. The new goverment is expected to put an end to the ongoing crisis.

To accelerate and deepen the reform agenda in the areas of governance and anti-corruption, the government developed a Governance Strategy together with its Action Plan, which sets out time-bound, specific and prioritised anti-corruption interventions in the broad areas of: prevention; investigation and recovery of corruptly acquired assets; strengthening prosecutorial capacity; and improving governance in priority sectors. The implementation of these measures is expected to result in a measurable improvement in the fight against corruption in the short- and medium-term. The Sexual Offences Act, 2006 was also enacted, and a convention to eliminate gender violence ratified.

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Social Context and Human Resources Development

Besides the existing devolution systems such as the Constituency Development Fund (CDF), Local Authority Transfer Fund (LATF), Constituency Bursary Fund, and the Youth Enterprise Fund (YDF) aimed at generating youth self-employment, a Women's Enterprise Development Fund (WEDF) was established in 2007. The WEDF, amounting to KES 1 billion in 2007/08, seeks to empower women at the constituency level by way of facilitating enterprise development, and is to be tripled to KES 3 billion in 2008/09. The WEDF is to be channelled through 12 selected microfinancial institutions, while the Fund's committees have been set at the constituency level.

The government has successfully implemented a Free Primary Education (FPE) Programme and has taken measures to offer free tuition to secondary school students, beginning in 2008. Efforts are also being made to recruit more teachers so as to improve on the teacher pupil ratio. Budgetary allocations to the health sector have been substantially increased, since the government provides free antiretroviral drugs in hospitals throughout the country as part of the strategy of dealing with HIV/AIDS. As part of a "Marshall Plan" for the Arid and Semi-Arid Lands (ASALs), the government injected KES 11 billion for the drilling of boreholes and the rehabilitation of the Kenya Meat Commission, among other targeted policy interventions.

The government has increased investments in human capital development by 16.5 per cent, targeting education and health, to KES 147.6 billion in 2006/07, equivalent to 8.99 per cent of GDP. The FPE programme has improved access to primary education by 25.9 per cent, from a gross enrolment of 6 062.9 thousand in 2002 to 7 632.2 thousand in 2006. According to domestic sources both Gross Enrolment Rate (GER) and Net Enrolment Rate (NER) increased, from 107.2 per cent and 83.2 per cent in 2005 to 107.4 per cent and 84.2 per cent in 2006 respectively. Enrolment in secondary schools increased by 10.3 per cent, from 934.1 thousand in 2005 to 1 030.1 thousand in 2006. Participation at secondary-school level is still low, with GER and NER estimated at 32.4 per cent and 23.2 per cent in 2006 respectively. Enrolment in primary teacher-training colleges expanded marginally, to 17.7 thousand in 2006. Universities registered a 21.6 per cent increase in the student population, from 92.3 thousand in 2005 to 112.2 thousand in 2006. The number of educational institutions increased by 1 575 to 57 662 in 2006, mainly as a result of an increase of 1 078 pre-primary units and 476 primary schools.

Gross total allocation to the education sector increased by 18.8 per cent, from KES 92.4 billion in 2005/06 to KES 109.8 billion in 2006/07, equivalent to 6.69 per cent of GDP. Development expenditure on primary education increased almost fivefold, from KES 1.3 billion in 2005/06 to KES 6.4 billion in 2006/07. Technical and teacher education development expenditures declined from KES 185 million and KES 143.5 million in 2005/06 to KES 85 million and KES 50 million in 2006/07 respectively. Higher education development expenditure is expected to increase by 35.6 per cent, to KES 661.5 million in 2006/07.

The number of health facilities expanded by 5.3 per cent from 4 912 in 2005 to 5 170 in 2006, while that of registered medical personnel increased marginally from 65 914 in 2005 to 67 126 in 2006. The full immunisation coverage rate of children under one year improved from 63 per cent recorded in 2005 to over 70 per cent in 2006, following sustained national immunisation campaigns. Over 1 000 dispensaries have been built countrywide. Budgetary allocation for drugs has also increased, while over 4 080 additional health personnel have been deployed to rural and needy areas to scale up health services. In addition, the government has improved referral services by increasing the number of ambulances, and has also implemented financial management reforms to improve efficiency and service delivery countrywide.

Other measures undertaken include the provision of over 202 million treated mosquito nets and indoor residue spray campaigns. The training of community workers, and information, education and communication campaigns have also assisted in creating

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awareness. In 2005/06, the government introduced a new treatment policy on malaria, using Artemisinin-based Combination Therapy (ACT) to address the problem of resistance to sulphadoxine-pyremethamine.

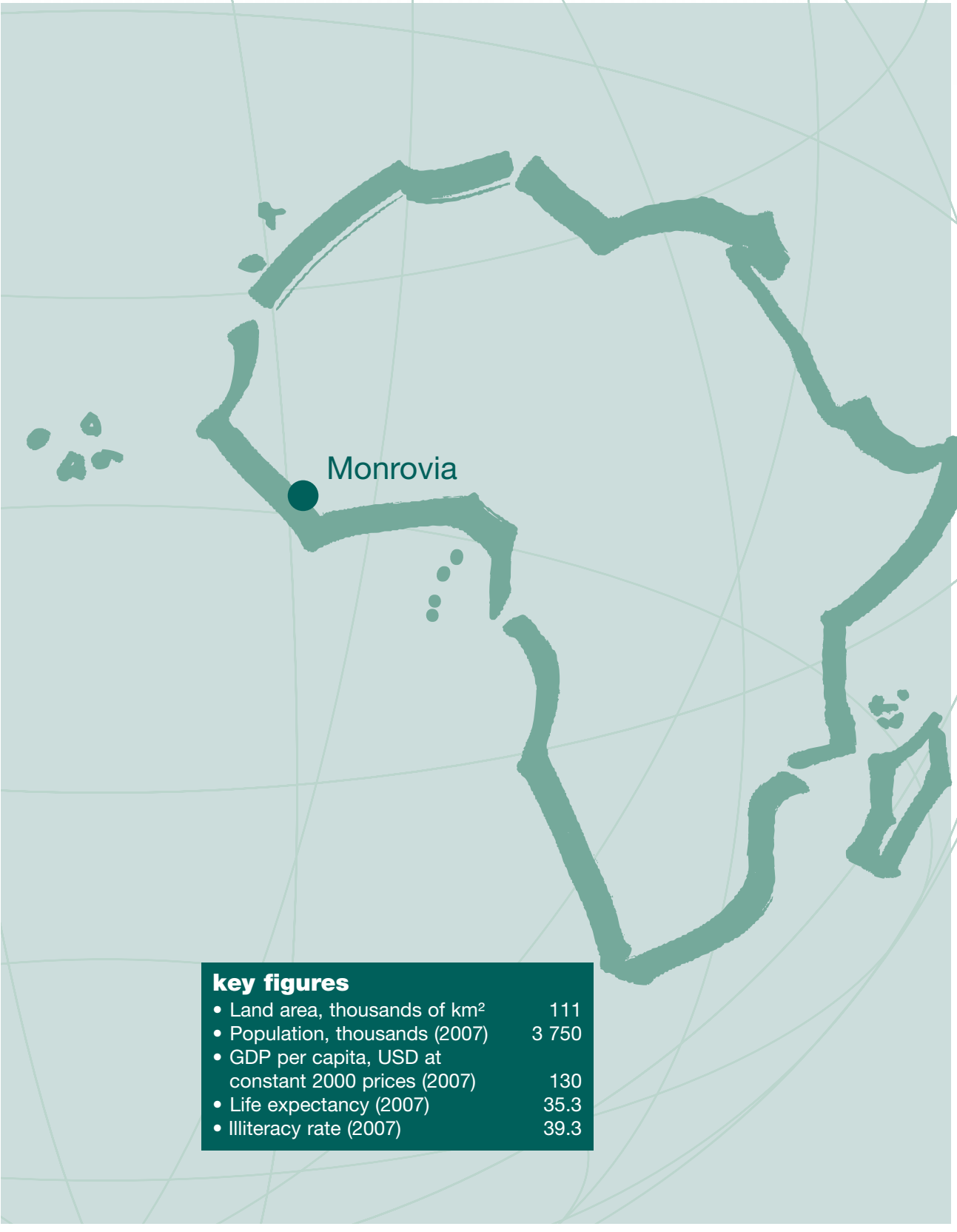
Co-ordination in HIV/AIDS efforts resulted in a 50 per cent reduction in the prevalence rate from 13 per cent in 2001 to 6.7 per cent in 2003, with awareness at 98 per cent. The introduction of Voluntary Counselling and Testing (VCT) sites and centres has increased considerably, from 3 in 2000 to 105 in 2002 and then to over 700 VCT sites in 2005, spread across the country. In an effort to contain the disease, in June 2006, the government adopted a policy to give antiretrovirals (ARVs) for free. Current estimates indicate that HIV/AIDS infections have dropped from 5.9 per cent in 2005 to 5.1 per cent in 2006. The number of patients on ARV therapy has increased to 165 000 from 3 000 four years ago. However, about 430 000 adults and 23 000 children still require ARVs. In addition, 1.5 million pregnant women need counselling each year, while another 68 000 require treatment to prevent mother-to-child transmission. In 2007, the government budgeted to spend KES 500 million to purchase ARVs. However, there are still challenges that need to be addressed, including: improving the quality of life of those infected; investigating the socio-economic impact of the disease; and continued loss of life due to HIV–related illnesses and the increasing number of orphans.

Early in 2007, the country experienced a continuation of the Rift Valley Fever outbreak, mainly in the pastoral communities of North Eastern Kenya, although few isolated cases were reported in other parts of the country. There were also a few cases of cholera reported in parts of Nyanza Province.

The improved performance in the various sectors of the Kenyan economy is reflected in the creation of more jobs. Overall, the economy generated 496 000 jobs in 2006, equivalent to an improvement of 5.7 per cent over 2005 levels. A large proportion of this labour force was absorbed in the informal sector, which generated 418 000 jobs. The government continued to focus on the Micro and Small Enterprise (MSE) sub-sector for the creation of employment opportunities and poverty reduction. Labour laws have been reviewed for drafting into relevant bills, while the Employment Policy was approved by the Cabinet and passed on to parliament for legislation. The Cabinet has also approved the establishment of a National Employment Council to monitor employment trends and give advice. For the Jua Kali sub-sector, 60 Micro and Small Enterprise worksites have been rehabilitated across the country.

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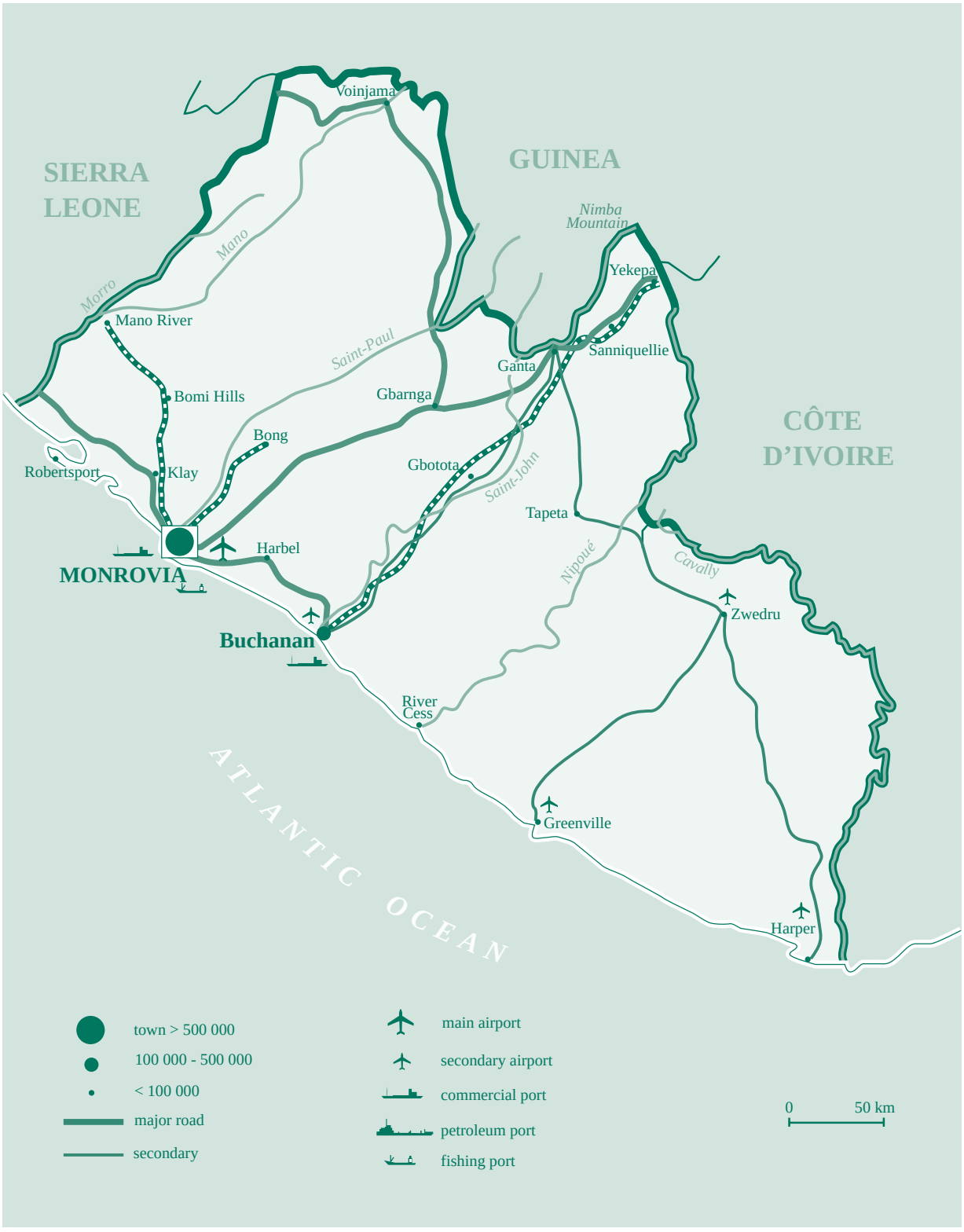
Liberia



key figures

• Land area, thousands of km²	111
• Population, thousands (2007)	3 750
• GDP per capita, USD at constant 2000 prices (2007)	130
• Life expectancy (2007)	35.3
• Illiteracy rate (2007)	39.3

Liberia


SIERRA LEONE
GUINEA
CÔTE D'IVOIRE
ATLANTIC OCEAN
Voinjama
Nimba Mountain
Yekepa
Sanniquellie
Ganta
Gbarnga
Mano
Morro
Mano River
Saint-Paul
Bomi Hills
Bong
Klay
Robertsport
Gbotota
Saint-John
Tapeta
Harbel
MONROVIA
Buchanan
Nipoué
Cavally
Zwedru
River Cess
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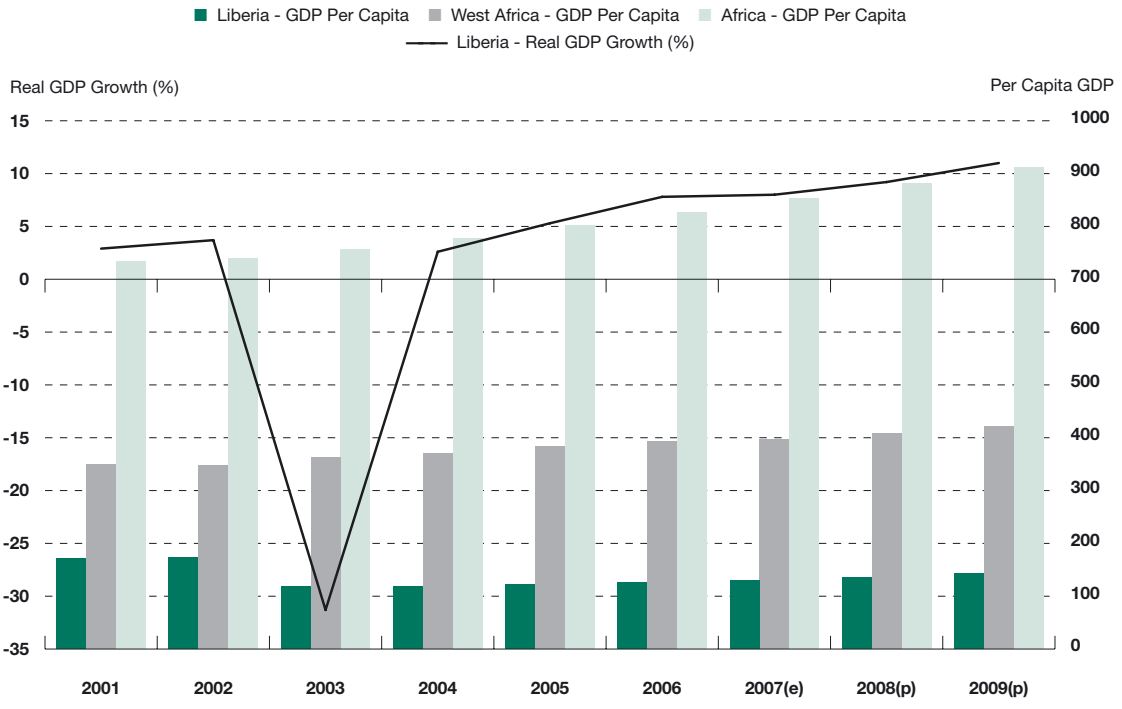
Liberia

LIBERIA IS A FRAGILE STATE UNDERGOING a post-conflict transformation with the assistance of the international community, which has deployed peacekeepers and police personnel to support the stability of the country's political and security situation. Within the constraints of several war-induced impediments, including a collapsed infrastructure, degraded institutional capacity and loss of experienced and skilled manpower, the economy has rebounded strongly following the cessation of conflict. Real GDP growth has risen strongly since 2004, reaching an estimated 8.0 per cent in 2007. As a consequence of the gradual improvement in security in rural areas agricultural production has revived, and there has been a resumption of mining and forestry activity. Real GDP growth is projected to rise to 9.2 per cent in 2008 and further to 11.0 per cent in 2009.

The economy is showing signs of modest recovery after years of civil conflict.

Economic management is also improving in response to reforms. The recovery of economic activity is taking place within a stable inflation environment. Government revenue is increasing, although the domestic tax effort still remains low and poses a challenge for further reforms. A key challenge is the deteriorating current account. Although export volumes are expected to rebound, more needs to be done to compensate for the larger share of imports in the economy that is the

Figure 1 - **Real GDP Growth and Per Capita GDP**
(USD at constant 2000 prices)



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

StatLink http://dx.doi.org/10.1787/316516766645

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reason behind the deteriorating current account. The government's efforts on governance are laudable, but still more needs to be done on the "Very Weak" indicators, including corruption, that have historically driven conflict in the country. Besides, Liberia's poverty and social situation continues to remain dire, and to require more concerted effort at improving health and education, especially technical-skills and vocational training.

Recent Economic Developments

The Liberian government is pursuing a Governance and Economic Management Assistance Program (GEMAP), signed by the National Transitional Government of Liberia (NTGL) and development partners in September 2005, and adopted in early 2006. This programme was derived in response to the years of civil conflict that saw the collapse of the country's main productive sectors. In pursuit of its economic revitalisation programmes, the government also agreed with the IMF on a Staff Monitored Program (SMP) in early 2006, and achieved most of its objectives. Agreement was also reached on an SMP for 2007, which aims to continue progress in strengthening public financial management and the domestic financial sector, and in implementing the government's anti-corruption and domestic debt resolution strategies.

The World Bank is leading the donor community in core areas of expertise — economic governance, community-driven development and infrastructure rehabilitation. In support of these, the Bank has maintained a consistent and selective engagement and has mobilised significant funding and technical capacity to support the programme.

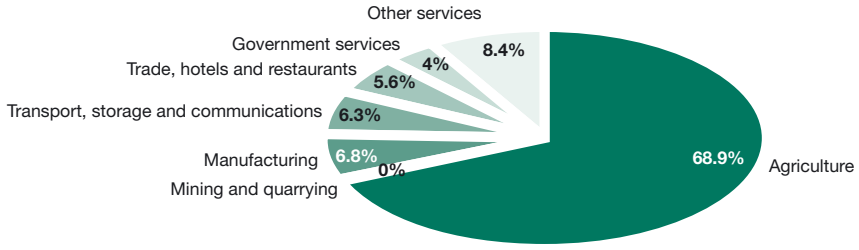
The main pillars of the GEMAP have been maintained in the preparation of an Interim Poverty Reduction Strategy (I-PRS), which was finalised in January 2007. The I-PRS focuses on: maintaining security and building peace; improving governance and the rule of law; revitalising the economy; and rebuilding infrastructure and beginning to get basic services up and running. The government intends to start preparations of a full PRS, which is expected to be finalised by mid-2008.

Under the GEMAP, the economy has shown modest signs of recovery. The incomplete national accounts data available suggest that, following the cessation of conflict, the economy stabilised and began to rebound. After having declined by over 30 per cent in 2003, real GDP increased by 2.6 per cent in 2004 and by 5.3 per cent in 2005 in response to post-civil war construction, supported by large contributions from the donor community which were especially geared to the social services sector and the reconstruction of basic infrastructure. In 2006, real GDP growth reached 7.8 per cent, reflecting the gradual improvements in security in rural areas and in construction. Real GDP growth is estimated at 8.0 per cent in 2007, mostly driven by construction, the recovery in the agricultural sector, and donor-funded expenditures in the country. Growth is projected to reach about 9.2 per cent in 2008 and to rise to 11.0 per cent in 2009, buoyed by a revival of the mining, forestry and agricultural sectors.

The mainstay of the Liberian economy is agriculture, which contributed about 68.9 per cent of aggregate GDP in 2006. Agriculture is thus a major component of economic revitalisation. Growth in the agricultural sector is led by the production of rubber and timber. Agriculture is the primary source of livelihood for the majority of the population. Recovery has been quicker in the commercial plantation sector, with the high prices of rubber and oil palm on the international market spurring investment. However, the scarce resources available to smallholders and a poor transportation network hamper their ability to get products to market. The agricultural sector also suffers from low productivity, as technology has remained virtually stagnant for decades. This has been compounded by Liberia's dual land tenure system, formal and customary, which seriously restricts land ownership by both Liberians and foreigners. The seriousness of the situation is underlined by the fact that the unequal distribution and limited access to land contributed significantly to the escalation of the civil conflict.

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Figure 2 - **GDP by Sector in 2006** (percentage)



Source: Authors' estimates based on IMF and Central Statistical Office data.

StatLink http://dx.doi.org/10.1787/317766550687

The government has embarked on an Agricultural Sector Review under the GEMAP to address some of the issues. Efforts are being made to increase yields and produce key cash and export crops, both in the smallholder and commercial plantation sectors. Other measures being implemented include: support for improved value chains, including more efficient supply chains; providing more opportunity for added value and for off-farm employment; and building the capacity of the Ministry of Agriculture and other institutions to implement policies and monitor outcomes in the sector.

Liberia's natural resources are a significant potential source of economic growth. The mineral sector in particular has enormous potential. Prior to the conflict, the mineral sector accounted for 25 per cent of GDP. However, mining recorded an extremely small share of only 0.1 per cent of GDP in 2004/05. In 2006, the sector virtually did not contribute to total GDP. Although the UN Security Council removed the embargo on Liberia diamond exports, the output of precious stones (gold and diamonds) has not significantly resumed. The government has begun to improve the regulatory framework of the mining sector. Work has already begun on a national mineral policy, a new legal framework for the sector, and an updated cadastral system. In recognition of the government's efforts to fulfil Kimberley Process requirements, the UN Security Council lifted sanctions on diamonds in April 2007. Forestry reforms being undertaken include the establishment of a protective area network to cover at least 10 per cent of forested areas.

Table 1 - **Demand Composition**

	Percentage of GDP (current prices)		Percentage changes, volume			Contribution to real GDP growth		
	1999	2006	2007(e)	2008(p)	2009(p)	2007(e)	2008(p)	2009(p)
Gross capital formation	**31.2**	**43.4**	**9.5**	**9.1**	**8.8**	**5.9**	**5.7**	**5.5**
Public	16.9	5.7	26.0	24.0	20.0	2.1	2.3	2.2
Private	14.3	37.7	7.0	6.5	6.5	3.8	3.5	3.4
Consumption	**97.8**	**111.0**	**5.2**	**2.8**	**4.8**	**6.0**	**3.2**	**5.1**
Public	18.8	11.8	13.3	10.1	9.8	1.9	1.5	1.5
Private	79.0	99.1	4.0	1.7	3.9	4.1	1.7	3.5
External demand	**-28.9**	**-54.4**				**-3.9**	**0.2**	**0.5**
Exports	39.4	35.5	9.8	14.5	14.6	3.8	5.8	6.1
Imports	-68.3	-89.9	6.6	4.8	5.1	-7.7	-5.5	-5.6
Real GDP growth	**-**	**-**	**-**	**-**	**-**	**8.0**	**9.2**	**11.0**

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

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The service sector accounted for about 24 per cent of GDP during 2004/05. This share rose marginally, to about 25.0 per cent in 2006. Growth in the sector during this period was mainly based on increased activity in the construction, transportation and communications, trade and hotels sub-sectors. The service sector comprising trade, hotels and restaurants is buoyant, whereas the manufacturing sector, as well as the mining sector, remains weak.

The demand composition of GDP reveals that strong growth in the volume of public investment contributed to growth in 2007 and will do so again in 2008 and 2009. Public investment is concentrated in reconstruction efforts in infrastructure, especially roads. This is an encouraging sign after the war. However, its sustainability is doubtful, depending as it does almost exclusively on foreign savings. On the other hand, the modest expansion in private investment is focused on mining and forestry, which in turn will drive the strong growth in the volume of exports from these sectors and their significant contribution to growth in both years.

Macroeconomic Policies

Fiscal Policy

The government is implementing a wide range of measures to improve fiscal management. However, as the government cannot borrow (though consideration may be given in the future to short-term borrowing for liquidity management), the macroeconomic influence of fiscal policy is limited.

In mid-2006, the government signed a Memorandum of Understanding between key revenue-generating state-owned enterprises (SOEs) and commercial banks. All revenues and fees of SOEs are now deposited openly in a small number of accounts that are closely monitored to ensure that the revenues are not misused. Furthermore, internationally recruited experts have been seconded to key ministries and other public agencies with co-signing authority to establish transparent financial management systems and to report openly on SOE operations, revenues and spending.

The government has also made a strong effort to improve tax and customs administration, including a revision of tax rates and the reduction of exemptions. Measures taken in 2006 and 2007 include: enforcement of pre-shipment inspections for imports and exports, including an increase in the penalty for failure to comply; improving tax collection through strengthening the Large Taxpayer Unit (LTU); implementation of a computerised tax payment system; elimination of non-cash payment of taxes; reducing import tax exemptions and improving the management of those granted to non-governmental organisations (NGOs); redefining the base for the goods and services tax on imports; and

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

	1999	2004	2005	2006	2007(e)	2008(p)	2009(p)
Total revenue and grants[a]	**12.7**	**16.0**	**15.6**	**13.9**	**13.6**	**13.4**	**12.5**
Tax revenue	10.6	14.5	14.7	13.2	12.6	12.5	11.6
Grants	1.4	0.2	0.2	0.2	0.4	0.4	0.4
Total expenditure and net lending[a]	**10.9**	**16.1**	**14.8**	**9.7**	**12.1**	**12.5**	**12.4**
Current expenditure	7.7	13.9	12.8	9.1	11.4	11.7	11.5
Excluding interest	*7.0*	*13.3*	*12.5*	*8.9*	*9.5*	*10.2*	*10.2*
Wages and salaries	1.8	5.6	8.2	4.8	4.5	4.4	4.1
Interest	0.7	0.6	0.3	0.2	1.9	1.5	1.3
Capital expenditure	3.3	2.3	2.1	0.6	0.7	0.8	0.9
Primary balance	**2.4**	**0.5**	**1.1**	**4.4**	**3.4**	**2.4**	**1.4**
Overall balance	**1.8**	**-0.1**	**0.8**	**4.2**	**1.5**	**0.9**	**0.1**

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

StatLink http://dx.doi.org/10.1787/322002730145

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increasing the excise tax on beer and cigarettes. Also in 2008, the government intends to eliminate the granting of ad hoc tax exemptions to individual investors outside of the Liberia Revenue Code (LRC).

Domestic revenues have risen significantly in response to the measures put in place. In nominal terms, domestic revenue rose from USD 56.0 million in 2004 to USD 79.3 million 2005, and further to USD 84.6 million in 2006. In 2007, domestic revenue was estimated to be 79 per cent higher than the preceding year, though this sharp rise was due to a one-off payment of USD 15 million to the government by Mittal Steel. On the other hand, the domestic tax effort remains low and below historical ratios, presenting a challenge for further reforms. Tax revenue as a percentage of GDP has declined to 13.2 in 2006 and is projected to fall to 11.6 in 2009.

On the expenditure side of the budget, the government has strengthened its commitment control system, reinforcing the role of the Cash Management Committee, which now ensures that expenditures are consistent with funds available. As a result the government now implements a cash-based budget. The government has also taken initial steps to develop a multi-year fiscal framework to guide spending agencies in expenditure planning. To further increase transparency, the government produced an Annual Fiscal Report 2005/06 for parliamentary and public scrutiny.

The government's fiscal measures resulted in an overall fiscal surplus, equivalent to 4.4 per cent of GDP in 2006. However, the fiscal surplus in 2006 is much lower when expenditures are measured on a commitment, rather than on the government's cash-budget basis. As a result of delays in approving expenditures during the early part of 2006 (which were the result of the enactment of a revised budget, the strengthening of the interim commitment control system and the introduction of the Public Procurement and Concessions Act), many government cheques were only printed towards the end of the year and had yet to be cashed when the year ended. The budget surplus was reduced to an estimated 3.4 per cent of GDP in 2007, and is expected to remain in surplus in 2008 and 2009 on a declining trend.

Monetary Policy

The key objectives of the Central Bank of Liberia (CBL) include the safety and soundness of the Liberian banking system and the adoption and implementation of strategies for dealing with distressed banks. The CBL policies aim to maintain domestic price and exchange rate stability. As the principal policy instrument, the CBL uses foreign exchange auction, a regular programme of bi-weekly auctions, which started in 2006. The government has put in place a Money Management and Policy Review Committee to guide monetary policy decision-making.

Money-supply growth in the Liberian economy has remained moderate, and this has contributed to stable inflation and exchange rates. The growth in broad money supply fell from 49.3 per cent in 2004 to an estimated 35.7 per cent in 2005, and then further declined to 34.4 per cent in 2006. Consumer price inflation, which, given the large share of imports in the economy, is strongly influenced by the trade-weighted exchange rate, has been relatively stable since 2004. Inflation as measured by the consumer price index has averaged about 8 per cent per annum between 2004 and 2007.

The Liberian Dollar (LRD) is a free-floating currency. However, the US Dollar (USD) is also legal tender in Liberia and is used alongside the LRD. But the two currencies are held for different purposes. While the LRD is held for small purchases, especially in the rural areas, and is used by the government to pay civil servants' salaries, the USD is the medium of exchange in trade and financial transactions. Except in 2004 when it strengthened to LRD 47.00/USD 1, the LRD exchange rate versus the USD generally held around LRD 60/USD 1. In the first quarter of 2007, however, it weakened to LRD 61.56/USD 1. The depreciation of the LRD is attributable to the rebound in imports of goods and services. On a trade-weighted basis, the exchange rate has depreciated more since the USD has itself depreciated against the euro and other currencies.

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External Position

Liberia's current account deficit continues to widen. The deficit, which stood at below 10.0 per cent of GDP in 2005, rose sharply to 20.5 per cent of GDP in 2007. The increase in the deficit derived exclusively from the trade deficit, which continues to widen as a result of the larger share of imports in the economy. For similar reasons, the current account deficit is projected to widen further in 2008. On the other hand, Liberia's capital account deficit has started to improve since 2005 with the re-emergence of private investment and foreign direct investment (FDI).

Liberia emerged from its decade-long civil conflict with a severe external debt problem. As of end-June 2006, Liberia's total external debt in Net Present Value (NPV) terms was estimated at USD 4.5 billion comprising essentially accumulated arrears of debt-service payments. Multilateral institutions represented

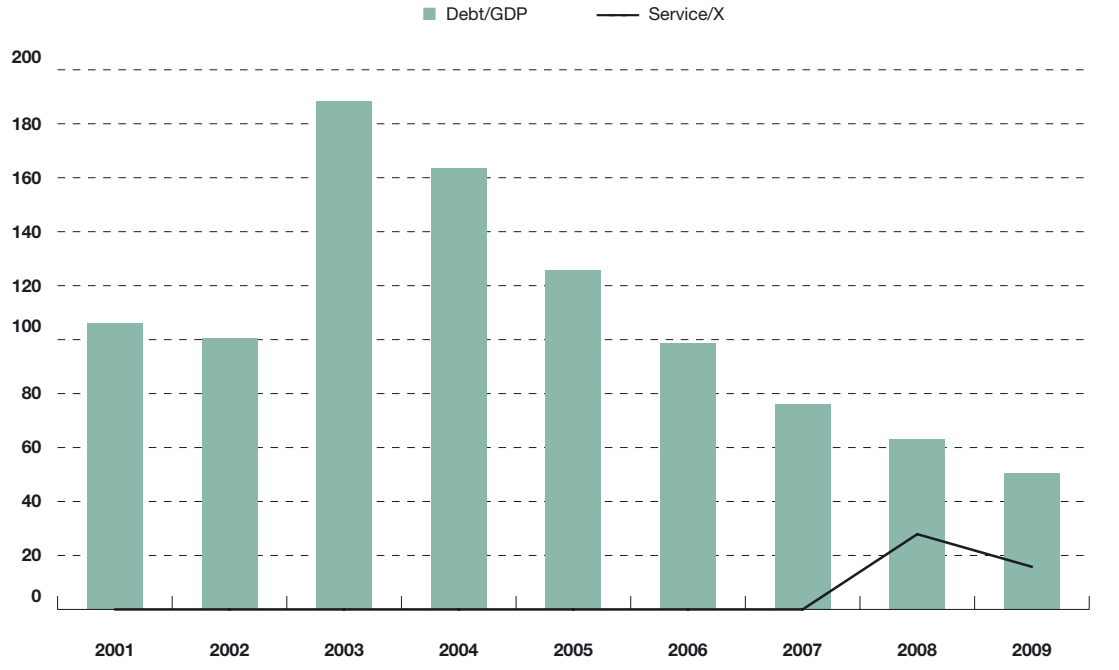
Table 3 - **Current Account** (percentage of GDP)

	1998	2003	2004	2005	2006(e)	2007(p)	2008(p)
Trade balance	-21.8	-30.6	-35.6	-39.6	-36.9	-36.9	-31.3
Exports of goods (f.o.b.)	10.2	24.0	21.5	25.7	26.2	27.5	27.7
Imports of goods (f.o.b.)	31.9	54.6	57.1	65.3	63.2	64.5	59.0
Services	0.0	-11.3	-12.6	-14.8	-13.9	-11.5	-10.8
Factor income	0.0	-20.1	-22.0	-22.5	-20.6	-21.6	-18.6
Current transfers	0.0	56.1	60.5	59.3	50.8	46.4	42.1
Current account balance	**-21.8**	**-5.9**	**-9.8**	**-17.6**	**-20.5**	**-23.6**	**-18.6**

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

StatLink http://dx.doi.org/10.1787/322732478763

Figure 3 - **Stock of Total External Debt** (percentage of GDP) **and Debt Service** (percentage of exports of goods and services)



Source: IMF.

StatLink http://dx.doi.org/10.1787/318756146438

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the largest creditor group, followed by bilateral creditors. Total external debt relative to exports of goods and services stood at 196.7 per cent. This debt/export ratio was significantly above the Heavily Indebted Poor Countries (HIPC) benchmark of 150 per cent.

Liberia is eligible for debt relief under the HIPC and Multilateral Debt Relief Initiative (MDRI) (International Development Association [IDA] and African Development Bank [AfDB]) frameworks, but the country's arrears to the Multilateral Institutions need to be cleared first. It was widely recognised that the country's own ability to clear these arrears was non-existent, given its acute resource constraints. The International Monetary Fund (IMF), the World Bank and the AfDB have been working with shareholders to find a comprehensive solution to Liberia's arrears problem, and a great deal of progress has been made. In 2007, there was a three-way burden-sharing arrangement among the AfDB (through the Post-Conflict Country Facility [PCCF]), donors, and the Government of Liberia to clear Liberia's arrears of UA 162.41 (Units of Account) million with the AfDB. Liberia paid UA 1.62 million (1 per cent), donors contributed UA 48.24 million (29.7 per cent), and UA 112.55 million (69.3 per cent) was drawn from the PCCF to finance the arrears. The clearing of the arrears paved the way for the AfDB to lift its sanctions on Liberia, normalise relations, and give consideration to debt relief under the HIPC Initiative when Liberia reaches the decision point.

Structural Issues

Recent Developments

Liberia faces several structural challenges, of which the rehabilitation of the infrastructure sector remains the greatest post-war challenge. During the war, there was extensive destruction of basic infrastructure, as a result of which the transport infrastructure base is greatly diminished and needs to be rebuilt. Most of the 10 000 kilometres of existing roads are in an extreme state of disrepair, and they are often completely impassable during the rainy season. The airport and ports are dilapidated and poorly organised, severely hampering international commerce. There is very little electricity generation (only a 2.3 MW grid) supplying mainly institutional customers, as well as individual diesel generators (as 40-50 MW combined production) throughout Monrovia; only 10-15 per cent of Monrovia has running water; the sewerage system is not operational; and no solid waste removal is in place.

The civil conflict resulted in a profound degradation of the country's institutional capacities and the public administration's human resources, resulting from physical damage, losses in human lives, and the interruptions or degradation of education for an entire generation. The conflict has caused serious losses in experienced and competent management-level staff, as well as in material and archiving capacities — "brain drain" continues to be a widespread phenomenon in Liberia.

The government is making attempts at structural reforms to aid economic recovery. The government's programme focuses on short-term employment generation, with a longer-term focus on agriculture, natural resource management, and improving the climate for private-sector recovery. The World Bank and other donors are supporting private sector-led growth through improvements in the regulatory environment and business climate, in addition to the generation of quick-impact employment through labour-intensive infrastructure and agricultural rehabilitation programmes.

In the effort to rebuild critical infrastructure and deliver basic services, the World Bank and the AfDB are supporting infrastructure projects in roads and transport to help make commerce possible and improve the delivery of basic services by developing water infrastructure and rehabilitating both the public and private segments of the energy sector. Also, as a first step towards reversing the massive erosion of public-sector capacity during 14 years of civil war, a Governance Reform Commission was created under the Comprehensive Peace Agreement to oversee an ambitious agenda of reform initiatives covering such areas as: civil service reform, judicial reform,

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constitutional reform, land reform, anti-corruption strategy, code of conduct for public officials, decentralisation, legislative capacity building and security sector reform.

With regard to the private sector, the business environment in Liberia is weak, with little formal activity and few incentives for large-scale private investment. With the few exceptions of major companies such as ArcelorMittal (iron ore) and Firestone (rubber), most businesses are small and informal, and there is very limited access to finance and advisory services. In addition, there are no reliable business support services. The most prevalent institutions providing support to small and medium-sized enterprises (SMEs) are in the public sector, and these possess mixed track records and limited potential due to their dependence on limited government funding and a weak skills/knowledge base. As a result, there is generally a weak entrepreneurship culture and a low level of productivity in local firms. Nonetheless, the government is committed to private sector-led growth, focusing particularly on an enabling environment for the private sector. In 2007 the government published the "Investor's Guide to Liberia" as a step towards creating a stable, secure and transparent environment for investors.

Although, with the support of the IMF, progress has been made in improving bank capitalisation, the banking system remains fragile, with a high share of non-performing loans. The CBL is now working on plans to address the banking sector's non-performing loans: this is being approached through efforts to restructure under-capitalised banks. In 2006, the authorities signalled that there would be no licences issued to new banks until the non-performing loans problem had been addressed. Good progress has already been made in this regard, as the ratio of non-performing loans to total advances has been estimated to have come down from 62 per cent in 2003 to 18.4 per cent in 2005. In view of the asset quality situation, an additional weakness in the Liberian banking system is that 80 per cent of the revenues of the banks are generated predominantly from "fees" rather than "interest income". The challenges to the Central Bank also include the weakness of confidence in the banking system, which is reflected by the fact that 80 per cent of the money supply is held outside the banks and 50 per cent of public cash is held in US Dollars.

Technical and Vocational Skills Development

The national objectives and strategies of technical and vocational education and training (TVET) are to empower rural residents as well as vulnerable groups; it thus has a prominent place in the national Poverty Reduction Strategy Paper (PRSP). The country's TVET system virtually collapsed during the civil conflict. As one element in its rehabilitation, the Ministry of Labour has recently designed a series of quick-employment training programmes for ex-combatants in order to integrate these young men and women into the work force. Since 2005, the Ministries of Education and Labour have started a programme of community youth empowerment. This programme is geared toward encouraging youths and ex-combatants (who are often very young and former child soldiers) to engage actively in activities that will provide them with a living. About 5 000 youths from all over the country have been participating in the programme. Some of the skills taught include: carpentry, missionary work, computer software, computer repair, agriculture, domestic skills, and other related vocational educational activities.

It is the sole duty of the Bureau of Vocational and Technical Services within the Ministry of Education to check on the programmes of other line ministries and agencies to ensure that their programmes are in line with national, as well as regional, vocational education agendas. Those falling below standard are automatically closed down.

Political Context

The 2003 Comprehensive Peace Agreement (CPA) signed by Liberia's warring factions in 2003 paved the way for the establishment of the National Transitional Government of Liberia (NTGL), which organised the historic presidential elections in 2006 that saw Ellen Johnson-Sirleaf become the first democratically elected female Head of State in Africa. However, the stability

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of Liberia's political and security situation depends upon the United Nations Mission in Liberia (UNMIL), which has deployed 15 000 peacekeepers and 1 115 police personnel in the country.

Governance issues have been a key historical driver of conflict in Liberia, and the system of vested interests remains entrenched in the public sector. Robust governance diagnostics are scarce, but the *2006 Global Integrity Report* rated Liberia as "Very Weak" on four of six indicators, including: government accountability; administration and civil service; oversight and regulation; and anti-corruption and rule of law, and the World Bank's *Post-Conflict Performance Indicators* rated Liberia 2.3 (on a 6-point scale) on public-sector management and institutional performance, although this is an improvement from a rating of 1.7 in previous years.

The government is making efforts to improve the governance situation in the country. The I-PRS addresses the challenge of strengthening the rule of law, rebuilding the public sector, and strengthening governance at all levels of government and civil society. In 2007, the government replaced the Governance Reform Commission by the Governance Commission (GC) to promote good governance in the public sector. The GC has undertaken the revision of the mandates, functions and structures of the ministries of Agriculture, Gender and Development, Youth and Sports, and Labour, in addition to gathering establishment data from more than half of the 15 ministries. The rationalisation of the ministries and agencies of public institutions in Liberia is yet to be finalised and approved by the government.

Also, in 2007 the government adopted an anti-corruption strategy, drafted in consultation with international partners, to demonstrate its commitment to promoting good governance in public affairs. The government intends to establish an independent anti-corruption commission with its own investigative and prosecutorial powers. In 2007, to further its drive towards reducing corruption, the general concessions and contract review of 96 major contracts was completed, with a number of contracts being cancelled, while the concessions granted to Mittal Steel were successfully renegotiated on terms which are much more favourable to Liberia. The government has also subscribed to the Extractive Industries Transparency Initiative (EITI) and has started work on implementing the Kimberley Process. Efforts are also under way to transform the General Auditing Commission (GAC) into an effective supreme audit institution by ensuring its legal independence, and to strengthen it.

Social Context and Human Resources Development

In spite of the recent positive growth trends, the incidence of poverty remains high and other aspects of the social situation remain dire. A recent United Nations Development Programme (UNDP) survey conducted in 2005 and a survey on food security and nutrition conducted by the government in collaboration with the Food and Agriculture Organization (FAO)/World Health Organization (WHO) in 2006 together provide some relevant indicators: 11 per cent of the households surveyed were food-insecure, and 40 per cent were highly vulnerable to food insecurity. 41 per cent were moderately vulnerable to food insecurity, while 9 per cent could be considered to be food-secure. The World Bank estimates that over three-quarters of Liberia's three million people live below the poverty line of USD 1 per day. Moreover, the government estimates that 80 per cent of the labour force works in the informal sector, if at all. The government is working to ensure that spending is increasingly pro-poor. In 2007, the government adopted a short-term national poverty reduction plan to tackle the country's massive unemployment. The 2007 budget re-allocated resources to pro-poor sectors, and the budget for social services, including education and health, has been increased to one-quarter of all government expenditure.

Improving health and education is recognised as the key to rebuilding Liberia's human resources. Presently, health services are meagre, with only 390 clinics operating, of which 80 per cent are supported by humanitarian assistance. The closure of internally displaced persons (IDP) camps and the departure of relief NGOs which had operated throughout the war

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Liberia Rapid Social Assessment and Update

In 2004 a Rapid Social Assessment (RSA) was carried out in Liberia to inform the overall post-conflict needs assessment and underpin the development of the Community Empowerment Project. It found that "community" in Liberia was a deeply contested notion and that the existing assumptions of social cohesion, participation and consensus that underpin Community-Driven Development (CDD) were overly idealistic. It recommended that programmes take measures to prevent resources from being a source of conflict in communities and to ensure that vested interest did not dominate planning. It also recommended that CDD activities avoid focusing only on infrastructure to the exclusion of other activities which could build social cohesion.

An update of the RSA was carried out in 2006, and this confirmed the original findings, particularly in the light of persistent tensions with regard to return and reintegration. Evidence suggests that the responsiveness of development agencies to these dynamics is lagging behind, and yet there are important opportunities for building on emerging community cohesion and engaging in a new forum for local government involvement.

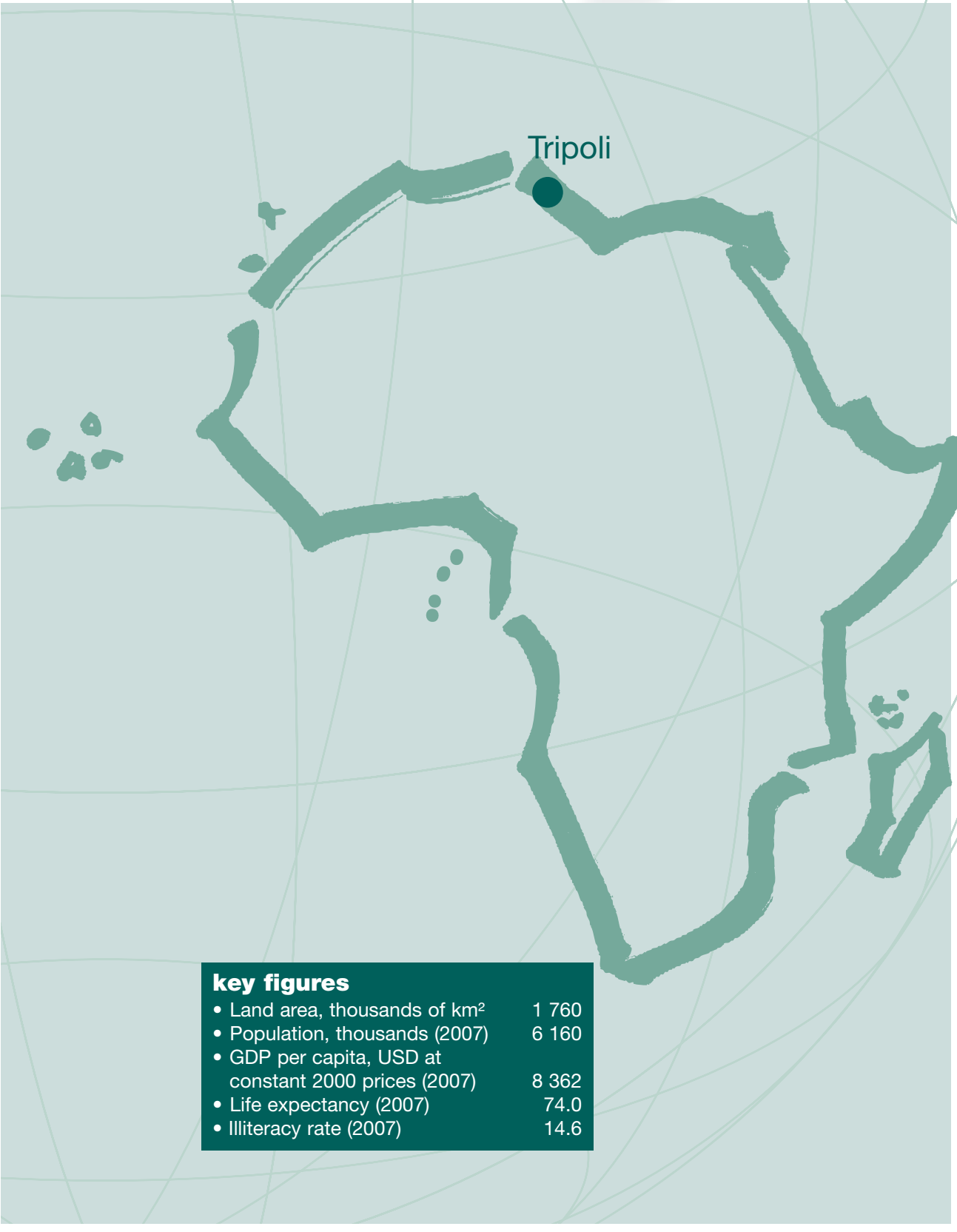
These recommendations are being incorporated in the African Development Bank's Community Empowerment Project, which includes a focus on building social capital, as well as a new component to help integrate local government into the implementation process.

years are having a negative impact on families that were receiving relief services. The latest World Population Prospects of the United Nations surveys indicated that life expectancy was only 45.7 years in 2007. Infant mortality was around 132.5 per 1 000 live births, child mortality was around 205 per 1 000 live births; and maternal mortality was 790 per 100 000 live births, among the highest in the world. Preventable diseases such as malaria, diarrhoea, respiratory infections and measles were the main direct causes of under-five mortality. Malnutrition was also found to be widespread, and is considered to be a key underlying factor in high death rates. The government and donors are working together on a national health plan to address systemic deficiencies, to attract additional investments in infrastructure and human resource development, and to fund recurrent expenditures.

Large numbers of additional children have enrolled in schools following the recent abolition of fees, but the system is unable to absorb them. In addition, there are a significant number of youths and young adults with very low education levels as a result of the war. Donor interventions in the education sector have been both fragmented and dispersed on non-core activities, so providing little assistance in improving public service delivery or filling the budget gap. Government and donors have recently begun addressing this with the development of a system-wide education sector plan to identify the key policies, resources and capacities needed to attain the overarching goal of universal primary education. Even with progress at the policy or ministerial level, actual service delivery at the local level remains a daunting challenge.

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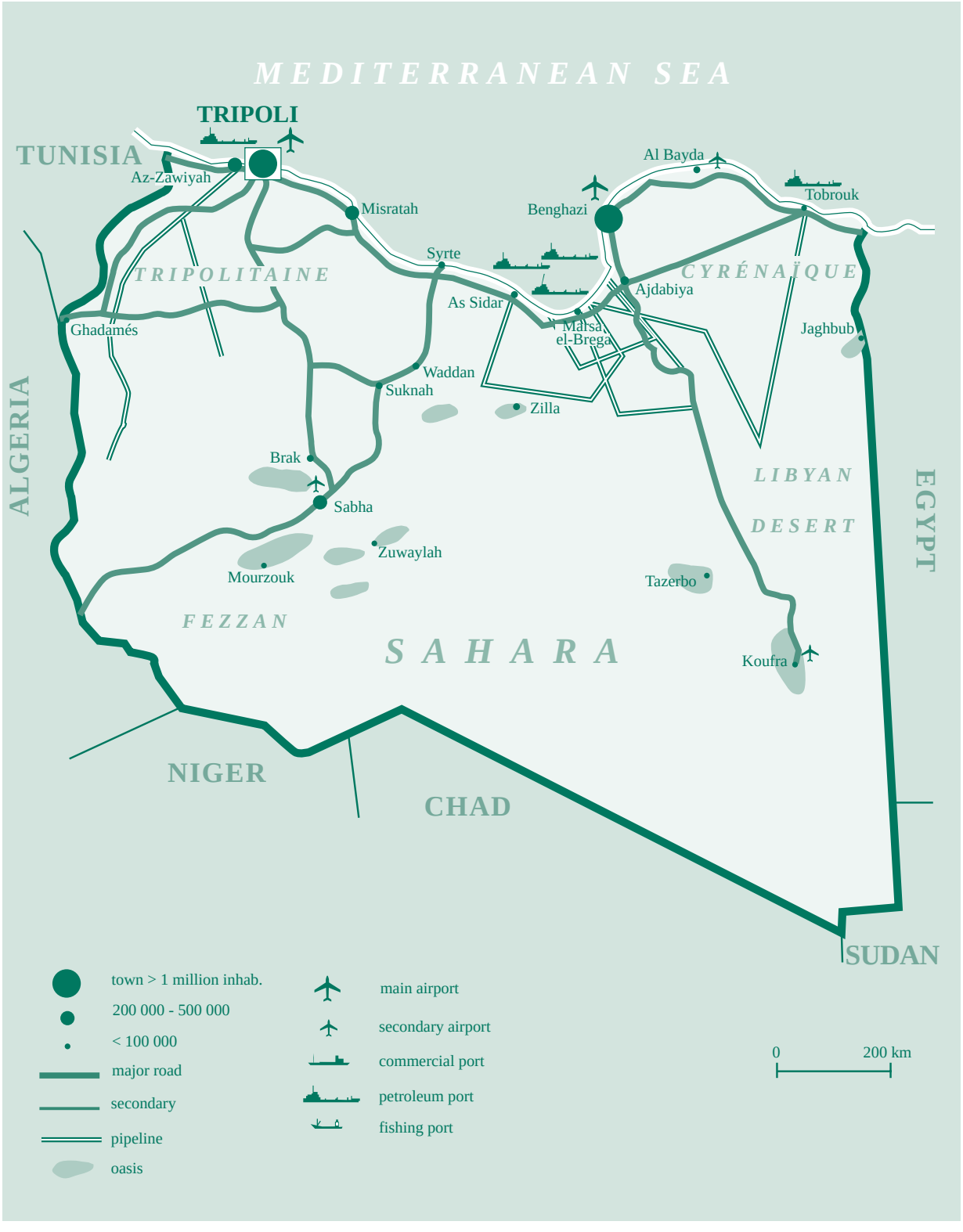
Libya



key figures

• Land area, thousands of km²	1 760
• Population, thousands (2007)	6 160
• GDP per capita, USD at constant 2000 prices (2007)	8 362
• Life expectancy (2007)	74.0
• Illiteracy rate (2007)	14.6

Libya

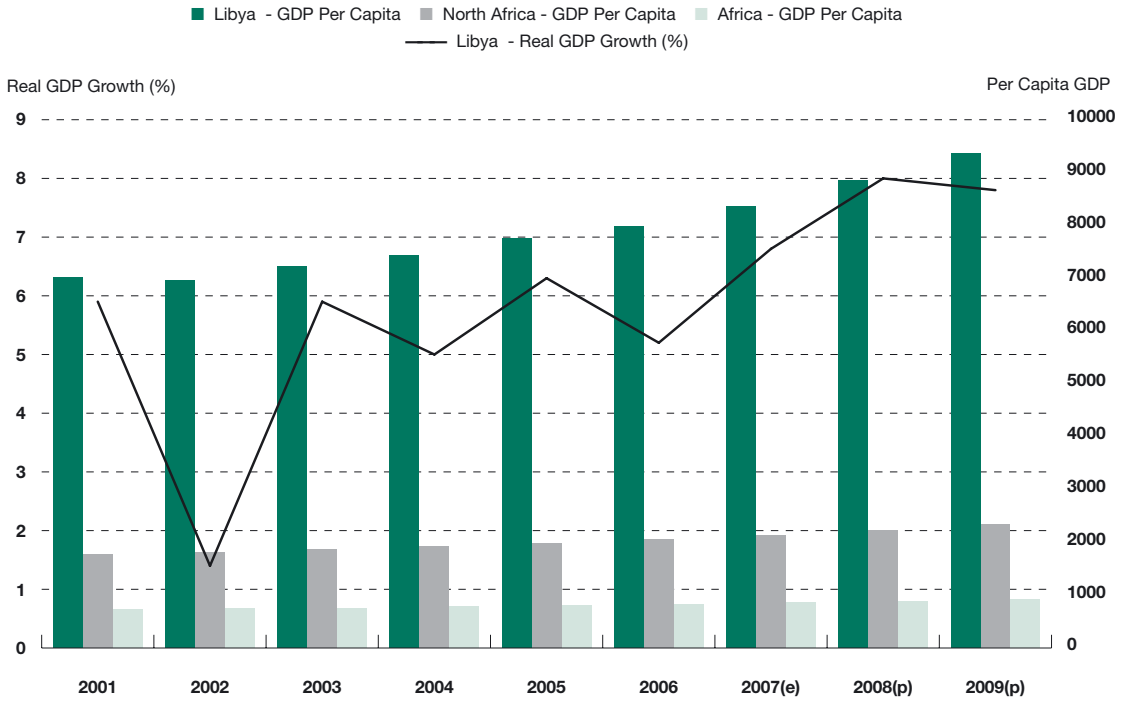

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Zilla
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Tazerbo
FEZZAN
SAHARA
Koufra
NIGER
CHAD
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secondary airport
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Libya

LIBYA'S ECONOMY FACES THE PROBLEM of all oil-dependent economies, namely that its meagre diversification puts the country's economic growth, government investment programmes and macroeconomic indicators at the mercy of fluctuations in the energy market. Another problem, typical of countries making the transition to a market economy, is that its weak institutions, unsuitable legal system and structural rigidity slow down the reforms needed. In addition, Libya was for many years subject to international economic sanctions imposed by the United Nations (1992-99) and the United States (1986-2006). The overall result has been Libya's isolation from world trade, keeping away the foreign direct investment (FDI) that such a country traditionally needs for its oil and gas industry.

A process of liberalisation and public-sector reform is underway.

Figure 1 - **Real GDP Growth and Per Capita GDP**
(USD at constant 2000 prices)



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

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Recent Economic Developments

During the past few years, and particularly in 2007, Libya has enjoyed higher oil prices, further eased exchange controls and liberalised foreign trade, restructured the public sector and the banking system and focused more on privatisation. Inflation has also returned, after a period of deflation from 1999 to 2005.

The country's economic growth is driven by government investment and spending, along with imports, and is far from being diversified or independent

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of the energy sector. Real GDP growth since 1992 has followed oil prices and export earnings and was an estimated 6.8 per cent in 2007 (5.6 per cent in 2006), with 8 per cent predicted for 2008 if oil prices continue to soar. Dependence on the oil and gas sector is still growing, with the price of Libya's oil at USD 63 a barrel in 2007 and probably higher in 2008. Oil and gas provided more than 99 per cent of all export earnings and 78 per cent of government revenue in 2007. Such enormous dependence makes the economy vulnerable to oil price changes, but since prospects are very good, government investment programmes will probably attract substantial funding between 2008 and 2012.

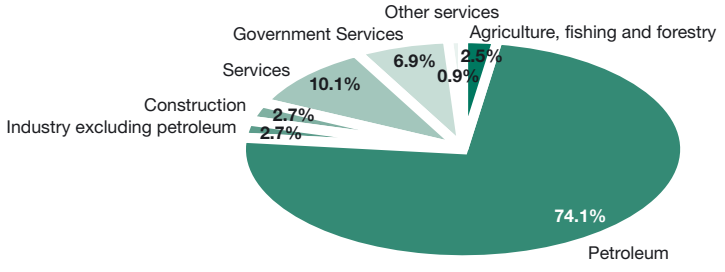
The oil and gas sector dominates Libya's growth, contributing 74 per cent of GDP in 2006, a dramatic turnaround since 2001, when the non-oil/gas sector accounted for 62.5 per cent of GDP. The oil and gas sector contributed 1.86 percentage points (22 per cent) of GDP growth in 2006.

Exploration and development in the oil and gas sector suffered during the years of international sanctions. Production between the 1980s and 2003 was not matched by new exploration due to lack of foreign and local investment, shortage of spare parts and poor maintenance of existing oilfields. Production capacity fell from 3.3 million barrels a day (b/d) in 1970 to 1.73 million in 2007. The lifting of sanctions, especially by the United States, has opened the way for new exploration by foreign firms and upgrading and better maintenance of old oilfields. This will enable Libya to increase its estimated 15.4 billion barrels of reserves in both the short and long terms and to boost oil and gas production and export capacity. The government has drafted an ambitious 2008-12 programme to make up for reserves exhausted between 1980 and 2005. New exploration permits will be granted in an effort to increase reserves to a level compatible with the country's post-2015 production strategy. The target is to have new reserves of 6.5 billion barrels by 2010, allowing production of 2.9 million b/d over the 2010-15 period.

Libya has 1 490 billion m³ of natural gas reserves, but export capacity had fallen since the 1990s, when four power plants were connected to the national gas network, and rose again only in 2004 when an undersea gas pipeline to Italy was laid. The project to lay a pipeline to Tunisia has been delayed by technical supply problems. Libyan gas production was most recently estimated at 948 million m³ a year, but 57 per cent of it is burned off due to lack of marketing capacity. Improved use of gas-liquid separation methods could greatly increase exports despite a sharp rise in local consumption. The 2010 production target is 3.716 billion m³.

The non-oil/gas sector (26 per cent of GDP) has recovered somewhat from lengthy stagnation and even recession in the 1990s and is now growing strongly, by an estimated 7.5 per cent in 2007 (up from 6.65 per cent in 2006). The sector has been helped by continued high government spending, as well as increased imports due to unification of exchange rates and trade liberalisation, and contributed 78 per cent of national economic growth in 2006.

Figure 2 - **GDP by Sector in 2006** (percentage)



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

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Table 1 - **Demand Composition**

	Percentage of GDP (current prices)		Percentage changes, volume			Contribution to real GDP growth		
	1999	2006	2007(e)	2008(p)	2009(p)	2007(e)	2008(p)	2009(p)
Gross capital formation	**7.3**	**13.1**	**8.7**	**8.0**	**6.3**	**1.3**	**1.2**	**1.0**
Public	5.3	10.9	8.5	8.0	6.0	1.1	1.0	0.8
Private	2.1	2.2	10.0	8.0	8.0	0.3	0.2	0.2
Consumption	**77.8**	**40.1**	**9.4**	**11.9**	**12.7**	**7.9**	**10.2**	**11.3**
Public	22.6	16.1	5.3	4.6	3.3	1.1	1.0	0.6
Private	55.2	24.0	10.8	14.2	15.5	6.8	9.2	10.6
External demand	**14.9**	**46.8**				**-2.4**	**-3.4**	**-4.5**
Exports	31.7	78.0	7.3	5.5	4.5	1.4	1.1	0.9
Imports	-16.8	-31.3	20.8	21.7	22.8	-3.8	-4.5	-5.3
Real GDP growth						**6.8**	**8.0**	**7.8**

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

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The government has been trying to diversify the economy for the past few years, with no tangible results, but the effort remains an important part of the country's new economic strategy. Private sector activity may partly explain the recovery in the non-oil/gas sector, but productive services and infrastructure (excluding construction) in fact account for half the non-oil/gas sector's growth and these sectors are heavily dependent on government investment and other activity linked to the national budget. The traded goods sector (excluding oil and gas) contributes very little to growth, illustrating Libya' real problems of diversification. Agriculture, mining and manufacturing accounted respectively for only 0.24, 0.29 and 0.11 percentage points (about 10 per cent in total) of GDP growth in 2006, yet agriculture gets 7 per cent of the development budget and industry 16 per cent.

The dependence of overall growth on the oil and gas sector and its earnings also shows up in the composition of demand. Net exports (46.8 per cent) and consumption (40.1 per cent) figured very prominently in 2006 overall demand, while investment was only 13.1 per cent. Investment grew 8.7 per cent in 2007, consumption 9.4 per cent, exports 7.3 per cent and imports 20.8 per cent. Consumption contributed 7.9 percentage points to the overall growth rate of 6.8 per cent in 2007, investment 1.3 points and exports 1.4 points, while imports made a negative contribution of 3.8 points.

Public consumption was a sizeable 16.1 per cent of GDP in 2006 and private consumption 24 per cent. Public investment (10.9 per cent) was much greater than private investment (only 2.2 per cent). This illustrates the important role of government consumption and investment in growth, especially when 99 per cent of exports are from the government-controlled oil and gas sector.

Macroeconomic Policies

Libya has abundant liquidity due to oil and gas revenue. The effects of this liquidity are mainly visible in budgetary and monetary policy and in Libya's external financial position.

Fiscal Policy

The rise in oil and gas revenue ended the budget deficits of the 1990s. The 2006 budget surplus was 39 per cent of GDP and oil and gas revenue 66.3 per cent of GDP, compared with just 5.4 per cent contributed by the non-oil/gas sector. Higher oil prices will further increase the surplus and the dominance of oil and gas revenue over other income.

The healthy budget situation enabled the government in 2004 to repay its debts to the banks and

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

	1999	2004	2005	2006	2007(e)	2008(p)	2009(p)
Total revenue and grantsa	**35.5**	**58.5**	**68.6**	**71.7**	**73.6**	**79.2**	**80.1**
Tax revenue	17.7	4.1	2.8	2.7	2.9	3.0	3.4
Oil revenue	15.6	50.6	63.7	66.3	68.1	73.4	74.0
Total expenditure and net lendinga	**29.5**	**43.3**	**34.9**	**32.6**	**33.5**	**31.9**	**34.1**
Current expenditure	23.3	25.6	15.1	14.8	14.9	13.9	14.7
Excluding interest	*23.3*	*25.6*	*15.1*	*14.8*	*14.9*	*13.9*	*14.7*
Wages and salaries	13.7	8.7	7.3	7.0	6.7	6.0	6.1
Interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital expenditure	6.2	17.4	15.4	16.9	17.8	17.3	18.8
Primary balance	**6.0**	**15.2**	**33.7**	**39.2**	**40.2**	**47.3**	**46.0**
Overall balance	**6.0**	**15.2**	**33.7**	**39.2**	**40.2**	**47.3**	**46.0**

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

StatLink http://dx.doi.org/10.1787/322012865412

to stop printing money to finance public spending. Taxes on production were replaced by a sales tax (15-25 per cent) as a first step towards a value added tax; the sales tax also applies to imports, on top of the existing 4 per cent import tax.

The country has an overall budget surplus, but when oil and gas are excluded it still runs a big deficit, though the latter decreased between 2001 and 2006. Non-oil/gas revenue represented 7.5 per cent of total revenue, mainly sales tax (36.7 per cent), customs duties (19.3 per cent) and other income taxes (44 per cent). This structure illustrates Libya's policy stance of low taxes and trade liberalisation. Private sector growth doubled the take from income and profits taxes between 2001 and 2006 and tripled the yield of other income taxes. This new revenue easily made up for the 70 per cent drop in customs receipts between 2001 and 2003.

An oil and gas revenue fund was set up in 1995 as a way to save money and stabilise the economy, but since then the non-oil/gas deficit has grown whenever oil and gas revenue has increased and sometimes shrunk when it has declined. The deficit is due to the scale of government spending, which amounted to more than 32 per cent of GDP in 2006, much higher than in rapid-growth countries in the Middle East and North Africa, such as Tunisia, or in the transition economies of eastern Europe and central Asia.

Libya's economy has performed better than others (notably those in transition countries) in some macroeconomic aggregates and less well in others. Libya spent 16.9 per cent of its GDP on investment in 2006, much more than other such countries, most of which spent less than 7 per cent. This investment spending was probably not very effective, however, due to the economy's small capacity to absorb it. The national wage bill for government workers has been frozen since 1981 and was only 7 per cent of GDP in 2006, but this will change substantially with the big salary increase in 2007, which will feed inflation in coming years and probably erode factor productivity, thus discouraging investment.

Direct subsidies (mainly of food items) and social transfers (including those from the social security fund) amounted to only 2.4 per cent of GDP in 2006. Other transition economies, with stronger social security traditions, budget more than 15 per cent of GDP for social transfers. However, indirect transfers are very large in Libya, especially through fixed low consumer prices (e.g. for petrol) and low prices charged to producers (e.g. for fuel oil used to generate electricity). State firms charge less than the market price, an advantage the consumer could also have obtained through direct government subsidies.

These subsidies greatly undermine efficiency, especially as some categories of government spending

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are proving difficult to reduce. The funds could have been better used to boost productive spending (such as building infrastructure and human capital) or to increase household income through direct transfers or lower taxes, which would encourage private consumption or savings and thus raise consumers' standard of living. Experience has shown that subsidising energy and infrastructure has a very dubious effect on income distribution. The government could also make these subsidies more transparent in the national budget.

Extra-budgetary spending fell sharply from 15.2 per cent of GDP in 2001 to 2.6 per cent in 2006 as budget discipline tightened, with better monitoring of execution. The new transparency also helps in drafting budget policy. When all income and expenditure are listed in the budget, decision-makers know how much money is really available, so they can set taxes and make trade-offs between different funding sources.

The appropriate or optimal level of a country's public spending is hard to define because it depends on cultural factors and the efficiency of both social security and public spending. As Libya's allocation of public funds is greatly distorted by substantial extra-budgetary spending, indirect subsidies and excessive decentralisation, the potential for gains in spending efficiency seems appreciable. More efficient public spending would allow better management of the non-oil/gas budgetary deficit, which is essential for macroeconomic stability and the sustainability of public spending in view of the unpredictability of oil and gas revenue.

Monetary Policy

Changes in the monetary base are mainly due to liquidity changes in the economy and the way the monetary authorities manage them. The base increased by a modest 15 per cent in 2006 and then by 30 per cent in third-quarter 2007. The latter was due to a slight (5 per cent) rise in money in circulation in the third quarter. Deposits by public enterprises also fell 15 per cent while regional commercial bank deposits rose 43 per cent. A big increase in net foreign exchange movements had less effect on the money supply than in past years, as a large proportion of these funds are held by the Treasury and thus do not add to the money supply. However, higher deposits by other sectors made lending easier.

Internal liquidity, in terms of broad money supply, soared 22 per cent in 2007 due to a 23.6 per cent rise in narrow money (M1) as more cash became available to the public (M1 had increased by only 5.9 per cent in 2005). A 20.7 per cent increase in near-money was due to higher savings and term deposits, as well as deposits of currency and guarantees for letters of credit.

Libya's foreign exchange policy has greatly altered since it left the sterling zone in 1971. The value of the dinar (LYD) has been periodically adjusted, either gradually or abruptly, owing to the highly interventionist exchange policy of the Central Bank of Libya (CBL).

The country's foreign exchange system has gone through four major phrases: attachment to the gold standard (1952-86), attachment to the International Monetary Fund's special drawing rights (SDR) (1986-94), a period with two fixed exchange rates (1994-2001) and a gradual return to a single fixed rate (starting in February 1999). The exchange rate has been fixed throughout, with periodic devaluations by the central bank.

The CBL finished unifying the exchange rate in January 2002 and pegged it at LYD 1 = SDR 0.608 (an effective devaluation of more than 50 per cent) and LYD 1 = USD 0.826 (a devaluation of 46 per cent). This narrowed the gap between the official and black market rates, curbed the dinar's rise between 1994 and 2002 and made non-oil/gas sectors more internationally competitive, with a view to future regional and international integration.

The dinar has continued to fall, losing more than half its 2002 value. This feeds inflation by making imports dearer (imported inflation) and disturbing the trade balance (imports becoming dearer in relation to exports), while increasing the dinar value of oil and gas revenue and thus artificially inflating government revenue.

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What should the country's exchange policy be? How can the dinar be stabilised? The crucial choice is between continuing to tie it to SDRs or moving towards a managed floating rate. Exchange rate stability will also depend on how competitive the economy is, how successfully it has been diversified and whether inflationary pressures have eased.

The consumer price index shows inflation was kept under control until 2004 through price controls and a wage freeze imposed in 1981. Cost-driven deflation appeared in 2004 in the wake of exchange rate unification between February 1999 and January 2002, which reduced the price of imports, previously valued at a special exchange rate. The deflationary trend increased when customs duties were halved and state firms exempted from paying duty to make up for the January 2002 devaluation.

Inflation returned in second-quarter 2005, increasing from 2 per cent in 2005 to 3.4 per cent in 2006, and an expected 7 per cent in 2007 and 2008, as the effect of exchange rate unification and trade liberalisation fades. The renewed inflation is fuelled by wage increases and higher public investment, both of which will continue in 2008 and present a serious inflation problem for the economy. The revival of the services sector to meet increased demand has pushed up its prices. The sector may become the motor of inflation in the next few years and lead to "Dutch disease", which Libya has avoided to this point.

Inflation might have been higher without the reduction in import prices caused by tariff cuts and lower sales taxes. The budget surpluses since 2000 have also helped curb inflation, as the government no longer needs to print money. Oddly, the relationship between budget deficit and inflation has always been inverted in Libya. The budget deficits of the 1980s were followed by modest 3.2 per cent inflation, but when the deficits shrank in the 1990s inflation rose to 9.8 per cent. Exchange rate unification in the late 1990s helped to stabilise this relationship.

External Position

The internal and external balances both follow oil price changes. The current account has shown a surplus for the past two decades, except in 1993 and in 1998. The surpluses in the 1990s were due to import controls, and those in the 2000s to oil and gas revenue. Even exchange rate unification and trade liberalisation had little effect on this. The current account surplus in 2005 was 41.6 per cent of GDP. This situation will continue as long as oil prices are high and exchange policy continues to take currency reserves and oil and gas revenue into account.

The external position is comfortable, with foreign exchange reserves hitting a record USD 62 billion in 2006, and the 2007 and 2008 figures are expected to be even higher. Reserves in 2006 were equivalent to 49 months of imports at 2006 prices, even though imports were far higher from 2002 to 2006 than during the 1999-2001 period.

The 2005 trade surplus was USD 18.7 billion (48 per cent of GDP), reflecting higher oil prices that more than offset a 24 per cent rise in imports. The lifting of

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

	1999	2004	2005	2006	2007(e)	2008(p)	2009(p)
Trade balance	12.0	38.2	48.2	51.8	50.5	52.3	47.0
Exports of goods (f.o.b.)	26.0	67.0	74.2	77.7	79.3	83.7	84.4
Imports of goods (f.o.b.)	14.0	28.8	26.1	25.9	28.8	31.5	37.4
Services	-2.7	-4.8	-4.4	-4.4	-6.0	-5.9	-6.4
Factor income	-2.4	-0.8	-0.7	0.1	1.8	2.0	2.8
Current transfers	-0.6	-8.2	-1.5	1.3	-1.8	-1.8	-1.9
Current account balance	**6.3**	**24.3**	**41.6**	**48.8**	**44.5**	**46.6**	**41.5**

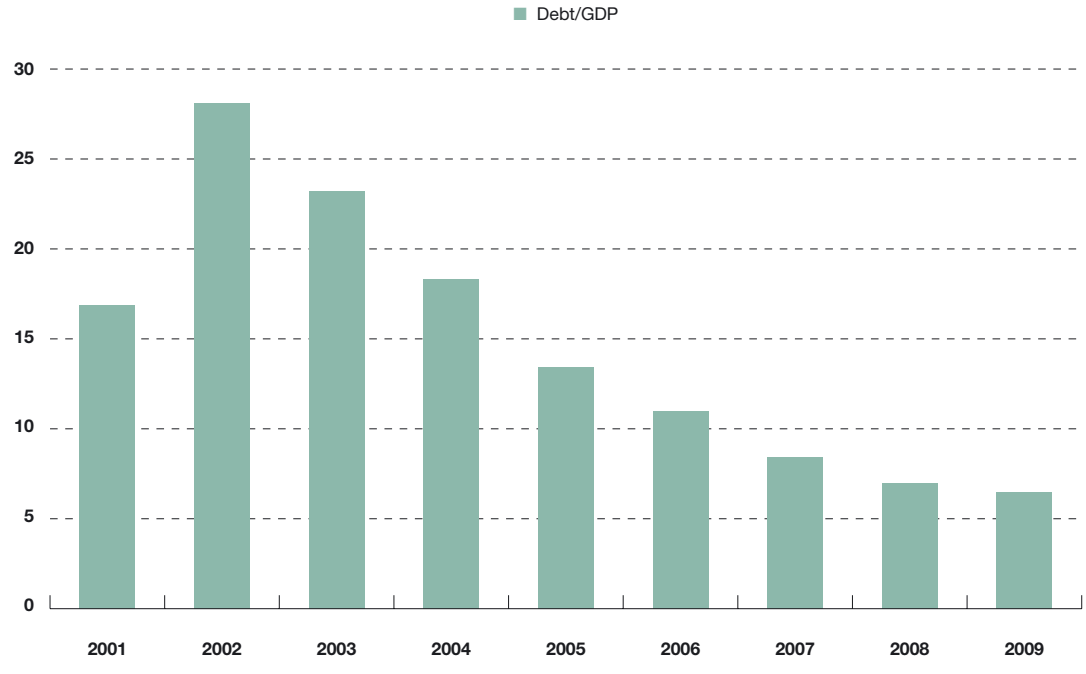
Source: IMF and local authorities' data; estimates (e) and projections (p) based on authors' calculations.

StatLink http://dx.doi.org/10.1787/322745510003

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quantity restrictions on imports and the end of controls on capital, as well as private sector growth, stimulated demand for imports, in addition to the demand generated by higher public investment spending. Trade liberalisation and exchange rate unification increased the volume of imports while lowering their price, which pushed down local prices and thus helped to hold inflation in check in 2005 and 2006.

Figure 3 - **Stock of Total External Debt** (percentage of GDP) **and Debt Service** (percentage of exports of goods and services)



Source: IMF.

StatLink http://dx.doi.org/10.1787/318807377048

Structural Issues

Recent Developments

In recent years, the government has increasingly favoured structural reforms, especially gradual state withdrawal from productive sectors, a reduced role in the economy and greater transparency in public affairs. The reforms involve diversification, privatisation and reform of the banking and financial sector.

Diversification needs to be encouraged by growth in the non-oil/gas sector and by job creation, using oil and gas revenue to ease the transition to a market economy. Unlike other transition economies in the early 1990s, Libya has a healthy financial situation allowing it to build the safety nets needed to cushion the effects of transition. Optimal use of oil and gas revenue will require a transparent framework for drafting and implementing the budget, tighter medium-term management of public finances and above-board handling of oil and gas income. This will bring macroeconomic stability to the transition and ensure the sustainability of the social safety nets and adequate funding for human resources development.

This strategy will require better management of oil and gas revenue, focused on stabilisation and savings. Medium-term fiscal discipline through proper monitoring of expenditure is a pre-condition for a tax system compatible with the state of the production

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network. Making public spending more efficient will also require a broad range of reforms.

Privatisation and strengthening the private sector are the structural keys to transition to a market economy. A list was made in October 2003 of 360 state-run firms that could be sold off between 2004 and 2008, ranging from steel, petrochemicals and cement to agriculture. Sixty-nine of the firms have so far been divested and the rest are being modernised in preparation for sale. The privatisation strategy will need strong institutional support if the transition to a market economy is to succeed.

Allowing a new economy driven by the private sector to develop is thus essential to faster growth of the non-oil/gas sector and job creation. The biggest challenges are building a healthy investment climate, with institutions that can support more open markets and with a stronger banking system, while ensuring effective and sustainable social protection for the most vulnerable groups to make the transition easier.

Libya's banking system comprises the CBL, ten commercial banks, three specialised ones and one offshore bank, the Libyan Foreign Bank (LFB). Three of the ten commercial banks – Jamahiriya Bank, National Commercial Bank and Umma Bank – are wholly owned by the CBL. The Wahda Bank, in which the CBL had an 87 per cent share, sold 19 per cent of its capital to Jordan's Arab Bank in early 2008. The Sahara Bank was privatised in 2007 with France's BNP Paribas becoming a strategic shareholder. The private sector has a majority share in four banks, the Commercial Development Bank (77.8 per cent), Wafa Bank (100 per cent), Aman Bank for Commerce and Investment (100 per cent) and the Arab Unity Bank (100 per cent). It also owns the regionally decentralised National Banking Corporation (NBC).

There are also 48 regional banks, now consolidated into a score of firms. The consolidation process is expected to continue until they are all part of the NBC. The three specialised banks – the Agricultural Bank, the Bank for Savings and Real Estate Investment and the Development Bank – are wholly owned by the government.

The structure of the banking system is not necessarily the result of a policy of specialisation; rather, it reflects the successive strategic choices made at various stages, as well as a lack of competition that could make the sector inefficient. The banking system continues to be dominated by the public sector, which accounts for more than 90 per cent of its business. The government has begun a thorough reform of the financial sector that will mainly involve privatising state-owned banks and upgrading the payments system. This reform is one of the major tasks of 2008.

Steps have been taken to streamline trade, among other things by eliminating the import-licensing system and a fund to subsidise foreign exchange. Tariff barriers are still in place despite many efforts towards regional and international integration. Libya is involved in several regional integration processes, including the Arab Free Trade Area and the Community of Sahel-Saharan States. It has also taken steps to join the World Trade Organisation and the Barcelona Process, which aims to set up a trans-Mediterranean free trade area.

Political Context

The country's political system is based on a dual power structure. The "revolutionary sector" comprises revolutionary committees led by a 19-member "revolutionary command council" chaired by Muammar Gaddafi, the unelected "Guide of the Revolution" whose legitimacy derives from his part in Libya's revolution. The Jamahiriya ("republic of the masses") is composed of 1 500 local people's congresses, 32 regional people's congresses (Shabiyat) and the General People's Congress (national parliament). These legislative bodies are elected and have executive bodies – local people's committees, Shabiyat people's committees and general people's committees. The general committees act as government ministries.

Libya was internationally isolated by UN sanctions from 1992 but normalised diplomatic relations with most countries in 2007. The process of political opening led immediately to economic opening, with an inflow of FDI and technology transfers.

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Social Context and Human Resources Development

Libya's population was an estimated 5.32 million in 2006, and it is growing more slowly than in the 1980s, at 1.8 per cent. The last census (2006) showed a big rise in the over-15 age group, to 68 per cent of the total (50 per cent in 1984). More than half the population is under 20, which will put pressure on the labour market and increase the demand for social services, especially education and health care.

The working population, at 30.7 per cent of the total in 2006, is a bigger factor in the economy than in the 1990s but still small compared with other countries. This is mainly due to the high percentage of young people and the low female participation rate (though the latter is increasing). Unemployment was estimated at 14.8 per cent in 2006, down from 17.3 per cent in 2003. Keeping it in check will be a major task in coming years, especially as the government and social sector employ 60.5 per cent of the working population. Transition to a market economy usually involves state withdrawal from the production sector and will probably have a major social effect in Libya.

Income disparities have diminished since the 1990s because the government continues to provide extensive social support in the form of subsidies and higher pensions, as well as social assistance in kind, such as providing cars for low-income government workers. Other indirect subsidies, such as cheap water and electricity and petrol at below world prices, also reduce income disparities. The transition to a market economy may bring sweeping changes to this social support network, which suggests that the state's withdrawal should be gradual.

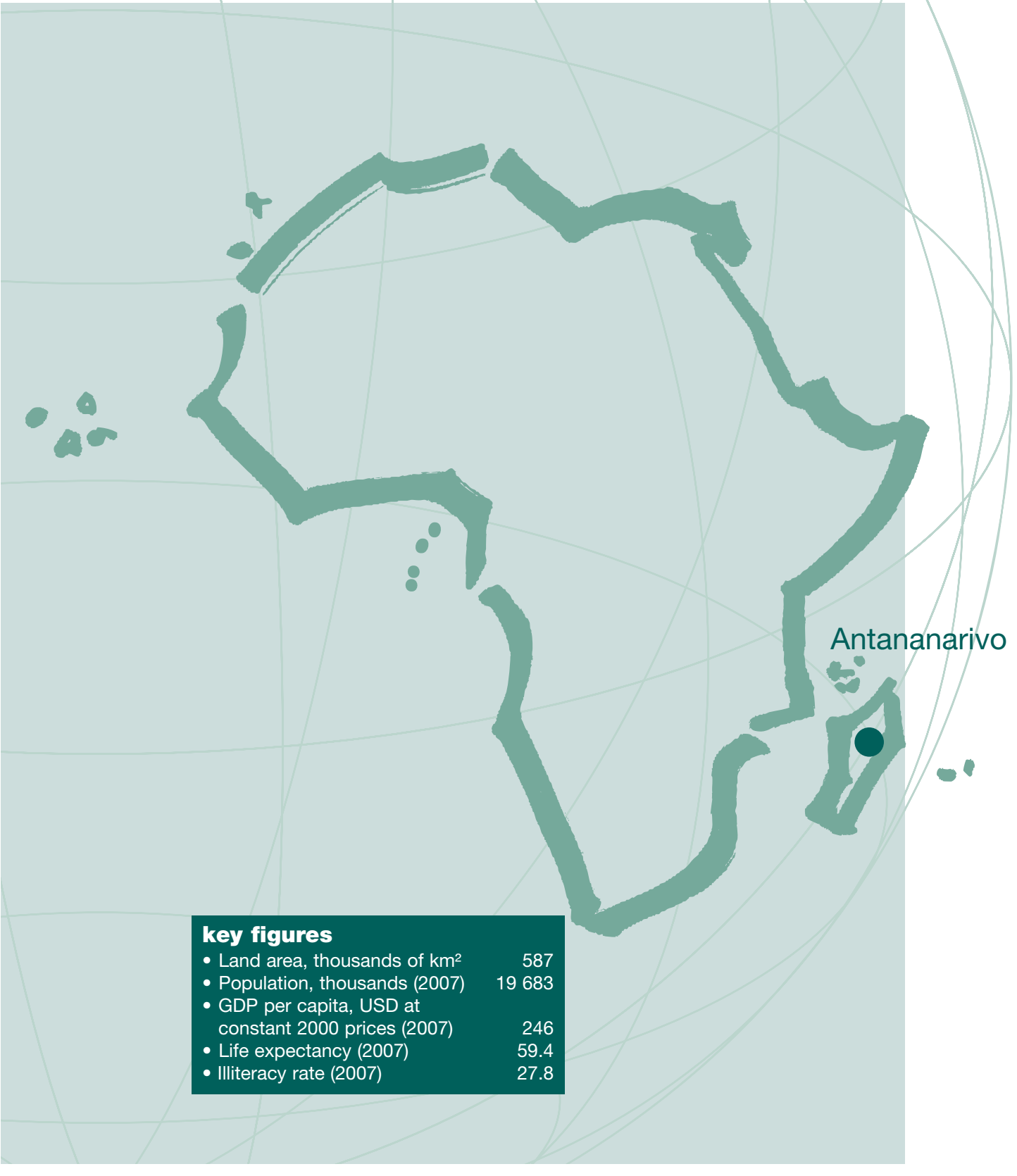
Consumer purchasing power increased significantly between 2000 and 2004 due to the deflation caused by exchange rate unification and trade liberalisation. Some 14 per cent of the population lives below the poverty line, and the number of poor rose from 605 000 in 1993 to 739 000 in 2001. They include pensioners without extra income, widows, orphans and elderly people without income or relatives to care for them, and government workers having a family of six or more and monthly income of less than LYD 200. State withdrawal, private sector growth and inflationary pressure pose serious threats to household purchasing power.

Human development indicators have significantly advanced towards the levels required to achieve the Millennium Development Goals. Life expectancy at birth rose from 63 years in 1993 to 69 years in 2004, and the government aims to increase it to 71 years by 2012. Illiteracy fell from 26.6 to 18.3 per cent over the period, and the overall school enrolment rate increased from 88 to 94 per cent. Despite these improvements, the overall human development index (HDI) was unchanged between 1993 and 2004, at 0.80. In the United Nations Development Programme's 2005 Human Development Report, Libya was reclassified from the group of countries with medium human development to high-HDI status, ranking 56th out of the 70 countries in the latter group. It has the highest HDI in Africa.

The government provides free health care in public hospitals and clinics. The main hospitals are in Benghazi and Tripoli. The period of international sanctions eroded health care quality, however, and most better-off Libyans went abroad for treatment, especially to Tunisia. A scandal erupted in 1999 when 393 children were infected with HIV virus in a Benghazi hospital during blood transfusions supervised by a group of Bulgarian nurses and a Palestinian doctor. The medical team were later convicted of criminal negligence and condemned to death, before international pressure brought about their release in 2007. The affair harmed Libya's diplomatic relations and was not resolved until 2007. The government has promised since 2002 to boost the health budget and improve services. According to the Human Development Report, under-five child mortality dropped from 160 per 1 000 births in 1970 to 19 in 2001, and vaccination rates are high: 99 per cent of one-year-old children have been vaccinated against tuberculosis and 93 per cent against meningitis.

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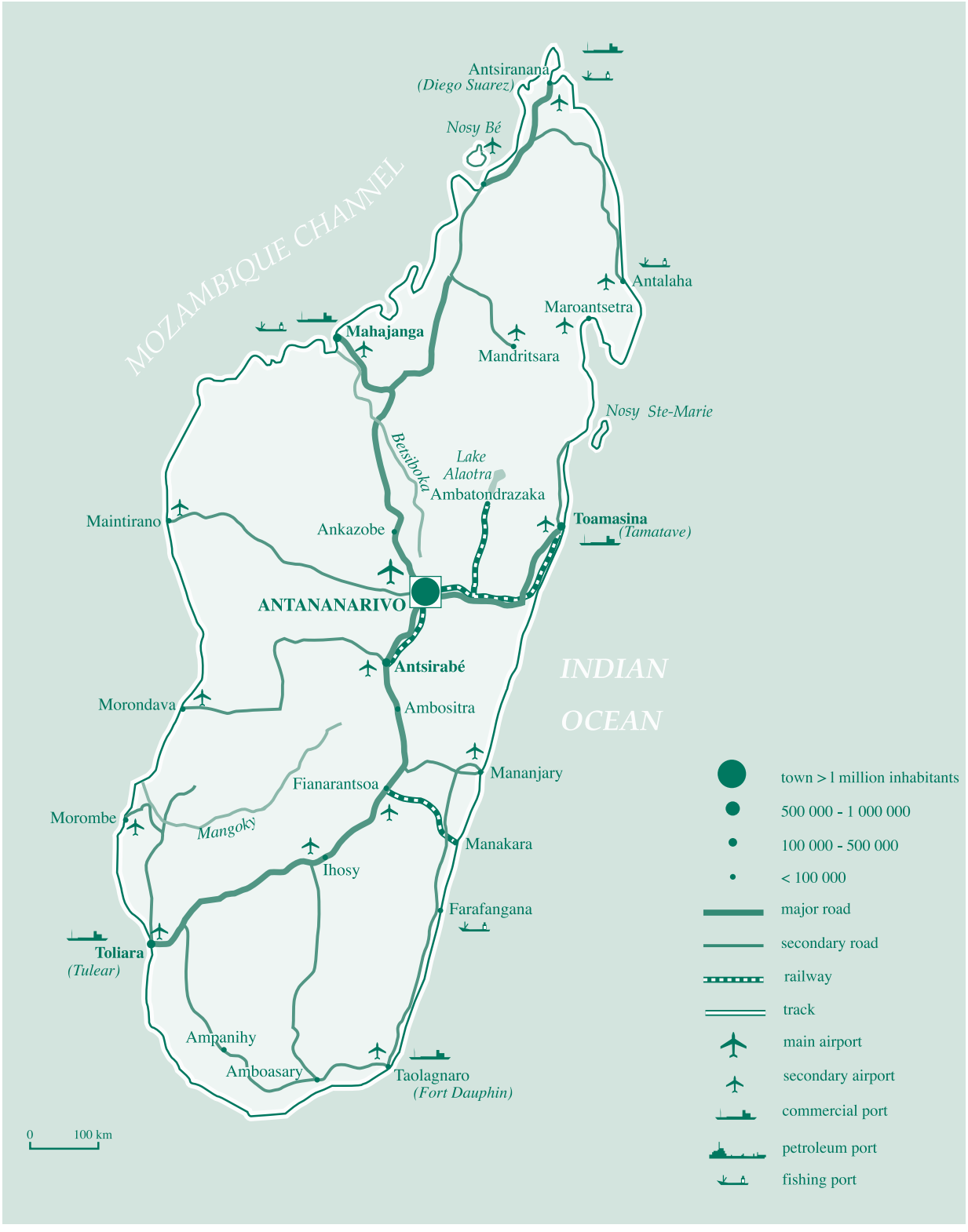
Madagascar



key figures

• Land area, thousands of km²	587
• Population, thousands (2007)	19 683
• GDP per capita, USD at constant 2000 prices (2007)	246
• Life expectancy (2007)	59.4
• Illiteracy rate (2007)	27.8

Madagascar


Antsiranana
(Diego Suarez)
Nosy Bé
MOZAMBIQUE CHANNEL
Antalaha
Maroantsetra
Mahajanga
Mandritsara
Nosy Ste-Marie
Betsiboka
Lake
Alaotra
Ambatondrazaka
Maintirano
Ankazobe
Toamasina
(Tamatave)
ANTANANARIVO
Antsirabé
INDIAN
OCEAN
Morondava
Ambositra
Mananjary
Fianarantsoa
Morombe
Mangoky
Manakara
Ihosy
Farafangana
Toliara
(Tulear)
Ampanihy
Amboasary
Taolagnaro
(Fort Dauphin)
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100 km
town > 1 million inhabitants
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secondary airport
commercial port
petroleum port
fishing port

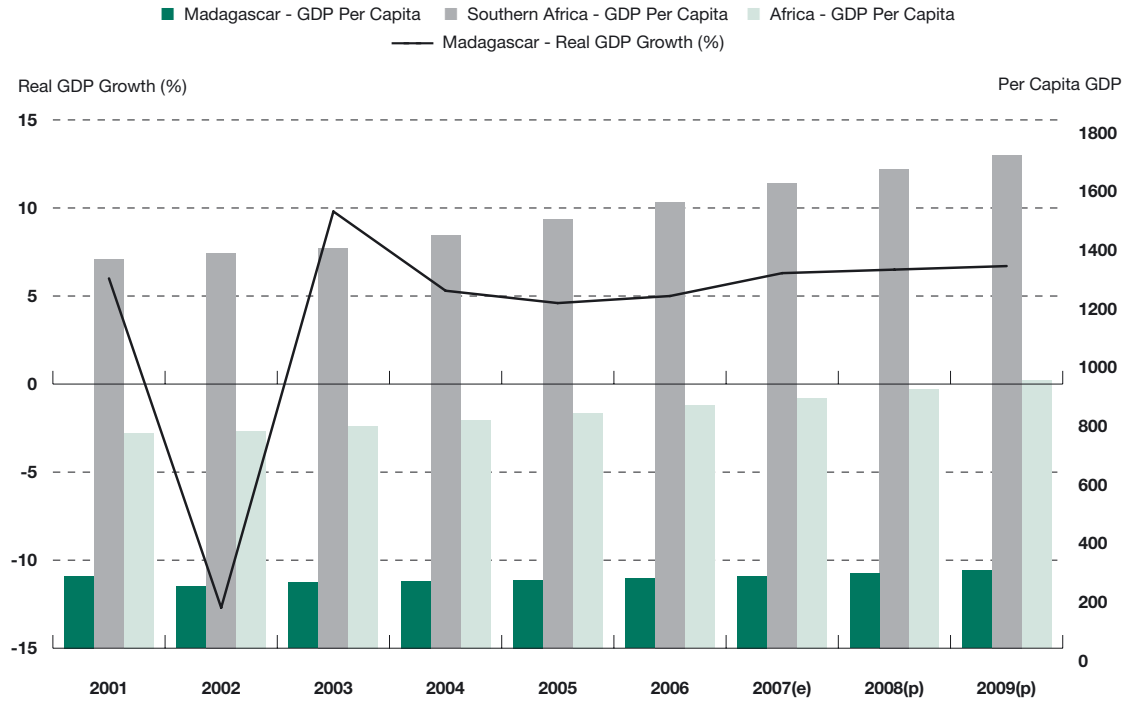
Madagascar

MADAGASCAR IS ONE OF SUB-SAHARAN AFRICA'S poorest countries, and its structural weaknesses, notably in public finance management, slow its growth and economic and social development. The financial system is also precarious, and the country remains vulnerable to external shocks as well as to climatic hazards. Nevertheless, the government is set on strengthening the economy through its bold 2007-12 Madagascar Action Plan (MAP), which aims to continue structural reforms, diversify levers for growth and achieve the Millennium Development Goals (MDGs).

The government is counting on budgetary consolidation, expansion of the financial sector, a new Poverty Reduction and Growth Facility (PRGF), and the start of the Trade Integration Mechanism (TIM), which it hopes will mitigate the effects on the economy of the end of the Multi-Fibre Arrangement (MFA). A cautious monetary policy has brought inflation down to single-digit figures, and has limited central bank intervention to smoothing out major exchange rate fluctuations and rebuilding currency reserves. Tax reforms will include increasing the tax burden to 12 per cent of GDP in 2008 through streamlining taxation methods, broadening the tax base and improving tax collection. Other reforms already under way involve revising the public finance management action plan, auditing the way in which

The Madagascar Action Plan including deeper reforms and wider diversification came into force.

Figure 1 - **Real GDP Growth and Per Capita GDP**
(USD at constant 2000 prices)



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

StatLink http://dx.doi.org/10.1787/316524332170

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the government earmarks funding and starting a system of monthly public-spending commitment plans. National debt remains sustainable, especially after debt cancellations under the Multilateral Debt Relief Initiative (MDRI), but the investment needed to halve the poverty rate by 2015 will demand extra financing, especially soft loans, and more foreign direct investment (FDI), particularly in very labour-intensive sectors such as agriculture and tourism.

Recent Economic Developments

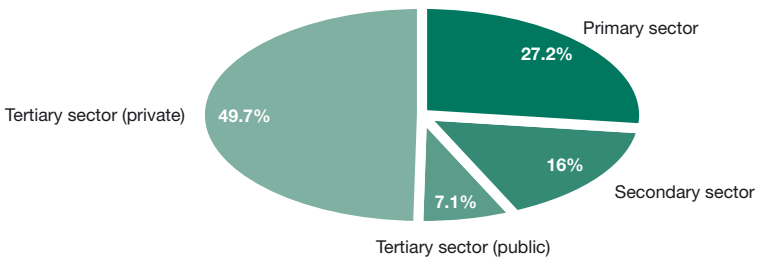
GDP grew substantially in 2007 (6.3 per cent) after the fairly modest advance of 2006. This was largely due to the start of construction for two large mining projects (ilmenite and nickel/cobalt), public infrastructure investment and good secondary sector performance. Foreign private investment in mining accounted for much of the 26.6 per cent rise in gross investment. Inflation fell below 10 per cent (to 9.8 per cent) in 2007 because of cheaper non-food products due to the increased value of the ariary in the first half of the year.

Agricultural production was up 2.9 per cent in 2007 (2.6 per cent in 2006), but growth of the primary sector (27.2 per cent of GDP) showed a slowdown overall, to 1.9 per cent (2.1 per cent in 2006). Forestry again expanded by 1 per cent, while livestock and fisheries slipped from 1.9 per cent growth in 2006 to 1 per cent in 2007. Livestock's share in the primary sector remains quite small. Cattle production, which is nationwide, is only growing by an average 1 per cent per year, but pig, poultry and small ruminant output is doing better (+2.3 per cent per year). The fisheries sector is insignificant, except for shrimps, which are threatened by overfishing. The "green revolution" goal of the MAP includes: making the primary sector a lever for growth; attracting local and foreign private investment; reforming land laws; boosting agricultural productivity; developing credit- and risk-sharing facilities for farmers; and increasing fisheries output.

The 2006 increase in paddy rice production (to 3 640 million tonnes) reduced the selling price in 2007 and helped curb inflation. The increase was mostly due to better grower access to factors of production and funding, as well as to help for the sector and technical aid for farmers' associations. Output of coffee and cloves grew again in 2007, but vanilla production fell once again. Production of these export products was up slightly overall in 2006 (6.3 per cent for coffee and 1 per cent for both pepper and cloves).

Growth of the secondary sector (16 per cent of GDP) almost doubled, to 9 per cent in 2007 (from 4.2 per cent in 2006) but the sector's performance still depends on reducing power cuts (by the national water and electricity firm Jirama) and restructuring the textile and clothing sector after the end of the MFA, whose expiry in 2005 held back growth of the country's textile industry and industrial free zones. The future production performance and competitiveness of these industries will depend on their modernisation.

Figure 2 - **GDP by Sector in 2006** (percentage)



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

StatLink http://dx.doi.org/10.1787/317787331161

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The sub-sectors that grew most were beverages and food products, at 9.9 per cent (3.6 per cent in 2006) and extractive industries, up 10.5 per cent (9.1 per cent in 2006). Dynatec's new investment in nickel/cobalt deposits gave a major boost to this result. Growth of free-zone output bounced back to 8.3 per cent in 2007 (from 5 per cent in 2006). Electricity production also increased, by 5.6 per cent in 2007 (4.4 per cent in 2006). The sugar industry continued to grow at less than 2 per cent because of antiquated equipment. However, production has been transferred to a new firm under a lease-management contract, and 2007 results should be better.

Growth of the tertiary sector (56.8 per cent of GDP) slipped to 4.8 per cent in 2007 (from 6.8 per cent in 2006), mainly due to a -3.6 per cent slump in the services sector (+ 5.6 per cent in 2006), even though banking, insurance and telecommunications did well, along with tourism, which recovered in the first half of 2007 with the opening of 31 new hotels. Transport grew 8.8 per cent in 2007 (7.3 per cent in 2006), with the northern railway network carrying 24 per cent more goods and twice as many passengers as a result of 36 billion ariary of investment for franchised installations.

The banking and finance sector performed well, with the country's seven largest commercial banks recording an overall 14.2 per cent growth in 2006. Microfinance agencies expanded their geographical coverage, increasing their nationwide household penetration by about 8.7 percentage points. Prospects for insurance firms seem good with the advent of two new foreign companies, joining the two national ones. Domestic trade did quite well and was up 6.1 per cent in 2007 (4.3 per cent in 2006), reflecting the general economic recovery.

Growth in construction slowed to 18.8 per cent in 2007 (down from 25.1 per cent in 2006) because of government investment credit flow problems, which hindered funding, upgrading and maintenance of the road network.

Gross investment increased to 26.6 per cent of GDP in 2007 (up from 23.2 per cent in 2006), mostly due to substantial investments in the mining sector and efforts to improve the business climate and reduce power cuts. Private investment, especially by foreign mining firms, increased 45 per cent (more than triple the 13 per cent growth of 2006) and contributed 6.5 per cent of GDP growth. Most investment was FDI (USD 871.6 million in 2007 — 230.2 million in 2006) and focused on extractive industries and the financial sector. Government steps to encourage private investment concentrated mainly on devolving more decision-making power to local authorities, especially in rural areas where poverty is still widespread.

Table 1 - **Demand Composition**

	Percentage of GDP (current prices)		Percentage changes, volume			Contribution to real GDP growth		
	1999	2006	2007(e)	2008(p)	2009(p)	2007(e)	2008(p)	2009(p)
Gross capital formation	**14.4**	**25.3**	**26.6**	**21.7**	**12.1**	**6.6**	**6.4**	**4.1**
Public	6.4	10.5	0.8	5.0	5.0	0.1	0.5	0.5
Private	8.0	14.7	45.0	30.0	15.0	6.5	5.9	3.6
Consumption	**93.1**	**90.7**	**8.8**	**6.7**	**6.0**	**7.8**	**6.1**	**5.4**
Public	7.4	8.7	7.0	3.1	4.6	0.5	0.2	0.3
Private	85.7	81.9	9.0	7.1	6.1	7.3	5.9	5.1
External demand	**-7.5**	**-16.0**				**-8.0**	**-6.0**	**-2.8**
Exports	25.1	29.5	4.0	5.6	5.8	1.1	1.5	1.5
Imports	-32.6	-45.5	22.7	16.1	8.6	-9.1	-7.4	-4.3
Real GDP growth						**6.3**	**6.5**	**6.7**

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

StatLink http://dx.doi.org/10.1787/321246435427

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Public investment grew by only 0.8 per cent in 2007 (down from 10.2 per cent in 2006). Support measures were introduced to increase funding to priority sectors (infrastructure, health, education, governance) that would boost productivity and reduce poverty.

Internal demand was up 8.8 per cent in 2007, driven by a 9 per cent rise in household consumption due to higher wages and lower prices for items such as rice. Public consumption advanced more slowly in 2007, by 7 per cent.

Total goods exports grew by a modest 4 per cent, to reach 3 524.7 billion ariary in 2007, despite a large rise in exports of cloves (up 31.6 per cent) and free-zone products (24.2 per cent). However, imports from the CFA franc zone increased substantially (22.7 per cent by volume), to reach 6 107.8 billion ariary in 2007, due to increased demand for mining equipment and to the requirements of free-zone firms for raw materials and semi-manufactures.

Macroeconomic Policies

Fiscal Policy

Public finances were quite well managed in 2007, though the domestic funding target was not entirely met because of spending excesses, partly due to the elections, which somewhat reduced government income. But the strengthened capacity of tax and customs operations boosted revenue, and budgetary aid grants also increased, by 3.8 per cent. The tax burden ratio increased slightly, to 10.9 per cent in 2007 (from 10.7 per cent in 2006); the government is aiming for 15 per cent by 2011, to fund some of the goals of the MAP. Debt relief in 2006 under the MDRI enabled the government to find the resources for priority expenditure on education and health. It also helped the state to pull out of the domestic banking sector, meet external debt payments that were due (4 133.2 billion ariary) and repay internal debt arrears of 30.1 billion ariary.

Tax revenue was 1 427.6 billion ariary (10.4 per cent of GDP) in 2007, up from 1 264 billion (10.7 per cent of GDP) in 2006. If parliament approves a 2 percentage-point increase in VAT in the 2008 budget, total revenue should rise to about 1 704 billion ariary (10.6 per cent of GDP).

Expenditure was 2 649 billion ariary in 2007 (19.3 per cent of GDP), up from 2 528 billion in 2006 (21.4 per cent of GDP). This increase in volume was due to accidentally underestimating civil servant pension costs, higher interest payments on the internal debt and budgetary transfers to Jirama. Capital spending (1 276.6 billion ariary) was 9.3 per cent of GDP in 2007 (slightly down from 10.2 per cent in 2006). Most of the planned gross fixed capital formation will be due

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

	1999	2004	2005	2006	2007(e)	2008(p)	2009(p)
Total revenue and grants[a]	**15.0**	**20.3**	**16.7**	**59.1**	**15.8**	**14.6**	**14.5**
Tax revenue	11.0	10.9	10.1	10.7	10.4	10.6	10.7
Grants	3.6	8.2	5.7	47.9	4.9	3.5	3.3
Total expenditure and net lending[a]	**17.8**	**25.2**	**21.3**	**21.4**	**19.3**	**18.7**	**18.0**
Current expenditure	9.3	12.6	11.0	11.1	10.0	9.7	9.2
Excluding interest	*7.2*	*9.7*	*8.3*	*8.7*	*8.2*	*8.2*	*8.0*
Wages and salaries	4.3	4.9	4.5	5.0	4.6	4.5	4.3
Interest	2.1	2.9	2.6	2.4	1.8	1.4	1.2
Capital expenditure	6.9	12.5	10.3	10.2	9.3	9.0	8.9
Primary balance	**-0.7**	**-2.0**	**-2.0**	**40.1**	**-1.8**	**-2.7**	**-2.3**
Overall balance	**-2.8**	**-4.9**	**-4.7**	**37.7**	**-3.5**	**-4.1**	**-3.5**

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

StatLink http://dx.doi.org/10.1787/322018570017

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to foreign companies investing in mining and oil/gas. The MAP began in 2007, and budgeting for its priorities was carried out as part of a 2007-12 Medium-Term Expenditure Framework (MTEF). Treasury operations showed an overall deficit of 3.5 per cent of GDP in 2007, compared with the 37.7 per cent surplus in 2006 generated by higher revenue and MDRI debt relief.

Monetary Policy

The large rise in demand for cash reserves in 2006, mainly due to domestic spending caused by increased FDI, continued in 2007, and was met by monetary growth in step with the increase in the country's net external assets. The central bank, the Banque centrale de Madagascar (BCM), had to prop up the ariary by purchasing foreign exchange on the interbank market, so reducing growth of the money supply (M3) to 22.9 per cent in 2007 (from 25.9 per cent in 2006). After inflation eased in the second quarter of 2006, the BCM cut its intervention rate from 16 to 12 per cent in 2007. But the persistence of factors favouring the expansion of bank liquidity kept the banks' reserve requirements at 15 per cent. Loans to the economy rose 24.9 per cent in 2007, mainly due to growth in lending to the private sector, particularly oil companies and the real-estate sector, which together accounted for 99 per cent of loans. In 2007 the state returned to a creditor position *vis-à-vis* the banking sector, with Treasury payments to the central bank exceeding bank loans to the state by 58.6 billion ariary.

The banking sector was much healthier in 2007, and the overall percentage of non-performing loans fell. Licensing of a new commercial bank boosted competition in the sector. The BCM was recapitalised in May 2007 on the advice of the International Monetary Fund (IMF), which calculated that the bank had a net deficit of about 5 per cent. To meet their monetary policy targets, the authorities also securitised the BCM's loans to the Treasury (1.6 per cent of GDP) with convertible financial market bonds, enabling the bank to get market-rate interest and thus helping it to use the new bonds for open market operations, along with traditional liquidity-reducing devices such as tendering.

Inflation, still partly tied to world energy price fluctuations, rose sharply in the second quarter of 2007 because of dearer rice after floods reduced output early in the year. But it was brought under control, to end up at 9.8 per cent at year's-end (down from 10.6 per cent in 2006), and it should fall below 7 per cent in 2008. The government has adopted a new IMF-recommended indicator, core inflation, which excludes rice and oil products from the calculation of the consumer price index (CPI), because their prices and availability are highly unpredictable.

External Position

Despite the continued flow of FDI into the mining and oil sectors, the balance of payments deficit increased in 2007, to 12.6 per cent of GDP (from 8.8 per cent in 2006). This poor result was due to a drop in exports of vanilla (whose production was hard hit by cyclones in early 2007) and shrimps, where overfishing is exhausting stocks. Imports of intermediate goods and

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

	1999	2004	2005	2006	2007(e)	2008(p)	2009(p)
Trade balance	-4.3	-10.0	-11.7	-9.9	-11.8	-14.2	-14.5
Exports of goods (f.o.b.)	15.7	22.7	16.6	17.7	14.5	13.5	13.3
Imports of goods (f.o.b.)	20.0	32.7	28.3	27.6	26.3	27.7	27.8
Services	-3.5	-6.3	-2.3	-1.3	-2.6	-4.4	-4.1
Factor income	-1.1	-1.5	-1.6	-1.5	-0.8	-1.0	-0.9
Current transfers	2.9	7.5	4.7	3.9	2.5	2.3	2.2
Current account balance	**-6.1**	**-10.3**	**-11.0**	**-8.8**	**-12.6**	**-17.2**	**-17.3**

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

StatLink http://dx.doi.org/10.1787/322772137364

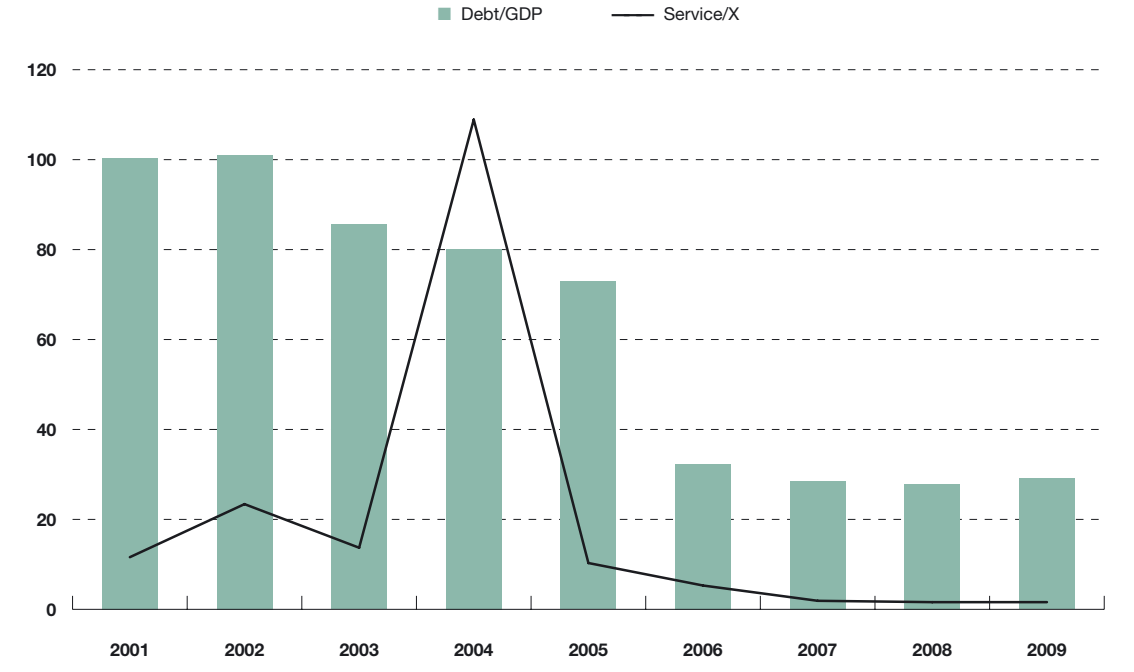
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equipment by mining and free-zone companies worsened the trade deficit. Nevertheless, free-zone manufactures and agricultural products such as cloves and coffee are still competitive at the current exchange rate. The FDI inflow, grants, and debt cancellations have enabled the country to rebuild foreign exchange reserves equivalent to three months of imports and have boosted the exchange value of the ariary. The nominal effective exchange rate in the first quarter of 2007 in fact rose by 13 per cent compared with October 2006, and the real effective exchange rate by nearly 20 per cent. To avoid the "Dutch Disease" syndrome caused by increased external inflows and a higher exchange rate that makes traditional exports less competitive, the government is keeping the present system of a managed floating exchange rate with no predetermined path, relying on expected higher demand for imports to stabilise the rate. The authorities have also taken steps to ease exchange controls further, including extension of the time limit for repatriating export revenue to 180 days, and raising the ceiling on foreign exchange holdings by commercial banks. This will reduce pressure on the exchange rate and enable it to find a new balance.

Goods exports rose to 3 524.7 billion ariary in 2007, only 4 per cent up on 2006, while imports sharply increased in volume, by 22.7 per cent (to 6 107.8 billion ariary). The trade balance remained in deficit (11.8 per cent of GDP) due to higher imports of inputs by mining firms and free-zone industries and to a 17.1 per cent rise in the oil bill. The South African mining firm Dynatec, in partnership with Japan's Sumitomo, is investing nearly USD 2 billion in 2008 and 2009, which will push up imports, especially of capital goods. Dynatec hopes to be exporting by 2010/11, and this will significantly reduce the trade deficit.

Madagascar is classed as a country with an external debt of average viability. Debt indicators dropped very sharply in 2006 after the MDRI came into effect, and the debt-to-GDP ratio (in net present value — NPV)

Figure 3 - **Stock of Total External Debt** (percentage of GDP) **and Debt Service** (percentage of exports of goods and services)



Source: IMF.

StatLink http://dx.doi.org/10.1787/318843103505

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fell to 12 per cent that year, from 36 per cent in 2005 (which was already below the 40 per cent threshold). The debt-to-export-earnings ratio also fell. Internal debt should stay below 10 per cent of GDP as the government tries to restrict its expenditure to the funding provided by good fiscal revenues and foreign aid. The fiscal deficit will have to be largely funded by external soft loans.

Total debt relief to Madagascar in 2006 under the Heavily Indebted Poor Countries (HIPC) Initiative was USD 836 million (in NPV). Most Paris Club member-countries granted full debt relief as soon as the country reached its completion point, so reducing the debt by another USD 466 million. At the end of 2006, Madagascar had arrears of USD 595 million to private lenders and to non-Paris Club members (such as Algeria, Libya and Iraq), who held nearly 92 per cent of the total. Talks are under way with these countries to get them to joint the HIPC Initiative and grant Madagascar debt relief. Debt cancellations by international financial institutions (361.7 billion ariary from the IMF, 4 094.5 billion from the International Development Association and 712.8 billion from the African Development Bank) is expected to substantially reduce debt servicing and provide 79.1 billion ariary in aid under the HIPC Initiative in 2007.

Structural Issues

Recent Developments

The launch of the MAP was the main economic and political event of 2006. It runs from 2007 to 2012, takes over from the country's Poverty Reduction Strategy Paper (PRSP), and is an overall strategic framework for speeding up economic growth and reducing poverty in line with the MDGs. It will be strengthened by sector-specific strategies and action plans, and will cost an estimated EUR 1.5 billion per year. About 80 per cent of its funding will come from increased national revenue generated by mining investment, export growth, foreign aid and soft loans, but the economy will have to increase its absorption capacity and cut inflation.

The improvement and maintenance of infrastructure, mostly roads, pose the government constant problems. Good maintenance of the existing road network would boost trade between the country's regions by an estimated 20 per cent. Nearly 8 982 kilometres of roads were repaired in 2005, and work continued at a similar pace in 2006. The development of tourism and the two large mining projects (ilmenite and nickel) will require the expansion and improvement of major related infrastructure over the next three years. The authorities are therefore planning: to increase the capacity of existing ports, for example, by expanding Toamasina to take bigger ships; to upgrade and maintain the FCE (Fianarantsoa-East Coast) railway and the northern rail network; and to build a new airport with an integrated storage area.

In view of Jirama's inability to reduce the frequent power cuts that interrupt and hamper economic activity and increase companies' costs, the government has decided to restructure and rehabilitate the company (although it will not now be privatised in 2009) and to encourage independent electricity providers to invest more heavily. Electricity prices are being increased in three stages after a survey by the International Finance Corporation (IFC); the first rise (15 per cent) took place in October 2007. In 2007 and 2008, the government will provide budget funding equivalent to about 0.5 per cent of GDP annually to make up for occasional drops in Jirama's operating revenues and to pay for its upgrading. Once modernised, it will be leased to a private operator: expressions of interest will be invited at the end of 2008.

The government is counting on private sector efforts to increase foreign trade, and has unilaterally reduced some customs duties and its most-favoured-nation tariff from an average 16.2 per cent in 2005 to 12.9 per cent in 2007. It has also speeded up Madagascar's entry into the Southern African Development Community (SADC) and the Common Market for Eastern and Southern Africa (COMESA), while encouraging FDI in all production sectors. The 2008 budget aims to streamline the tax system by halving the number of taxes from 28 to 14, reforming company taxation and bringing free-zone export firms into the standard legal framework. The government wants also to continue tax

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and customs reforms and, in order to reduce fraud, introduce the TradeNet electronic data interchange system to track real-time import and export movements. Taxation of mining and oil projects will be brought up to international standards to make best use of the sector's potential. A general mining law and a law on major mining investments (LGIM) have been drafted, and a one-stop shop for the commercial export of precious stones has been set up. The Mines and Geology Department and the Mining Statistics Office have been completely reorganised, and the country has agreed to join the Extractive Industries Transparency Initiative (EITI).

The government is trying to expand financial intermediation and credit access (with technical help from the IMF) by improving payment systems, setting up a loans desk in every bank and financial institution, and encouraging competition in the sector by allowing more banks to operate. It is also trying to boost the performance of microfinance institutions (MFI), which have been a great success, so as to encourage the growth of small businesses. Implementation of the September 2005 law on the operation and supervision of MFIs is under way; a feasibility study has been launched for setting up a risk office for MFIs; and the government is building a database for the sector. In 2006 the central bank also introduced automatic handling of banknotes, with equipment to make headquarters operations more secure and software to monitor and follow up financial transactions. The central bank's data system is being upgraded to improve management at the head office and branch offices. Modernisation will also include: an integrated information system about companies; a revised banking law; and the setting up of an organised financial market.

Madagascar has a rich biodiversity of plant and animal life, with 85 per cent of plant life being endemic, 91 per cent of its reptiles, 99 per cent of its amphibians and 100 per cent of its lemurs. But all of it is concentrated in 9 million hectares of forest ecosystems threatened by agriculture and logging. Forest fires could also eventually wipe out species such as lemurs, which are found only in Madagascar. The government has launched a risk-prevention plan to preserve this biodiversity through the creation of protected areas run by the state or local communities, or in partnership with the private sector and international funders. A Madagascar Protected Areas System (SAPM) has been set up and 16 temporarily protected areas designated; the total area of the protected areas will increase from 1.7 to 6 million hectares, and the protected part of the maritime economic zone to 10 per cent of the country's total area.

The government has taken a number of preventive and precautionary measures steps to tackle serious pollution. All of the country's 22 regional development plans include an environmental section, as do the urban development plans of the major towns and cities. In order to foster good habits, children are taught about the environment at school. Improved forestry monitoring in 2007 increased the annual area of reforested land to 50 000 hectares, reduced the area of slash-and-burn by a quarter, and transferred 100 000 hectares of natural resources to local communities.

Agriculture in Madagascar is, however, seriously hampered by ill-defined and unreliable land transactions, whether involving commercial farming or agro-industry. Only 10 per cent of the population concerned have title deeds to their land; this is a major obstacle to commercial and legal transactions and prevents the emergence of a truly competitive land market meeting the needs of tenant farmers and major agro-industrial investors. The government launched a national land programme (PNF) in 2004 to improve the situation by opening 21 land offices whose task is to make existing title deeds more secure, and to issue new ones where they do not exist.

The country's agriculture is structurally weak also due to a lack of long-term farming traditions and the tendency of local farmers to grow only one crop; this is mainly the result of the absence of land titles (and thus of collateral to present to banks for investment or harvest loans), of meagre resources, and of little research and development or adoption of new farming methods. Moreover, this sector produces and exports unprocessed items with little added value. The government aims to

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change this by encouraging farmers to pool their methods, costs and risks so that they can develop value chains by processing most of their agricultural output locally.

Technical and Vocational Skills Development

A 2005 survey by the National Institute of Statistics showed that only 4.8 per cent of the entire workforce were managers, while 25.5 per cent were middle-level workers and 28.6 per cent were manual labourers. Foreign workers — mostly in trade, vehicle repair and manufacture of household goods — occupied only 0.8 per cent of all permanent jobs. Extractive industries, which will greatly expand by 2010, have found less than half of the 8 000 trained workers they need on the local market, where skills are in very short supply due to the lack of qualified trainers, the inappropriateness of training for employment, and poor co-ordination between the technical and vocational education and training (TVET) system and the world of work.

The informal economy's labour needs are partly met by apprenticing working-age people to learn basic skills, and by custom-made courses at various training support centres and vocational training centres (VTCs), which teach fishing, handicrafts, agriculture and livestock farming, etc.

The national education budget was nearly 450 million ariary in 2006, but only 0.87 per cent of it went towards TVET, which is a miserable amount considering the growing needs of priority sectors and also when compared with the 5.79 per cent that went towards TVET in 2000 and the 4.1 per cent in 2001.

TVET is the responsibility of an office under the national Secondary Education and Vocational Training Department, which is attached to the Ministry of Education and Scientific Research. However, policy is implemented through regionally decentralised education ministry offices that supervise groups of technical and vocational schools (GEETP). These groups answer to a regional steering committee and provide vocational and technical training through public and private bodies such as vocational and technical training institutes (IFPT), technical and vocational schools (TVSs) and VTCs. Private TVET colleges can open up and compete for funding with public institutions that are part of the GEETP. Opening and operating permits are issued by the appropriate ministries. To encourage public and private institutions to work together, experimental integrated growth poles incorporating TVET have been set up in three regions. Exams leading to national diplomas are held by TVSs. The institutes and all the VTCs, both public and private, issue certificates after training for a job. Trainees range from professional engineers and senior technicians to skilled and specialist workers. But the system does not meet the country's economic and social development needs.

There have been several reforms of TVET since the 1990s, involving: the introduction of the idea of vocational training, as opposed to technical education; an increased number of short-term, mostly private, vocational training courses; the granting of autonomy to the GEETP; the setting up of a centre to monitor employment and training, and another to train trainers and staff of TVET institutions; and the creation of a (so far not very active) National Council for TVET. Current reforms, still at a preparatory stage, include: examining the provision of training by region; diversifying the provision in existing institutions; reorienting general secondary education courses from arts to science courses; reorienting training courses in schools; granting TVET institutions greater autonomy; and adapting training content to the job market. The reforms will also involve: changing the status of vocational training centres, turning them into trade schools; setting up a national training body (ANF) in 2008; and creating facilities to inform and advise people about employment and training.

The TVET system was assessed in 2006, and speedy creation of the ANF was recommended in order to: adapt training to better meet labour market needs; upgrade skills training and make it more relevant; improve skills in the informal sector; and use accumulated funding, particularly from the national budget. The survey also advocated: extending basic education from five to seven years; boosting the flow of students into technical and vocational training;

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promoting technical and vocational training (TVT) at all levels of the education system, as well as improving its image in relation to general education; and encouraging TVT by firms working in priority growth sectors such as mining and tourism. The survey concluded, that to meet the new requirements, training policies should focus on: initial vocational training; general training in technology; (on-the-job) vocational training leading to a qualification; and the teaching of basic trades.

The national TVET strategy is part of the MAP and aims to transform education through TVT and push towards full employment. Its objective is to supply production sectors with the skilled workers they need by providing information, guidance and training to candidates. The action plan for this includes: increasing and diversifying the number and quality of technical and vocational courses to support priority growth sectors such as extractive industries and tourism; ensuring that VTCs fill 90 per cent of new technical and vocational jobs by creating equality of access to TVET and revising performance criteria; developing public-private partnerships by diversifying vocational education funding and setting up the ANF. Job creation will be encouraged in three main ways: increasing worker productivity by supporting vocational training and on-the-job training within Chambers of Commerce and Industry and public bodies; devising and implementing strategies for promoting and creating productive jobs; setting up information and advice centres on employment and training in 22 regions, while also developing initial and on-the-job vocational training and creating regional research and technical training centres.

Political Context

President Marc Ravolomanana was re-elected on 3 December 2006 for a second term, obtaining 54.8 per cent of the vote in the first round. A constitutional reform proposal won more than 75 per cent approval in a referendum. The president's party, TIM, won the majority of seats in the National Assembly in early parliamentary elections on 23 September 2007 and confirmed its urban domination, winning all 12 seats in the capital, Antananarivo, and taking four of the country's five major towns and cities, including Toamasina (formerly Tamatave), stronghold of former city mayor and ex-presidential candidate Roland Ratsiraka. With his election for a second term, Ravolomanana has firm parliamentary support for implementing the MAP. However, the divided and discredited opposition won control of Antananarivo at local elections in December 2007.

To entrench the rule of law and promote good governance, in 2004 the government launched a reform of the judiciary that cleared a backlog of some 60 000 cases before the courts. A national anti-corruption council (since renamed the Committee for the Safeguard of Integrity) was set up in 2003 to fight the corruption eating away at the country's institutions and economy. An Independent Bureau against Corruption (Bianco) was also set up. These efforts seem to have worked, because the country's score in Transparency International's worldwide Corruption Perceptions Index has improved — from 1.7 (out of a possible 10) in 2002 to 2.8 in 2005. The government is aiming for a score of 5.2 by 2012.

The government also wishes to join the EITI, which is a very important decision because of the large increase in public and foreign investment in the mining sector. An *ad hoc* committee of government officials, civil society (including the media) and mining firms has been set up. A nationwide information campaign will follow. The government also intends (with Norwegian technical help) to create a foreign-based fund for future generations that will manage revenue from the extraction of natural resources and allow this revenue to figure openly in the national accounts.

Social Context and Human Resources Development

Educational reforms, particularly at primary level, were introduced in 2003 with the launch of the Education For All plan that increased the number of primary school pupils from 1.7 million in 1997/98 to

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3.7 million in 2006. Extra classroom space became available in 2006, along with incentives such as: the abolition of school fees; the opening of school canteens; and free school stationery and special kits for pupils from poor areas. According to national sources, the net enrolment rate at primary level increased significantly, to 98.5 per cent in 2006 (from 93.3 per cent in 2003). However, the dropout rate is high, the quality of teaching is poor, and huge gaps remain between social classes and geographical areas, although gender inequality is disappearing, with girls representing a stable 49 per cent of pupils between 2001 and 2006. The proportion of pupils repeating years rose from 18.3 per cent in 2004/05 to 19.7 per cent in 2005/06, and the primary completion rate remained steady, at 57 per cent. Primary completion and repetition rates are expected to improve in 2006/07 to 60 and 17.5 per cent, respectively. The Education For All plan has also shown that five years of primary education is not enough to effectively combat illiteracy, which in 2006 affected 37 per cent of the total population and nearly 28 per cent of those aged between 15 and 60. The government aims to modify the stages of education and lengthen the primary school stage from five to seven years, with top-primary and secondary school levels being adjusted accordingly. At junior secondary school level, there is a ratio of only one school for 18 primary schools, which puts an extra squeeze on pupil places and boosts the dropout rate after primary school. University enrolment is negligible, at only 3 per cent of secondary students in 2006, compared with 8 per cent in sub-Saharan Africa. This figure should rise to about 4 per cent between 2007 and 2008.

Madagascar has a high rate of population growth, and the government is pushing for the use of condoms and encouraging family planning. According to national sources, the under-five mortality rate fell from 94 to 88 per thousand between 2004 and 2006, but maternal mortality is still high, at 469 per 100 000 live births; the target is to halve this by 2012 in line with the MDGs. Bilharzia, STDs (sexually transmitted diseases) and malaria are the country's main diseases. Only half of the population has mosquito nets, but in the fight against malaria, the aim is for every citizen to have one by 2012. The battle against HIV/AIDS continues, and infection remains at less than 1 per cent. Efforts must not let up however, especially with the expansion of tourism, which often helps to spread the disease. In 2006 the health care sector used 99.78 per cent of a budget of 50.7 billion ariary, and vaccination coverage was extended to 111 districts as planned. Forty out of a planned 49 health workers were trained in reducing maternity risk. In the fight against malaria, a total of 1 138 840 impregnated mosquito nets were distributed in 2006 (113.9 per cent of the number planned) and 12 sentinel surveillance centres for malaria were established. In the fight against HIV/AIDS, youth centres were supplied with contraceptives, eight out of nine care centres in Antsiranana and Toliara were stocked with antiretroviral medicine, and eight out of nine operational centres opened to take in HIV patients. A total of 250 doctors, 381 paramedics and 50 office staff were hired in 2006.

The government's anti-poverty priority spending rose in 2006, mostly using resources freed up by MDRI and HIPC Initiative debt relief. Efforts continued in 2007 to improve health, education and employment indicators, and thus more effectively fight poverty, which was still a high 67.5 per cent in 2006 (72.3 per cent in rural areas and 50.3 per cent in urban areas). But poverty seems to be steadily receding, mainly in rural areas. The MAP aims to reduce the national poverty rate to 50 per cent by 2012.

The number of job seekers fell by 14.21 per cent between 2005 and 2006, and 26 000 new jobs were created in 2006. Overall unemployment remained unchanged at 2.8 per cent in 2006 but was still a high 31.1 per cent among the 16-25 age group. In 2006, 5 725 new job seekers were recorded; 53.57 per cent of them were male, 49.92 per cent of them had already worked and the rest were first-time applicants. One objective of the MAP was to create 250 000 rural jobs in 2007 through its agricultural "green revolution" component.

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Malawi



key figures

• Land area, thousands of km²	118
• Population, thousands (2007)	13 925
• GDP per capita, USD at constant 2000 prices (2007)	158
• Life expectancy (2007)	48.3
• Illiteracy rate (2007)	34.1

Malawi


Mbaya
Chitipa
Karonga
TANZANIA
ZAMBIA
Rukuru
Mzuzu
Lake Malawi
Nkhotakota
MOZAMBIQUE
LILONGWE
Salima
MOZAMBIQUE
Lake Chilwa
Zomba
Blantyre
Harare
Nsanje
town > 1 million inhabitants
500 000 - 1 000 000
100 000 - 500 000
< 100 000
major road
secondary road
railway
track
main airport
secondary airport
commercial port
petroleum port
fishing port
0
100 km

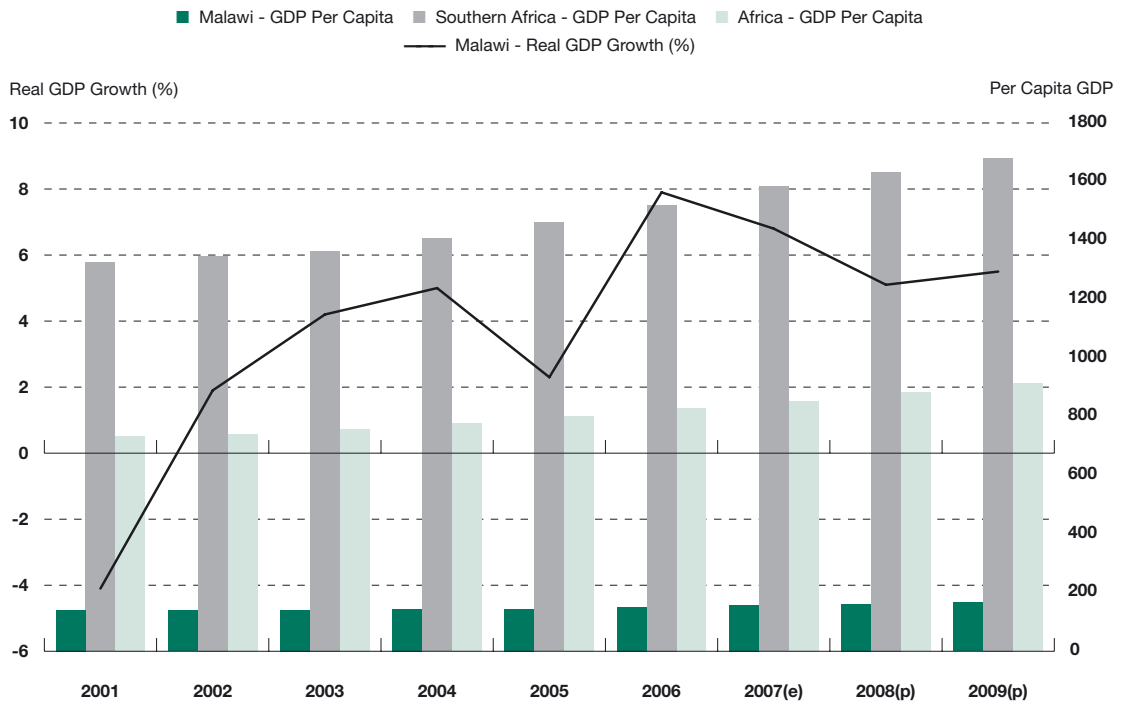
Malawi

DESPITE REMAINING ONE OF THE POOREST and least developed countries in Africa, Malawi is beginning to make real progress in terms of laying the foundations for faster economic growth and more effective poverty reduction.

The year 2007 saw continued stronger economic growth of 6.8 per cent following an exceptionally high 7.9 per cent in 2006, as the country begins to benefit from several years of prudent financial and macroeconomic management (Figure 1). Interest rates are now beginning to fall, and the share of credit extended to the private sector has risen as the public sector no longer crowds out private investment. The successful deployment of a national fertiliser subsidy, coupled with consistent rains across most of the country, resulted in a bumper harvest in maize, the most important staple crop. Thus, reduced food security challenges together with improved central budget discipline led to a reduction in inflation to 8.6 per cent in 2007 — the lowest in more than two decades. In order to sustain rapid economic growth, the country will need to address more effectively the structural constraints to increased private investment, such as lack of skills and low productivity, weaknesses in the business environment, and infrastructural constraints.

The foundations for faster economic growth with poverty reduction have been laid.

Figure 1 - **Real GDP Growth and Per Capita GDP**
(USD at constant 2000 prices)



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

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Recent Economic Developments

GDP growth is estimated at 6.8 per cent in 2007, down from 7.9 per cent in 2006, when agricultural output rebounded sharply following the ending of the drought. Growth in 2008 and 2009 is forecast to be more moderate, at 5.1 per cent and 5.5 per cent, respectively.

While it is likely that economic growth in 2007 still included some element of recovery from the 2005 drought, it is also clear that the economy is beginning to respond positively to improved domestic economic and fiscal management through increased private-sector borrowing and investment, especially in the construction and transport sectors. After a decade of contraction, the manufacturing sector is also beginning to show promising, if modest, signs of recovery.

Agriculture, as the mainstay of the Malawi economy, was a key driver of the 2007 performance, growing by 10.8 per cent; mining and quarrying grew 2.7 per cent; manufacturing 8.8 per cent; construction 13.7 per cent; and transport and communications 17.3 per cent.

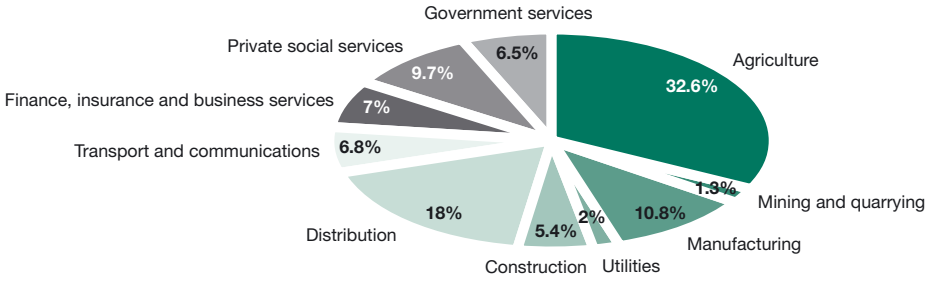
A second year of good rains saw rising yields for maize, the basis of food security in Malawi, with aggregate production up from 2.61 million tonnes in 2005/06, to 3.22 million tonnes in 2006/07. The national food requirement for 2007/08 is estimated by the Ministry of Agriculture and Food Security to be 2.25 million tonnes. Hence the country will have a net food surplus of close to 1 million tonnes. Similarly, the proportion of total farm families without food from their own production was measured in March 2007 to be only 6 per cent, down from 42 per cent at the same time in 2006.

Although good and consistent rains played an important part in the bumper maize production in 2006/07, the successful deployment of a national fertiliser subsidy that allows all rural households to buy 50 kg of chemical fertiliser for MWK 900.00 (Malawian Kwachas) (USD 6 [US dollars]), approximately a quarter of the retail price, substantially raised yields. The government plans to distribute and sell 200 000 tonnes of fertiliser in the 2007/08 growing season, accounting for around one-third of the national agriculture budget

Almost all crops registered substantial increases in production in the 2006/07 growing season compared with in 2005/06. In addition to the 24.9 per cent jump in maize production, rice production was up 19.6 per cent to 92 000 tonnes, and groundnut production was up 29.1 per cent to 263 000 tonnes. Sorghum, millets, pulses, cassava and sweet potatoes also saw increased production of a similar magnitude. Cotton production was up by a more modest increase of 5.6 per cent to 62 000 tonnes.

Disappointing prices for tobacco sold on the auction floors in 2005/06 translated into somewhat lower production in the 2006/07 growing season with aggregate production down 4.8 per cent to 116 000 tonnes.

Figure 2 - **GDP by Sector in 2006** (percentage)



Source: : Authors' estimates based on National Statistical Office (NSO) data.

StatLink http://dx.doi.org/10.1787/317787530028

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Table 1 - **Demand Composition**

	Percentage of GDP (current prices)		Percentage changes, volume			Contribution to real GDP growth		
	1999	2006	2007(e)	2008(p)	2009(p)	2007(e)	2008(p)	2009(p)
Gross capital formation	**15.2**	**9.8**	**15.5**	**10.3**	**7.2**	**1.2**	**0.9**	**0.6**
Public	10.5	6.4	12.0	7.5	5.5	0.6	0.4	0.3
Private	4.7	3.4	22.0	15.0	10.0	0.6	0.5	0.3
Consumption	**103.1**	**113.2**	**10.3**	**4.8**	**5.6**	**10.9**	**5.2**	**6.1**
Public	13.8	15.2	10.9	7.2	7.0	1.5	1.0	1.0
Private	89.3	98.0	10.3	4.4	5.3	9.4	4.2	5.0
External demand	**-18.3**	**-23.0**				**-5.3**	**-1.0**	**-1.2**
Exports	26.1	30.0	3.6	5.3	6.3	0.8	1.1	1.4
Imports	-44.4	-53.0	17.3	5.5	6.7	-6.1	-2.2	-2.6
Real GDP growth						**6.8**	**5.1**	**5.5**

Source: National Statistical Office (NSO) data; estimates (e) and projections (p) based on authors' calculations.

StatLink http://dx.doi.org/10.1787/321248248035

In 2006/07, the Government of Malawi concluded an agreement with an Australian mining company that will undertake the exploitation of uranium oxide from deposits in Kayelekera, in the far north of the country. This exploitation will considerably increase the level of private investment (+22 per cent). The government has negotiated a 15 per cent equity stake in the venture. At full capacity by the end of 2008, uranium will become Malawi's second biggest export after tobacco, accounting for 20 per cent of exports and 5 per cent of GDP. Regarding the components of final demand, growth of private and public investment sharply increased in 2007.

Malawi's formal manufacturing sector remains small, and accounted for 10.8 per cent of GDP in 2006; this is down from a high of 32 per cent in 1992 (Figure 2). Manufacturing firms also tend to be inward-looking, with only 14 per cent of output exported.

Regarding final demand, it is anticipated that Malawi will continue to see a modest strengthening driven by a gradual improvement in export performance, along with greater confidence in the private sector demonstrated by similarly modest rises in private-sector investment (Table 1). The agreement signed to develop the Kayelekera uranium mine could, over a decade starting in 2009, generate output worth about USD 1.6 billion at current prices, at its peak raising GDP by 10 per cent and exports by 25 per cent.

Looking ahead, while Malawi's economic prospects for 2008 and 2009 look brighter than what has been seen in the last two decades, growth will be fragile and dependent on a number of key factors, including the continued successful deployment of the national fertiliser subsidy, the avoidance of serious drought, and continued prudent macroeconomic management. The outlook is for a reduction in the rates of growth of both public and private investment in 2008 and 2009 compared to 2007. However, if major new investments in uranium mining and sugar production come into fruition as per current plans, then substantially stronger export performance could be a key driver of Malawi's economic growth in the next five years.

Macroeconomic Policy

The current administration has continued to put the maintenance of macroeconomic stability at the heart of national policy. Increased confidence in the capacity of the government to manage resources was demonstrated by the World Bank's decision to begin providing general budget support to the country, with the first of three USD 20 million Poverty Reduction

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Support Credits released in October 2007. For the first time since it joined the Fund, Malawi has now achieved satisfactory performance under the country's IMF programme for three consecutive years.

Fiscal Policy

It is expected that stronger tax revenues in 2007/08 (up to a new high of 21.9 per cent of GDP), together with reduced interest payments (down to a new low of just 3.1 per cent of GDP) will lead to an increase in fiscal space, permitting an increase in both recurrent and capital expenditures. Nevertheless, the primary budget balance is expected to remain close to zero (but positive in 2009), and the overall budget deficit is expected to be sustainable.

Grants have risen strongly since 2004/05 when donor confidence was restored in Malawi with the election of the new government, more than doubling from a low of 7.2 per cent of GDP in 1998/99 to 16.3 per cent in 2007/08 and accounting on average for just under 40 per cent of the total budget. Aggregate donor inflows and tax revenues have grown strongly in the last three years, but similarly strong GDP growth has seen the share of total revenue and grants remain roughly constant, at 41 per cent in 2007/08.

The increases in revenue collection can be attributed in part to the incentive-based collection schemes and widening of the tax base. Although the revenue percentage of GDP did not grow significantly, nominal revenue mobilisation increased by 20 per cent. With the recent redefinition of the make-up of GDP (GDP has long been understated in Malawi)[1], this is a positive improvement.

Malawi has continued to make excellent progress in reducing the overall fiscal deficit and paying down domestic debt. Programme aid and domestic revenue projections have increased substantially since the budget was formulated. By mid-2007, the stock of domestic debt had been reduced to just 11.5 per cent of GDP. The government expects the stock of domestic debt to stabilise at 10 per cent of GDP in 2008, with interest payments accounting for around 1.5 per cent of GDP. The government's debt strategy is to restructure domestic debt in favour of long-term debt instruments, which will substantially reduce the costs associated with short-term debt securities. This, together with the strategy to limit new borrowing, should lead to a decline in the debt/GDP ratio.

The paying down of domestic debt, which peaked at around 25 per cent of GDP in 2003/04, has freed

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

	1999	2004	2005	2006	2007(e)	2008(p)	2009(p)
Total revenue and grants[a]	**24.3**	**33.7**	**41.6**	**41.2**	**41.0**	**40.3**	**40.9**
Tax revenue	15.7	19.2	22.3	20.7	21.5	21.6	22.1
Grants	7.2	11.7	16.1	18.0	17.0	16.3	16.1
Total expenditure and net lending[a]	**29.3**	**40.8**	**43.3**	**41.4**	**42.5**	**43.5**	**42.7**
Current expenditure	23.6	33.3	36.2	34.2	35.0	36.1	35.3
Excluding interest	*21.0*	*26.2*	*28.2*	*28.6*	*30.7*	*33.0*	*32.9*
Wages and salaries	4.9	7.1	7.9	7.8	8.0	8.0	7.9
Interest	2.6	7.1	8.0	5.6	4.4	3.1	2.5
Capital expenditure	5.4	7.3	7.0	7.0	7.3	7.4	7.3
Primary balance	**-2.5**	**-0.1**	**6.3**	**5.4**	**2.9**	**-0.1**	**0.6**
Overall balance	**-5.0**	**-7.1**	**-1.7**	**-0.2**	**-1.5**	**-3.2**	**-1.8**

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

StatLink http://dx.doi.org/10.1787/322022554450

1. The informal sector was included in Malawi's GDP for the first time in 2006/07.

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up significant resources and permitted an expansion of the development budget. However, it remains to be seen whether political pressures on government spending in the run-up to the 2009 elections will not reverse these achievements.

Monetary Policy

After 15 months of reductions in inflation, the rate of increase in consumer prices appears to have bottomed out. In 2007, year-on-year headline inflation is estimated at 8.5 per cent, which represents a significant achievement, since inflation was as high as 17.1 per cent in February 2006. Annual inflation has only dropped into single figures three times in Malawi's modern economic history. Price increases in Malawi are driven primarily by domestic maize production and by the price of imported petroleum and diesel, so the country remains vulnerable to weather fluctuations and further shocks to the world price of oil. Malawi does not have a working automatic compensation mechanism against oil price changes. There can be delays of up to three months for the changes to filter through to pump price increases, amounting to the equivalent of a tax on oil import companies.

In view of the recent progress in reducing inflation, the Reserve Bank of Malawi has not felt the need to tighten monetary policy further. In fact, it cut the base rate from 20 to 17.5 per cent on 1 August 2007, and again on 1 November 2007, to 15 per cent. Considering that the base rate was as high as 45 per cent in mid-2004, this also represents a major policy achievement. The share of credit to the private sector is now beginning to recover, with the private sector taking a bigger share (60 per cent) than the public sector in 2006 for the first time in five years (United Nations Development Programme [UNDP] 2007).

External Position

Early trade figures for 2007 show that Malawi's current account deficit has begun to stabilise after several years of relentless expansion (Table 3). This may well be evidence that improved macro stability has begun to translate into better performance by the private sector. In real terms, total exports of goods grew strongly, from USD 543 million in 2006 to USD 628 million in 2007, while imports of goods rose marginally, from USD 1 039 million in 2006 to USD 1 066 in 2007. Coupled with a reduction in the services deficit (as a result of substantially lower foreign interest payments), the current account deficit narrowed from USD 705 million in 2006 to USD 634 million in 2007. Average export prices for tobacco rose from USD 2.34 in 2006 to USD 2.60 per kg in 2007. However, disappointment over prices in the 2005/06 season saw reduced planting in 2006/07, and therefore the volume of exports fell from 124 000 tonnes in 2006 to 109 000 tonnes in 2007. As a result, exports slipped slightly, from USD 289.7 million in 2006 to USD 284.3 million in 2007 (all figures from National Statistical Office [NSO]).

Tea saw an improved performance during the year as stable average export prices (unchanged at USD 1.11 per kg), coupled with increased production (up from 43 100 tonnes to 44 000 tonnes), resulted in greater export revenue. The aggregate value of tea exports therefore rose from USD 47.9 million to USD 49 million.

Malawi's sugar sector holds enormous potential, once the country is granted unrestricted access to the EU market from 2009 under the terms of the "Everything But Arms"(EBA) initiative. In late 2006, the owner of Malawi's two sugar estates, Illovo Sugar of South Africa, was acquired by Associated British Foods of the UK, and a major expansion in both estate and out-grower production is planned in order to capitalise on the opportunities provided by the lifting of quotas in 2009. Average export prices for sugar grew during 2007, up to USD 0.55 per kg, from USD 0.52 in 2006. However, reductions in the volume of sugar exports, down to 83 400 tonnes from 90 200 tonnes in the previous year, led to a slight decline in total exports, from USD 46.5 million in 2006 to USD 46.1 million in 2007.

The volume of cotton exported in 2007 was 15 000 tonnes, up from 14 000 tonnes in the previous year. Stable average export prices at USD 0.96 resulted

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in an increased export value, rising from USD 13.5 million in 2006 to USD 14.5 million in 2007.

Malawi has continued to make progress in diversifying exports away from the traditional core products. Rice, coffee and pulses all saw strong export growth, albeit from a low base. The value of coffee exports, in particular, surged 60 per cent from USD 2.2 million in 2006 to USD 3.6 million in 2007. Malawi also became a major maize exporter in 2007, reversing the need in recent years for large emergency maize imports to alleviate hunger, with 400 000 tonnes exported, earning USD 94 million in total. The main destination for the exports was Zimbabwe.

Despite passing the nominal deadline to conclude an Economic Partnership Agreement (EPA) at the end of December 2007, Malawi (negotiating as part of the Eastern and Southern Africa [ESA] configuration) is not yet close to signing an EPA with the European Union (EU). As one of the Least Developed Countries (LDCs), Malawi already benefits from almost universal tariff- and quota-free access to the EU market under the EBA initiative, and the last remaining exception — sugar — will be included, much to Malawi's benefit, in 2009. Hence, compared to the non-LDCs, the benefits of signing an EPA are more limited to Malawi and the other LDCs within the ESA grouping. Nonetheless, potential benefits to Malawi include: cementing the improved market access that EBA provides (EBA can be unilaterally withdrawn by the EU); simplifying rules of origin (a major area of contention); and increasing the volume of developmental assistance provided to Malawi by the EC. In addition, as a member of both the Southern African Development Community (SADC) and the Common Market for Eastern and Southern Africa (COMESA), Malawi stands to lose should the country be forced into a regional economic grouping with fellow-ESA countries that might see the withdrawal of trade preferences with South Africa, Malawi's most important trade partner. As doubts about both the value and risks of signing an EPA emerge, not least due to an energetic debate within civil society, Malawi's position remains uncertain. With the current World Trade Organization (WTO) negotiations still showing no progress, the significance of concluding an EPA is important to Malawi more from a regional integration perspective than from that of improved terms of trade.

Like other garment exporters in Africa, Malawi is struggling to compete in international markets without the protection of the WTO Agreement on Textiles and Clothing, which ended in January 2005. Exports of apparel slipped from USD 40.5 million in 2006 to USD 32.5 million in 2007.

FDI has hovered around USD 20-40 million during the last ten years, but recently increased sharply as a result of the uranium project mentioned above. Absorbing a project of this magnitude will send a strong signal to the international private sector that Malawi is now "open for business"; there could also be a real effect on the growth path and on poverty reduction. Large capital inflows such as this investment will also help to offset the current account deficit and contribute

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

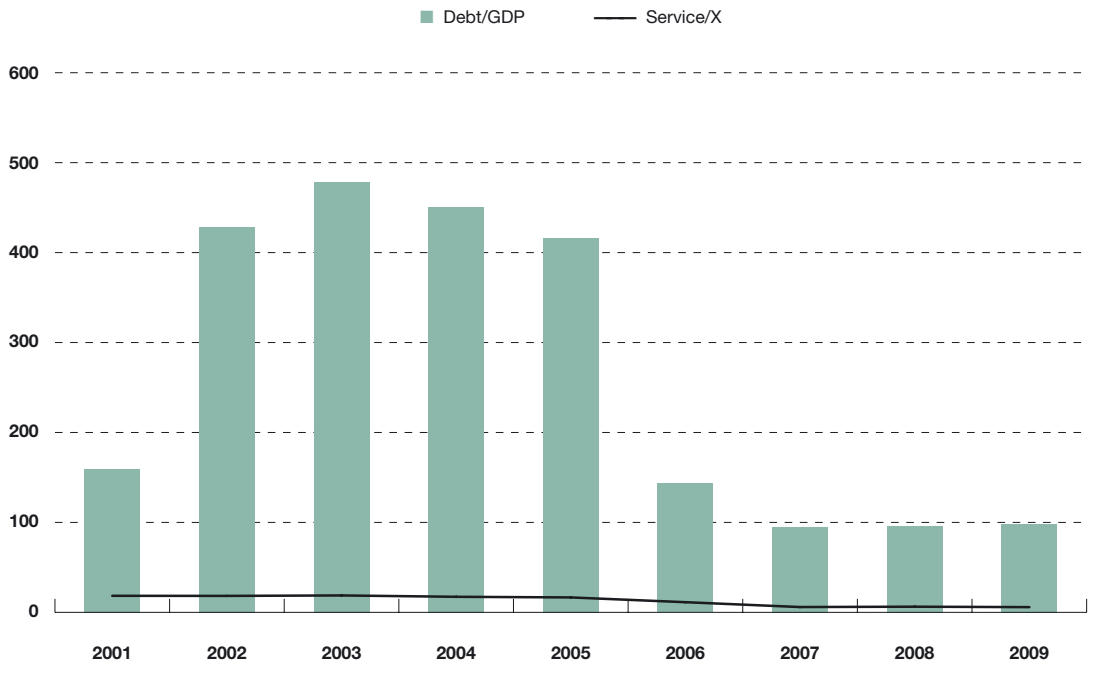
	1999	2004	2005	2006	2007(e)	2008(p)	2009(p)
Trade balance	1.7	-16.3	-27.2	-18.0	-18.0	-18.9	-18.8
Exports of goods (f.o.b.)	21.9	26.2	24.3	19.5	23.0	22.2	21.7
Imports of goods (f.o.b.)	20.2	42.6	51.5	37.5	41.0	41.1	40.5
Services	-8.4	-8.8	-9.8	-8.3	-10.0	-9.7	-9.4
Factor income	-1.6	-2.3	-2.0	-1.6	-0.8	-0.5	-0.3
Current transfers	0.5	17.3	22.8	21.1	21.0	19.4	18.6
Current account balance	**-7.8**	**-10.1**	**-16.2**	**-6.7**	**-7.8**	**-9.7**	**-9.9**

Source: Reserve Bank of Malawi; estimates (e) and projections (p) based on authors' calculations.

StatLink http://dx.doi.org/10.1787/322837848488

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Figure 3 - **Stock of Total External Debt** (percentage of GDP) **and Debt Service** (percentage of exports of goods and services)



Source: IMF.

StatLink http://dx.doi.org/10.1787/318854053606

to the increased stability of the Kwacha. This investment will also contribute to the development of Malawi's industrial capacity, and will therefore have a positive effect on the level of industrial diversification.

The Malawi Kwacha remained relatively stable against the US Dollar at around USD 1 = MWK 140 throughout 2007, as the dollar's weakness balanced out the effects of Malawi's higher rate of inflation compared to the United States. Import cover is currently running at 2 months, below the minimum target of 3 months set by the Reserve Bank of Malawi, but up on previous figures. The high seasonality of Malawi's tobacco-dominated exports can result in significant swings in foreign exchange reserves over the course of a year.

Following debt relief under the Highly Indebted Poor Countries (HIPC) and Multilateral Debt Relief Initiative (MDRI) in September 2006, in early 2007 Malawi's sovereign debt rating was raised by Fitch Ratings to investment grade "B-". This development can be viewed as an indication of increased confidence in the economy by international private investors. This debt relief reduced Malawi's debt stock from USD 2.97 billion (245 per cent of exports in 2005 net present value terms) at the end of 2005 to USD 488 million (43 per cent of exports) as of December 2006.

Structural Issues

Recent Developments

The year 2007 saw the first full year of implementation of the Malawi Growth and Development Strategy (MGDS), the country's national development plan that has replaced the Poverty Reduction Strategy Paper (PRSP). The MGDS represents a clear improvement on the previous Malawi Poverty Reduction Strategy, which provided only scant focus on private-sector issues. The plan emphasises achieving poverty reduction through economic growth,

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with the private sector recognised as the engine of growth.

While it is clear that Malawi is now benefiting from better macroeconomic management and an improved fiscal and monetary environment, tackling the key infrastructural constraints and achieving deeper policy reform will be necessary to sustain rapid economic growth.

Malawi has an ongoing privatisation programme. However, since the sale of a majority stake in Malawi Telecommunications Ltd in January 2006, few attractive assets remain in state hands. Air Malawi has been on "passive privatisation" for several years, meaning that the company is effectively up for sale and awaiting interest from interested buyers. In late 2007, discussions began with Comair of South Africa on a possible sale or partial sale.

Attention is now shifting towards the use of Public-Private Partnerships (PPPs) as a means of leveraging private-sector finance and expertise in the provision of public-sector services and infrastructure. While some PPPs have been negotiated under the Privatisation Act, a separate law on PPPs is presently being drafted that will provide greater flexibility, allow for the possibility of agreeing on long-term contingent liabilities, and shift responsibility for promoting and concluding such agreements from the Privatisation Commission to a dedicated PPP Unit housed within the Ministry of Finance. Given the poor public image and controversial nature of privatisation in Malawi, it is believed that PPPs will be a more successful means of leveraging private finance for public infrastructure and services only if they are clearly separated from the existing law and institutions for privatisation.

The restructuring of the Agricultural Development and Marketing Corporation (ADMARC) continued in 2007 with the establishment of Malawi Agricultural Warehousing and Trading Company (MAWTCO). MAWTCO will assume the commercial operations of ADMARC, allowing the corporation to return to its original role of providing social marketing in areas of market failure.

Recent research has suggested that firms in Malawi are divided into two groups: a low-growth, low-productivity, short-term returns group; and a high-growth, high-productivity, long-term investing group[2]. Poor access to finance is the principle barrier that prevents migration from the low-growth group into higher growth. While improved macroeconomic management has resulted in lower interest rates and inflation, a number of structural challenges still inhibit financial-sector development. The lack of a national identification system makes it difficult for banks to share credit-scoring information, and there is no legislation in place to permit information sharing on creditor history or establish a formal credit information bureau.

The costs for businesses to carry out basic functions are also high. According to the *Doing Business 2008* report, it takes 37 days to start a business in Malawi, compared with an average of 15 days in OECD countries (although this is better than the average of 56 days for sub-Saharan Africa). Similarly, enforcing a debt contract costs 142 per cent of the claim, compared to an average of 18 per cent in OECD countries and 49 per cent in sub-Saharan Africa. In the *Doing Business 2008* report, Malawi is ranked 127th out of 178 countries, better than Tanzania (130th) and Mozambique (134th), but behind Zambia (116th) and Lesotho (124th).

Recognising that improving the investment climate is necessary in order to increase both domestic and foreign investment, and create jobs, the government is beginning to take steps that will support private-sector development. The establishment of a dedicated Commercial Division in the High Court of Malawi in April 2007 was a major step forward, and should reduce the time taken and cost incurred in settling commercial

2. Record and Davies (2007), "Determinants and Impact of Private Sector Investment in Malawi: Evidence from the 2006 Investment Climate Survey", paper presented at the Centre for the Study of African Economies Conference on Economic Development in Africa, Oxford University, 19-20 March 2007.

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disputes. The year 2007 also saw the launch of a USD 18.7 million "Business Environment Strengthening Technical Assistance Project" funded jointly by the World Bank and the European Commission: this project aims to raise the rate of private investment through targeted interventions that will reduce the costs of doing business.

Poor infrastructure remains the most significant barrier to long-run economic development in Malawi. High transport costs — accounting for up to 50 per cent of the costs of production in some export sectors, namely tobacco, sugar, tea, cotton and coffee — hamper competitiveness. Although the rehabilitation of Malawi's hydropower plants is ongoing, the country still suffers from inadequate electricity-generating capacity for current needs. Increased exploitation of Malawi's mineral resources would require a massive expansion in capacity. In 2007, one positive development in this regard was an agreement between the Government of Malawi, the Government of Mozambique and the World Bank on the construction of an interconnector that will join Malawi's power grid up with Cahora Bassa Hydro and the Southern African Power Pool.

Technical and Vocational Skills Development

In July 1997, the Ministry of Labour set up a Task Force to review the vocational education and training system and to come up with a policy framework to address the problems identified. The Task Force, comprising stakeholders from both the private and public sectors, recommended a new policy on technical, entrepreneurial and vocational education and training. This became the Technical, Entrepreneurial and Vocational Education and Training (TEVET) policy.

In January 1999, the Technical, Entrepreneurial and Vocational Education and Training Authority (TEVETA) was created. The main objectives of technical education and training are to: promote an integrated, demand-driven, competency-based modular technical education and training system; monitor gaps between supply and demand for skills; support the adoption and application of appropriate skills, and a spirit of entrepreneurial culture with regard to both wages and self-employment; facilitate sound and sustainable financing and funding mechanisms for technical education and training; and to facilitate and bring together the expertise and moderate the different interests of stakeholders of technical education and training.

Technical and training colleges offer courses in such fields as forestry, marine science, social welfare and hotel management, as well as in various trades. These courses lead to certificates awarded after studies lasting between six months and four years.

Since 2000, TEVETA has been implementing a reformed National Apprenticeship Scheme in order to make it more flexible and responsive to the demands of the labour market. Competency-Based Education and Training (CBET) is the main feature of training methodology.

As from 2006, approximately 2 000 students have been admitted into public and private technical colleges in Malawi. There were 1 400 students in 2004. Numbers would have been higher than the current level had it not been for the limitation of space and capacity in the existing colleges. There are only seven established public colleges in Malawi, and they can accommodate fewer than 300 students each year, against enormous yearly demands.

The Private Sector Training Programme in the TEVET System supports training needs analysis and the development and organisation of training for staff already employed in the private sector. The process has three levels namely: training needs analysis; facilitating the development of training programmes; upgrading, refresher and specialised training, and the reimbursement of training costs.

Currently, TEVETA reimburses 33 per cent of the total training costs incurred by the employer for approved training. In a way, this is a direct benefit to companies that are levy compliant. To date, TEVETA has facilitated this kind of training for over 45 companies, reaching over 200 employees.

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TEVETA also facilitates the implementation of on-the-job training through co-operation with partner organisations that are involved in the construction of infrastructures such as schools, and market centres in the towns and Assemblies. TEVETA attaches youths from within the areas where the project sites are located to this programme, and they receive modular training. TEVETA is currently co-operating with the United Kingdom Department for International Development (DFID), Malawi Social Action Fund (MASAF) and the Secondary Centres Development Programme (SCDP). So far, over 300 youths have been trained under this programme.

It appears, however, that the government has not achieved the objectives of setting up the TEVETA due to various reasons. For instance, there is some confusion about the types and levels of tests and certificates. One of the constraints highlighted by the Investment Climate Survey of Malawi is the lack of skilled labour, which is a severe impediment to business operations and growth. The underlying causes of this scarcity are two-fold. The education system in Malawi is particularly weak, especially compared to neighbouring countries. Less than half of the children who start school get past primary school level. Less than 60 per cent of students enrolling in secondary education graduate to grade 12. Access to higher education is poor, with fewer than 4 000 places available, and this is further restricted by finances and accommodation. There are only seven public technical colleges in Malawi, all established in the 1960s, and all of which have very poor facilities. In addition, the content of education does not meet the requirements of employers. The capacity of firms to compensate for the weak education system through training is also limited. Training budgets are always the first to be cut in difficult times. With the manufacturing sector shrinking, increased competition through globalisation, and increasing trade liberalisation and regional integration, companies are focusing on survival, and are often too resource-constrained to become effective partners in broader national strategies for technical and vocational training.

The shortage of skills is one of the leading constraints reported by manufacturing firms in Malawi. Training represents one way to address the scarcity of skilled labour, and is crucial to maintaining a competitive labour force. For workers with very low levels of education or skills, on-the-job training represents the single most important channel of augmenting human capital.

Table 4 shows how firms in Malawi respond to training needs. A little over half of formal manufacturing firms offer either internal or external training. Only 30 per cent of firms offer external training and 45 per cent of firms offer internal training. Large firms, foreign-owned firms and exporting firms are considerably more likely to provide external and internal training. The last two rows show the proportion of workers that received training. On average, 19 per cent of skilled workers and 12 per cent of unskilled workers in the manufacturing sample received training. Once again, larger, foreign or exporting firms provided more training to their skilled workers. The proportion of unskilled workers receiving training is remarkably uniform across firm categories.

Evidence from the Malawi Investment Climate Survey also shows that while only 22 per cent of manufacturing firms had a formal training programme, firms that offer training have much greater productivity

Table 4 - **Provision of Training** (percentage of firms)

	Small	Medium	Large	Domestic	Foreign-owned	Non-exporter	Exporter	Total
% Offer any training	44.4	47.5	63.5	46.6	66.7	45.1	75.8	51.6
% Internal training	37	42	58	41	59	40	64	45
% External training	24	28	40	24	49	23	58	30
% Skilled	14.8	21.4	22. 9	17.0	25.9	16.9	27.9	19.3
% Unskilled	11.7	11.6	11. 9	11.8	11.6	11.8	11.4	11.7

Source: Malawi 2006 Investment Climate Survey.

StatLink http://dx.doi.org/10.1787/323422358580

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(59 per cent higher) compared to those that have no training programmes.

The Malawi Investment Climate Survey also asked firms in the informal-firm sample whether they provide training to their workers and, if not, for reasons for not providing training. Two important results emerged from the analysis. First, the likelihood of training provision is much lower than among formal firms. Only 38 per cent of informal firms provide training. Moreover, this training consists primarily of internal training. Cost, a lack of incentives and a lack of demand account for a large percentage of responses of firms that do not provide training. Sixty-one per cent of firms that do not provide training do not perceive a need for it. Given that a similar proportion of firms report that training costs are prohibitive, it is difficult to establish which of these two reasons dominates.

The fact that only half of the formal sector provides any training, combined with the fact that half of firms report the availability of skilled workers to be a major constraint, points to an acute shortage of mechanisms to enhance the human resource base for the private sector in Malawi. While on-the-job training could provide an important source of human capital improvement, the problem of skilled labour shortages appears to be more deeply rooted in the education system. The analysis from the Ministry of Labour shows that candidates undertaking technical and vocational (T&V) training from the formal sector pass theory well and are weak on practical skill examinations, whereas candidates from the informal sector pass practical skills well and are weak on theory. In response to this, the Ministry is planning to better equip the training institutions with adequate equipment for formal training, while in the informal sector they plan to provide a wide range of self-learning materials. The analysis also found that 100 per cent of syllabi in Malawi were outdated[3].

In recent years, the Malawian government has introduced a formal training policy through the Technical, Entrepreneurial and Vocational Education and Training Authority (TEVETA). There is a TEVETA levy (1 per cent of total payroll for all employees) that is paid through the Private Sector Training Programme (PSTP). Those that pay this levy are entitled to several forms of training assistance from the government and a reimbursement of 33 per cent of total training costs. TEVETA realised total revenue of MWK 500 000 (USD 3.6 million). However, in reality the outreach and provision of training by TEVETA has been quite limited. On a positive note, TEVETA is now gaining acceptance as an organisation that can deliver quality service, and there is an increasing demand for its services.

Given these two self-reinforcing limitations, there are two policy options open to the government. The first is a short-term policy to provide training to workers who can no longer return to school. This can be done either by providing incentives for firms to train their workers, or by providing incentives and facilities where private firms can host training sessions. There is however widespread evidence to suggest that incentives do not work well, particularly where governments operate under severe budget constraints. TEVETA can play a pivotal role here by having a more proactive strategy for mobilising the private sector into becoming a better partner for TEVETA in training their employees. Part of TEVETA's current strategy is to leverage its activities through linkages with other partners (bilateral donors, World Bank, corporate, non-state actors, civil society, etc.). Given the poor in-house training capacity in much of the private sector, TEVETA's main challenge has been to get the right skills training into the right sectors in an effective manner. The shrinking manufacturing sector is pushing more semi-skilled and skilled people into the informal market in order to survive. TEVETA uses an entrepreneur-training programme to assist both trainees and workers who lose their formal employment to cope in the informal sector through self-employment. The key problem faced with respect to entrepreneurial training for the informal sector is to identify needs effectively and to provide the best fit through technical and vocational training programmes.

3. Trade Testing Services Directorate, Ministry of Labour.

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The second policy option would be a medium- to long-term policy aimed at improving the capacity and quality of schools. An important feature of an improved education system would be a revamped curriculum that is sensitive to the skill requirements of employers. This would be achieved through the following: review, rehabilitation and modernisation of all technical and vocational education centres, both at secondary and tertiary levels[4]; introduction of new and emerging technologies to a selected number of secondary and tertiary education institutions; and expansion of partnerships with the private sector to assist in on-the-job training or technical and vocational skills development for more than just their employees (i.e. placements)

Political Context

In 2007, political infighting continued to threaten Malawi's nascent economic recovery. President Mutharika was elected in May 2004 under the auspices of the United Democratic Front (UDF) party, but within a year had left the party and established a new Democratic Progressive Party (DPP), allegedly due to UDF opposition to his anti-corruption campaign.

Although by-elections in late 2005 and early 2006 saw the election of the first six directly elected DPP MPs, President Mutharika continues to govern without a parliamentary majority. The process of debating the national budget has become increasingly fraught, and the 2007/08 budget was passed after almost three months of delays. A large backlog of outstanding bills has accumulated, as the legislative branch tries to use whatever leverage it can to frustrate the executive.

The impeachment motion launched by opposition MPs, which had appeared to fizzle out, was reignited during the budget debate. While the budget was eventually passed, legal wrangling surrounding the use of Section 65 of the Constitution (which provides for the Speaker to declare vacant the seat of any opposition MP who has crossed the floor to side with the government) still hangs over the operations of government.

Social Context and Human Resources Development

While GDP growth has picked up in the last 4 to 5 years, it will take some time before this translates into improved poverty outcomes. Malawi has one of the poorest distributions of income in the world, with a Gini coefficient of 39 in 2004. The poverty headcount ratio stands currently at 54.2 per cent, and has hardly changed since the last household survey was undertaken in 1997/98. Social indicators are also very poor.

The national adult literacy rate is still low, at 66 per cent in 2007. It is higher among females (78 per cent) than males (54 per cent). The overall youth literacy rate is 76 per cent, which is higher than the adult literacy rate. Interestingly, there is not much disparity between the literacy of young females and males. According to international sources, primary gross enrolment ratio is 120 per cent. The rate is slightly higher for girls (121 per cent) than for boys (118 per cent). These high enrolment numbers indicate that a large proportion of primary school pupils are overage for their grade. This could partly be explained by delayed enrolment along with high dropout and 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 worrisome that a recent ILO survey found that at least 71 per cent of children were in the worst form of child labour.

4. Report on present and future directions of Technical and Vocational Training (UNESCO, January 2006).

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There is currently a special task force in the Ministry of Labour working on this issue, and there has been substantial measurable improvement in this area.

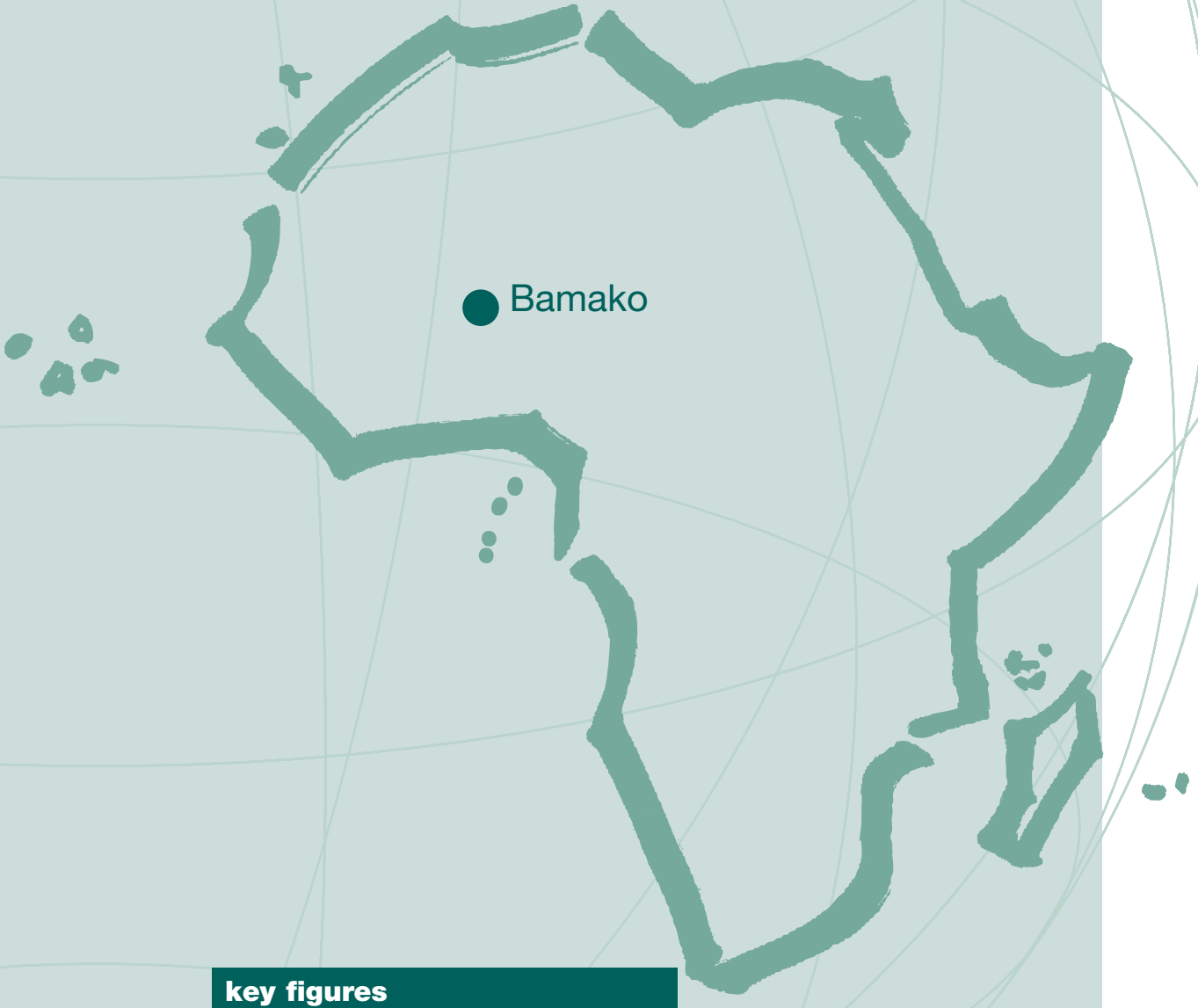
Malawi, like the rest of Southern Africa, has very high levels of HIV prevalence. The last figure available reported that HIV prevalence at rural clinics increased from 12.1 per cent in 1999 to 14.5 per cent in 2004. Much remains to be done for behavioural change to take place in Malawi. In 2004, only 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 which 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 their last sexual intercourse with any 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 last statistics on population from the United Nations highlighted that the total fertility rate for women aged 15 to 49 has declined from 7.6 births per woman twenty years ago to 5.4 in 2007. Contraceptive use, especially use of 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. Malawi's maternal mortality rate is currently 984 per 100 000 live births, which is also one of the highest in the world.

The Welfare Monitoring Survey shows that the national labour force participation rate has declined slightly, from 82 per cent in 2005 to 81 per cent in 2006. The male labour force participation still remains higher than the female. The national unemployment rate among 15-24 year-olds has not changed from 2005 to 2006, and the rate for females is higher than that for males in both years.

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Mali



key figures

• Land area, thousands of km²	1 240
• Population, thousands (2007)	12 337
• GDP per capita, USD at constant 2000 prices (2007)	322
• Life expectancy (2007)	54.5
• Illiteracy rate (2007)	68.9

Mali

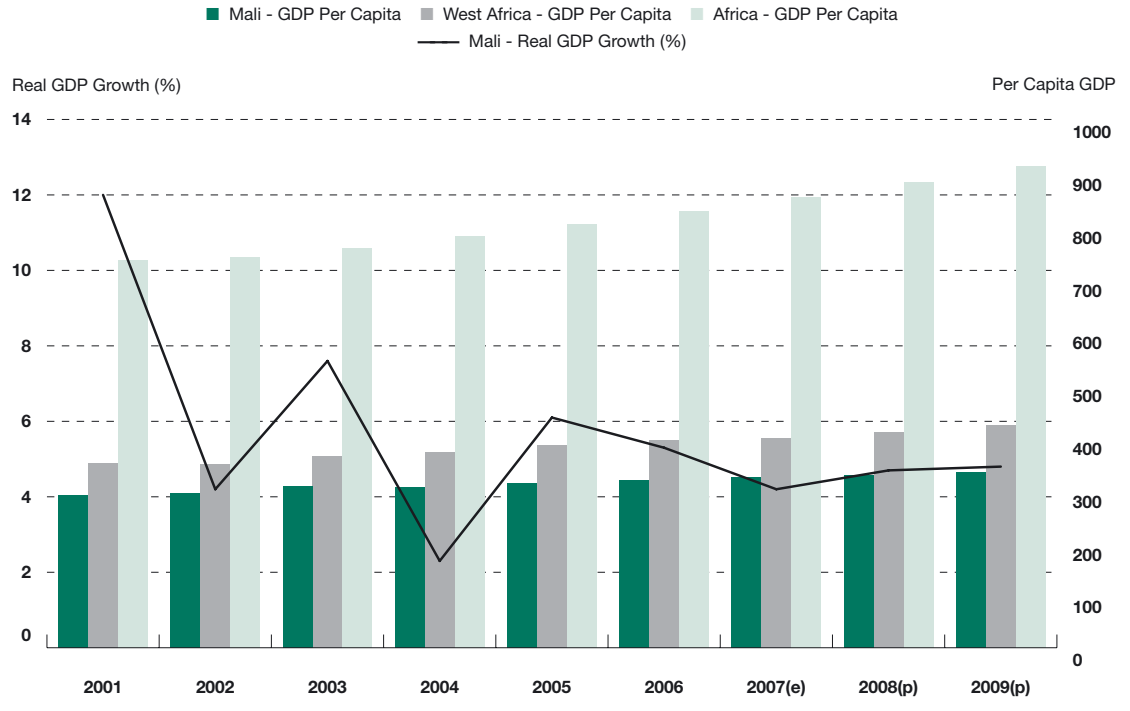

ALGERIA
Taoudenni
Tessalit
MAURITANIA
Araouane
Timbuktu
Niger
Goundam
Gao
Nioro du Sahel
Kayes
Dakar
Niono
Mopti
NIGER
SENEGAL
Ségou
Djenné
Bani
Falémé
Kita
BAMAKO
San
BURKINA FASO
Koutiala
Bougouni
Sikasso
Ouagadougou
Baoulé
GUINEA
0
200 km
Abidjan
CÔTE D'IVOIRE
town > 1 million inhabitants
500 000 - 1 000 000
100 000 - 500 000
< 100 000
major road
secondary road
railway
track
main airport
secondary airport
commercial port
petroleum port
fishing port

Mali

ECONOMIC GROWTH IN MALI was fairly strong — in the 4.2 per cent range — in 2007. This was nonetheless a fall from 2006, when growth had reached 5.3 per cent. It is expected to be somewhat higher in 2008 and 2009. The 2007 growth slowdown is explained by a decline in the production of cotton (the main engine of the economy) and gold. On the other hand, food production progressed well. Mali has just successfully concluded its three-year programme with the International Monetary Fund (IMF). The World Bank and the African Development Bank (AfDB) are considering adjusting their country strategy to align it with the Growth and Poverty Reduction Strategy Paper (GPRSP) for 2007-11. Despite these encouraging results, Mali needs to reinforce its implementation of structural reforms so as to consolidate revenues, control expenditures and accelerate economic growth. This will involve, amongst other measures, restraining tax exemptions, and privatising the Compagnie malienne pour le développement des textiles (CMDT) and Énergie du Mali (EDM).

The country must free itself from the twin shackles of cotton and gold.

Figure 1 - **Real GDP Growth and Per Capita GDP**
(USD at constant 2000 prices)



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

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Recent Economic Developments

Mali's nominal GDP was estimated at XOF 3 344 billion (CFA Francs BCEAO) for 2007, up from XOF 3 132 billion in 2006. Growth continued to slow down in 2007: GDP growth rate settled at close to 4.2 per cent, against 5.3 per cent in 2006 and 6.1 per cent in 2005. GDP growth is driven mainly by the primary and tertiary sectors. In 2008 and 2009, growth is forecast to step up to an average annual rate of 4.8 per cent.

Despite a decline in cotton production, the primary sector, which accounted for nearly 37.5 per cent of GDP in 2006, recorded real growth of 4.3 per cent in 2007, against 4.4 per cent in 2006. With a 10.8 per cent growth in volume, food production was the engine of the primary sector. The good performance of cereal production is mainly explained by an increase in arable land in substitution for cotton plantations. It is also due to good rainfall, the continued implementation of the programme for the development of irrigated zones and the distribution of improved varieties of rice and maize. In 2007, groundnut production rose by more than 14 000 tonnes to settle at about 307 717 tonnes.

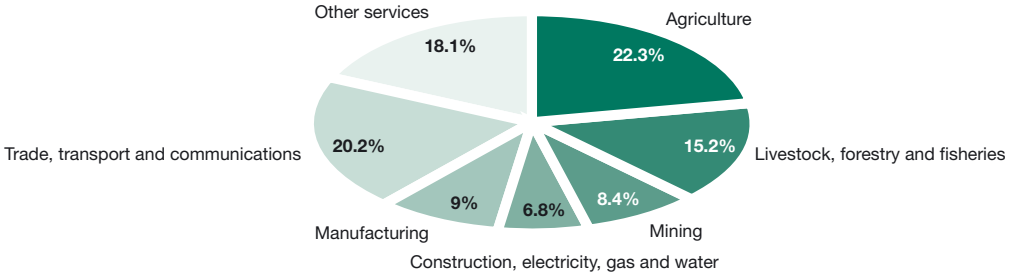
The problems in the cotton sector persisted in 2007. The reduction in the crop surfaces planted with cotton resulted in a decline in production of almost 27 per cent, to about 303 000 tonnes. Moreover, the purchase price to producers fell from XOF 165 per kilogram in 2006 to XOF 160 per kilogram in 2007.

The other branches in the primary sector rose significantly in 2007. Livestock progressed by nearly 4.5 per cent due to good availability of pastures. The implementation of a number of fish-farming projects brought about a slight upsurge in production in the fisheries sector (4.3 per cent growth in 2007, against 4.0 per cent in 2006).

In the primary sector, real-growth projections stand at 6.3 per cent for 2008 and 5 per cent for 2009, and predict a strong increase in food-crop production. If rainfall is good, food production should grow by more than 9 per cent in 2008. Production should also benefit from the favourable impact of the new, or continued, implementation of a number of projects: the agricultural services and producer organisations support programme (PASAOP); the rural development support programme in the Mopti region; the programme for agricultural competitiveness and diversification (PCDA); the rural community support project (PACR); the northern regions investment and rural development programme; and the Baguinéda irrigation scheme modernisation project.

In 2008, the other primary-sector branches should be favoured by the continued management of the main lakes of the inland Niger delta and by the implementation of the second phase of the agro-forestry-pastoral and livestock project in north-east Mali. They should also benefit from the implementation of the Liptako-Gourma livestock development project and from the continental-fishing development support project.

Figure 2 - **GDP by Sector in 2006** (percentage)



Source: Authors' estimates based on National Directorate of Statistics and Data Processing (DNSI) data.

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The secondary sector, which represented nearly 17.4 per cent of GDP in 2006, declined slightly in 2007, due mainly to a slowdown in cotton ginning and a decline in mining. After recording real growth of 8.2 per cent in 2006, mining activity fell by 3.2 per cent in 2007. In the mining industries sector, gold production contracted by 11.5 per cent in 2007. All mines recorded falls in production except the Tabakoto mine, which extracted close to 1.1 tonnes more, reaching a total production of 2.5 tonnes. Taken as a whole, mining industries declined by nearly 4 per cent in 2007.

Manufacturing production fell slightly, by 1 per cent. This evolution can be attributed mainly to the slowdown in ginning activity, which in turn is due to the decline in the cotton production of the previous season. Investments made in application of the implementation of the programme for the extension of electricity coverage led to a 10 per cent increase of energy production in 2007 in terms of real value. As for the construction sector, it recorded 7 per cent real growth due, in particular, to the completion of a number of public works (construction of the administrative district, social housing in Bamako and the road from Diéma to Didieni). The Markala sugar project includes plans to develop the cultivation of sugar cane in the Ségou region and to construct a processing plant. Also, the public-private enterprise Sukala is planning to set up a new sugar production plant that is to go into service in 2008. This is a public-private partnership (PPP) project for which the final impact studies are being completed. The project is expected to go into operation during the second semester of 2008.

The secondary sector should experience some recovery: growth projections stand at 4.6 per cent for 2008 and 5.7 per cent for 2009. This trend should result from a recovery in mining activity thanks to stepped-up production in the smaller mines, notably Kodiéran (5 tonnes in 2008, against none in 2007), Tabakoto (3.5 tonnes in 2008, against 2.5 tonnes in 2007) and Syama (3.5 tonnes in 2008, against none in 2007). A decline in production is expected in the large mines. The depression in the manufacturing sector, especially in cotton ginning, is expected to continue in 2008 and 2009 as a consequence of the continued decline in cotton production.

Investments are planned in the energy sector in order to increase the country's electricity coverage. Mali suffers from a huge energy deficit, which has negative consequences for production. The government intends to absorb this deficit through investments and the implementation or pursuit of several projects in 2008, including the interconnection between Mali and Côte d'Ivoire and the start of electricity production activities by the private enterprise Société de promotion du matériel (SOPAM). SOPAM is to install a heavy-fuel-oil thermal power station (five 11.2-megawatt units) at a cost of XOF 15 billion. These investments will have a positive impact on production in the energy sector in 2008 and 2009.

The construction sector is expected to record a 7 per cent growth rate in 2008 as a consequence of the continued construction of the road from Kayes to Bafoulabé, the rehabilitation of the roads from Gao to Labezanga and from Bougouni to Sikasso (7.3 billion in 2008), and the maintenance works on the road from Sévaré to Gao.

The tertiary sector, which represented 38.5 per cent of GDP in 2006, recorded a 6.3 per cent growth rate in 2007. All the branches in this sector grew in 2007: the most dynamic were transport and communications, owing to the extension of geographical coverage achieved by cellular-telephony companies and to the implementation of the transport-corridor improvement project.

In 2008 and 2009, growth in this sector is forecast to slow down to 4.8 and 3.7 per cent, respectively. Growth will depend on the continued extension of the cellular-telephony network and on the promotion of new telecommunications products (Multimedia Messaging Service [MMS]) and Internet services. Also, the airline company Compagnie aérienne du Mali (CAM) and the railway enterprise Transrail SA should both increase their traffic, due to the fact that they will have acquired new equipment. Finally, in the financial sector, there should be an increase in the activity of the

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Table 1 - **Demand Composition**

	Percentage of GDP (current prices)		Percentage changes, volume			Contribution to real GDP growth		
	1999	2006	2007(e)	2008(p)	2009(p)	2007(e)	2008(p)	2009(p)
Gross capital formation	**18.6**	**20.4**	**16.4**	**10.1**	**6.5**	**3.2**	**2.2**	**1.5**
Public	6.7	7.6	16.1	7.0	2.0	1.2	0.6	0.2
Private	12.0	12.8	16.6	12.0	9.0	2.0	1.6	1.3
Consumption	**90.6**	**82.6**	**3.2**	**3.5**	**5.2**	**2.7**	**3.0**	**4.3**
Public	17.0	17.3	-2.1	2.0	1.5	-0.3	0.3	0.2
Private	73.6	65.3	4.3	3.8	5.9	3.0	2.7	4.1
External demand	**-9.3**	**-3.0**				**-1.7**	**-0.4**	**-1.0**
Exports	20.8	29.9	2.3	6.1	2.5	0.6	1.6	0.7
Imports	-30.1	-32.9	7.5	6.5	5.2	-2.3	-2.1	-1.7
Real GDP growth	**-**	**-**	**-**	**-**	**-**	**4.2**	**4.7**	**4.8**

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

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Banque pour le commerce et l'industrie du Mali in 2008, which will be the institution's first year of full activity.

On the demand side, public consumption in 2007 rose more than private consumption. In addition to infrastructure works, hiring — mainly in the education, health and security sectors — could explain the rise in public demand. Total final consumption achieved real growth of 2.5 per cent in 2007. In nominal terms, final consumption is forecast to increase by nearly XOF 90 billion in 2008, owing to both private and public consumption. An increase in the latter would essentially be due to continued hiring in the civil service.

According to IMF data, the investment rate, i.e. the investment/GDP ratio, rose from 20.4 per cent in 2006 to 22.9 per cent in 2007. The rate of public-investment stagnated at around 7.6 per cent in 2006. As for total investment, its real growth increased by more than 16.4 per cent between 2006 and 2007. Private investment is expected to progress by 12 per cent in 2008, due in particular to investments planned for the establishment of a number of industrial units (a cement plant, a sugar plant, a chemical-fertiliser factory) and to continued public-investment efforts in basic infrastructure.

Macroeconomic Policies

Fiscal Policy

Total revenue has maintained the upward trend observed in the past few years and increased by 3 per cent in 2007 to reach XOF 581.9 billion, against XOF 554.2 billion in 2006. This positive result is mainly due to an almost XOF 20 billion increase in tax revenues. In 2007, direct and indirect taxes, and taxes on oil products were raised by 14 per cent, 8.3 per cent and 25 per cent, respectively. Repayments of VAT (value-added tax) went up from XOF 21.4 billion in 2006 to XOF 27 billion in 2007. The mediocre performance in revenues is explained by the various tax exemptions, in particular those granted as exceptions and for oil products. The tax burden remained stable in 2007, at a low 15.4 per cent, an indication of the efforts that remain to be made in the area of revenue collection. The tax-burden ratio is lower than the 17 per cent minimum set by the West-African Economic and Monetary Union (WAEMU). This is one of the few Community criteria not complied with by Mali.

In 2006, Mali's debt was cancelled through grants, which rose from XOF 244 billion in 2006 to XOF 181 billion in 2007. Total grants to Mali in 2007 matched the general trend of those that the country

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

	1999	2004	2005	2006	2007(e)	2008(p)	2009(p)
Total revenue and grants[a]	**19.7**	**21.2**	**21.5**	**56.2**	**22.7**	**22.9**	**22.7**
Tax revenue	13.0	14.9	15.5	15.3	15.4	15.6	15.5
Grants	4.6	3.9	4.0	38.9	5.3	5.2	5.2
Total expenditure and net lending[a]	**23.1**	**23.8**	**24.6**	**24.9**	**23.7**	**26.2**	**26.4**
Current expenditure	12.2	14.9	14.6	14.4	13.1	13.3	13.0
Excluding interest	*11.4*	*14.3*	*13.9*	*13.9*	*12.7*	*12.9*	*12.4*
Wages and salaries	3.6	4.6	4.8	4.7	4.5	4.4	4.2
Interest	0.8	0.7	0.6	0.5	0.4	0.4	0.6
Capital expenditure	11.0	9.2	9.3	10.6	12.0	12.5	12.1
Primary balance	**-2.6**	**-1.9**	**-2.5**	**31.8**	**-0.6**	**-3.0**	**-3.1**
Overall balance	**-3.4**	**-2.6**	**-3.1**	**31.3**	**-1.0**	**-3.4**	**-3.7**

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

StatLink http://dx.doi.org/10.1787/322031678277

usually receives, 2006 having been an exceptional year. If the XOF 1 085.2 billion in grants provided in 2006 under the Multilateral Debt Relief Initiative (MDRI) are subtracted from total grants in 2006, the latter amounted to XOF 159.3 billion. So grants, excluding MDRI, increased by 12.6 per cent in 2007.

Hence, total revenues and grants decreased from XOF 1 798.7 billion in 2006 to XOF 763.1 billion in 2007. If MDRI grants are excluded from the calculations, total revenues and grants increased by 6.9 per cent in 2007.

Projections for total revenues in 2008 are estimated at XOF 649.4 billion. Tax revenues are expected to reach 574.2 billion, a 15.5 per cent increase from 2007. These estimates are based on assumptions of: continued implementation of the government plan to improve and modernise the management of public finances (PAGAM/GFP); better supervision of the mining sector; intensification of the fight against fraud; and control over exemptions.

Total expenditure and net lending on a commitment basis rose from XOF 796.3 billion in 2006 to XOF 886.3 billion in 2007, which represents 11 per cent growth. Current expenditure reached XOF 459 billion in 2007, an 11.5 per cent increase from the previous year. Current expenditure thus amounted to 14.5 per cent of GDP. Staff expenditure (salaries), which increased by nearly XOF 13 billion in 2007, stood at 4.6 per cent of GDP. This rise in salaries is due to continued hiring in the education sector and to the payment of statutory increases for civil servants. Capital expenditure rose by 26 per cent, from XOF 340.8 billion in 2006 to XOF 429.6 billion in 2007. External financing of capital expenditure amounted to 62.5 per cent of investment financing in 2007, against 67.5 per cent in 2006.

Total expenditure and net lending are expected to stand at XOF 1 033.7 billion in 2008. Staff expenditure should continue to increase as a result of civil servants' statutory increases, hiring in several sectors (education, health, armed forces and security, justice, and general administration), and the implementation of a schedule of increases in civil servants' salaries, aimed at obtaining improved performance. The wage bill is thus projected to reach XOF 190.6 billion in 2008, against XOF 160.3 billion in 2007.

On the basis of scheduled expenditure and excluding grants, the deficit in public finances stood at XOF 304.4 billion in 2007, against XOF 242.1 billion in 2006. In 2007, public revenues (including grants) and total public expenditure (including loans) represented 22.7 per cent and 23.7 per cent of GDP, respectively. The public deficit thus amounted to 6.3 per cent of GDP (excluding grants) in 2007, against 7.6 per cent in 2006. This considerable

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deficit is linked to the growth in capital expenditure, mostly financed by the government. It should be observed that in 2006, Mali received grants amounting to XOF 1 085 billion for debt relief under the MDRI: this is the reason for the large surplus in 2006. According to the IMF, total grants excluding MDRI amounted to XOF 159 billion in 2006, against XOF 115 billion in 2005 and XOF 181 billion in 2007. In 2008, the budget deficit on a commitment basis, excluding grants, is predicted to stand at XOF 384.3 billion, or 8.6 per cent of GDP.

Monetary Policy

Monetary and credit policies are conducted regionally by the Central Bank of West African states (CBWAS), the main objectives being to preserve the parity between the CFA franc and the euro, and to control inflation. Therefore, like that of the European Central Bank (ECB), monetary policy in the zone is rigorous, and is backed by an appropriate level of international reserves. The only difference lies in the fact that the CBWAS takes the economic situation of its member countries into account when setting its monetary policy. The outstanding money supply was estimated at XOF 1 006.5 billion in 2007, representing an 8 per cent increase from its 2006 level. The money supply is expected to grow by 8.3 per cent in 2008 to stand at XOF 1 090 billion. Net external assets rose from XOF 524 billion in 2006 to XOF 564 billion in 2007. The XOF 40-billion increase came essentially from CBWAS assets. In 2008, external assets are expected to grow by XOF 40 billion. The stock of domestic credit amounted to XOF 443.5 billion in 2007, against XOF 407 billion in 2006, representing an increase of XOF 35.5 billion. This is explained by the increase in lending to the economy. Domestic credit is projected to stand at XOF 486.7 billion in 2008, an increase of XOF 44.2 billion, owing to the rise in both net government borrowing and lending to the economy.

The average inflation rate reached 2 per cent in 2007, against 1.5 per cent in 2006. This rise was essentially due to increases in the prices of milk, edible oils, other fats, beef, fresh vegetables and long-distance transport. The rise in the world-market price of milk powder resulted in a reduction of supply on the local market. The effect of these different increases, however, was offset by a lowering of the prices of unprocessed cereals and sugar. These lower cereal prices were made possible by good production and an increase in community and family stocks built up during the previous season. Moreover, in 2007, in order to offset the effects of the crisis created by the early arrival of the lean period, the government put out a joint ministerial order suspending food exports (of rice, dry cereals, milk, sugar, edible oils and wheat flour).

Average inflation is expected to be 2.5 per cent in 2008.Mali complies with the Community convergence criterion for inflation, which is, that it should be lower than 3 per cent.

External Position

In 2007, external trade was characterised by a slowdown in soaring oil prices, a drop in the US-dollar exchange rate, a continued rise in the price of gold and a slight increase in the international price of cotton. The combination of these factors resulted in a deterioration of Mali's trade balance. In 2008 and 2009, the prices of gold, oil and cotton are expected to continue on the same trend.

The IMF set projections for goods exports at XOF 724 billion for 2007, down 10.3 per cent from 2006. This slowdown in exports is due to the poor performance in gold and cotton lint production. In 2007, gold exports by value took a 10.3 per cent drop despite the rise in international prices, because lower quantities of gold were exported (about 55 tonnes less that in 2006). The average selling price of gold had nevertheless settled at about XOF 9 699.9 per gram, up 2.4 per cent from 2006. The drop in production can be explained by a slowdown in the activity of most existing mines, and by delays in commissioning the new Kodiéran and Syama mines, where production was to begin in 2007 but has been postponed to 2008.

The significant 23.2 per cent drop in cotton lint exports observed in 2007 was the combined result of

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a simultaneous fall in production and, to a lesser extent, in prices. Hence, exports fell in volume by almost 104 000 tonnes. In 2006, the volumes exported had already contracted by 27.2 per cent. These considerable drops in cotton exports illustrate the crisis that the sector is going through. Not only have export volumes fallen, but the selling price of cotton has also dropped. The average selling price obtained by the CMDT in 2007 was XOF 618.8 per kilogram, which is nearly 1.8 per cent less than in 2006. Exports should improve slightly in 2008 and 2009: the total value of exports is expected to reach XOF 769.0 billion in 2008 and XOF 826 billion in 2009.

Cottonseed production for the 2007/08 season is predicted to reach 303 600 tonnes, which is 26.8 per cent less than that of the previous season, a mediocre performance explained by low rainfall and the reduction of land surfaces planted; added to this is a 0.5 per cent fall in the export price.

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

	1999	2004	2005	2006	2007(e)	2008(p)	2009(p)
Trade balance	-1.2	-2.4	-2.7	2.5	1.4	-0.3	-0.5
Exports of goods (f.o.b.)	19.4	19.6	20.0	25.2	24.4	24.1	23.8
Imports of goods (f.o.b.)	20.6	22.0	22.7	22.7	23.1	24.4	24.3
Services	-8.9	-5.9	-4.7	-5.3	-4.8	-4.1	-3.9
Factor income	-2.4	-3.9	-4.0	-4.8	-5.6	-5.0	-4.8
Current transfers	3.9	3.9	4.1	3.4	3.3	2.3	2.2
Current account balance	**-8.6**	**-8.2**	**-7.3**	**-4.2**	**-5.8**	**-7.1**	**-7.1**

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

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Starting in 2008, the commissioning of the Kodiéran and Syama mines should result in a rise in the value of exports of non-monetary gold. In 2008, gold production is expected to reach 58.1 tonnes, for a total value of XOF 572.2 billion, provided that gold continues to command high prices on the markets. In 2008, exports of other products should increase by XOF 4 billion, including XOF 2.2 billion for livestock on the hoof.

For 2007, imports are estimated at XOF 762 billion (4.8 per cent more than in 2006). This increase is the result of growth of over 10 per cent in capital-goods imports, due in turn to simultaneous increases in prices and volumes of imported machines and vehicles. Consumer-goods imports also increased as an effect of growth in household consumption. Conversely, oil-product imports decreased slightly in 2007 (XOF 2 billion less than in 2006) because of the decline in the average price of imports (by about 4.8 per cent) resulting from a depreciation of the US dollar against the euro that was not offset by increases in the world price of oil. Imports of food products fell by nearly 3.7 per cent in 2007 thanks to the good results of the 2006/07 agricultural season. In 2008 and 2009, the growth of total imports is expected to be weak, about XOF 799 billion and XOF 835 billion, respectively. These projections are made on the assumption of a rise in local agricultural production due to good seasonal yields. The value of imports of oil products should stand at XOF 172 billion in 2008 and XOF 178 billion in 2009. Imported volumes should continue to rise at the pace of economic growth.

In 2007, the deficit in the services balance declined by XOF 3 billion to stand at XOF 172 billion, thanks to a dynamic tourism sector. The same trend is expected to continue in 2008 and 2009.

Overall, external trade shows an increase in the current external deficit, excluding official transfers: 5.8 per cent in 2007, against 4.2 per cent in 2006. The increased deficit is due to the decline in exports. In 2008 and 2009, the external deficit is expected to stand at an average of about 7.1 per cent.

The deficit in the revenue balance contracted in 2007: XOF 127 billion, against XOF 176 billion in

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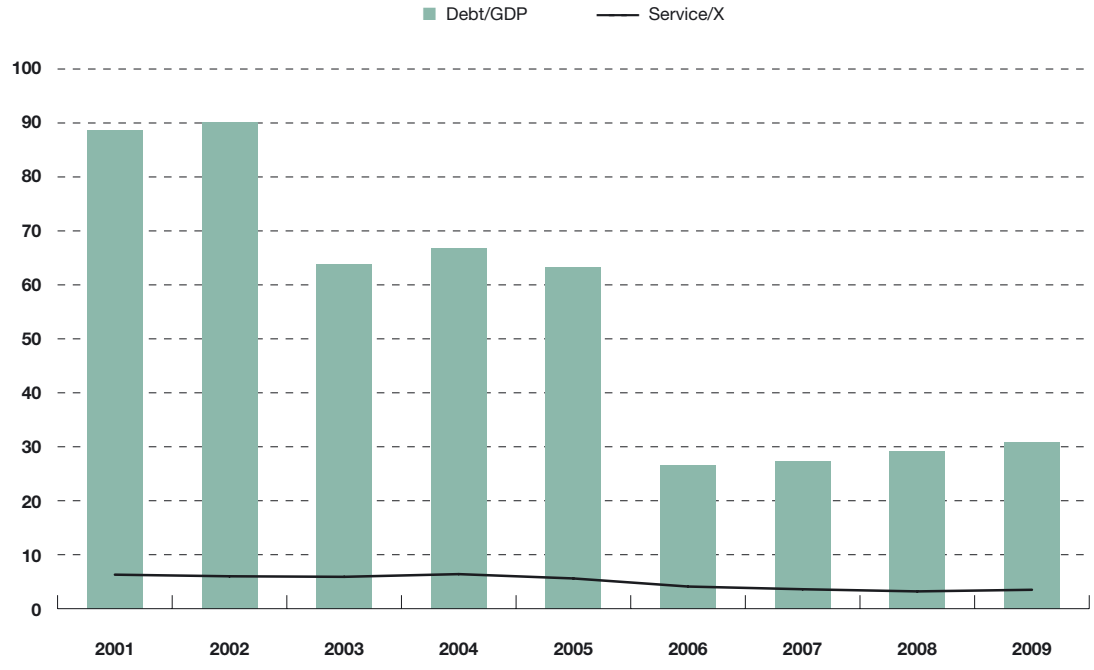
2006. This improvement is the result of the effect of the decline in gold exports on the investment incomes of mining enterprises (i.e. a decline in the incomes of foreign investors). The revenue balance is expected to improve by XOF 12 billion in 2008 and XOF 20 billion in 2009 (i.e. by 7 per cent and 12.5 per cent, respectively).

In 2007, the current-transfers balance showed a surplus of 123 billion, or 6 billion less than in 2006, owing to the contraction in budget aid, which had been expected. Implementation of the Poverty Reduction and Growth Facility (PRGF) signed in 2004 with the IMF for the 2004-07 period has been judged satisfactory, even though efforts remain to be finalised in the area of structural reforms. The Country Assistance Strategy (CAS) for Mali adopted by the World Bank for the 2004-06 period has also reached its term. The World Bank is considering a new country strategy for Mali starting in 2008, and the AfDB has begun the mid-term review of its country strategy.

Mali was admitted into the Heavily Indebted Poor Countries (HIPC) Initiative of the World Bank and the IMF in September 2000, and has begun to benefit from debt relief. Hence, the debt-service ratio fell from 12.8 per cent in 2000 to 6.8 per cent in 2002. After the implementation of additional structural measures in agreement with the Bretton Woods institutions, the country reached the completion point in March 2003, leading to a 29 per cent reduction in its total external debt. In addition, Mali was one of the 19 countries selected to benefit from the MDRI set up by the G8 to enable the complete cancellation of all loans contracted with multilateral agencies before 1 January 2005. In the case of Mali, 68.5 per cent of its external debt was contracted with multilateral creditors. The resources freed up under the HIPC and MDRI Initiatives are being used primarily for expenditure on education, health and rural-development.

This cancellation brought Mali's debt down to only 20 per cent of GDP in 2006 (against 48.8 per cent in

Figure 3 - **Stock of Total External Debt** (percentage of GDP) **and Debt Service** (percentage of exports of goods and services)



Source: IMF.

StatLink http://dx.doi.org/10.1787/320012161838

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2005) and debt servicing shrank to only 3.7 per cent of GDP. In 2007, the public debt ratio stood at 22.6 per cent of GDP, and debt servicing at 3.4 per cent.

Structural Issues

Recent Developments

In the public sector, structural reforms are being continued in order to bring about improvements in the area of good governance, to which the government gives its full support. In the domain of public finances, there is a general auditor in charge of supervising the legality and genuineness of public revenue and expenditure. Discussion is in progress between the government and development partners with a view to setting up a government-independent audit office for the impartial authentication of public finances. Civil society is becoming more organised, and a variety of organisations have been formed, to contribute to the fight against corruption and financial delinquency.

A Public Expenditure and Financial Accountability (PEFA) analysis was completed in January 2007. The report provides recommendations for reforms in the country's public-finance management system. In 2007, the government began implementing its reform plan based on the recommendations of the PEFA, and it will continue to do so in 2008. Reform of the public-finance system in fact began with the plan for integrating the expenditure chain and the plan to create a common database for the budget and Treasury departments. The authorities have also adjusted their action plan to address the problems related to the monthly follow-up of budget execution, public information on revenue and expenditure, and payment delays. For the 2006-08 period, the government has made a commitment to its partners to reinforce audit-and-control in the awarding of contracts, and accountability in regional expenditure.

The provisional actuarial survey of the Caisse des retraités du Mali (CRM), the civil-service pension fund, showed that failing reform, the fund's operational deficit will increase and reach unsustainable levels. Although the draft of a Finance Act for 2008 includes the reform of the CRM, the corresponding bill has not yet been submitted to the National Assembly because negotiations with the unions were not completed until early October 2007. The authorities intend to submit the bill before November 2008, and believe that they will be able to obtain the corresponding budgetary savings starting in 2008, as planned. If this were to prove impossible, the authorities would make savings of just over 0.1 per cent of GDP on expenditures of lesser priority, in the areas of transfers, goods and services, and staff: this would offset entirely the revenue foregone while leaving overall expenditure unaltered.

In the financial sector, the survival of the housing bank, the Banque de l'Habitat du Mali (BHM) depends on the recovery of unproductive loans granted to a few large real-estate promoters. A bill aiming to reinforce the legal foundation of the BHM to allow it to collect its debt claims was submitted to the National Assembly in 2007. As for deposit withdrawals, the situation has returned to normal, which has allowed the BHM to maintain its liquidity ratio distinctly above the minimum level of 25 per cent (the permanent structural benchmark) and to resume its lending activities on a small scale. As the delay in the reform project has not had a negative impact on its operations, the viability of the BHM henceforth depends on its capacity to collect its non-productive debt claims and to develop its lending operations.

Improvement in the business climate is a government priority. However, the World Bank's *Doing Business 2008* report ranks Mali 158th out of 178 countries in the Ease of Doing Business category. To improve the business climate, reactivate the privatisation programme, and develop infrastructure and human capital, the government intends, through its Presidential Investment Council, to remove the obstacles to starting up a business, to reduce the rigidities of the labour market and to improve access to financial services. The authorities have made a commitment to follow the audit-report recommendations scrupulously and to reinforce the judicial system. For public enterprises, the priority is to solve management problems in order to increase productivity and protect public finances

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With the difficulties faced by the cotton sector and the huge deficits of the CMDT, the latter's privatisation is more than ever on the agenda. The state has made some progress on this with its selection, in March 2007, of a consultant responsible for preparing this privatisation. The goal is to finish this operation in 2008. On the other hand, regarding the Banque internationale pour le Mali (BIM-SA), the authorities have not yet issued the final call for tender for the disposal of the state's shares, but they intend to do so in 2008. They have reiterated their intention both to privatise the BIM-SA and to launch the privatisation process of the BHM in 2008. The year 2008 should also be marked by the start of the privatisation of the CMDT and the completion of that of the Société des télécommunications du Mali (SOTELMA).

To improve the efficiency and viability of the financial sector while stimulating growth, the government has outlined a new development strategy for the financial sector; this was finalised in October, in collaboration with IMF and World Bank services. The priorities in this area are to strengthen the balance sheets of public institutions, increase private-sector participation and widen access to credit in the banking sector. The IMF has encouraged the authorities to carry out their plan to dispose of the state's shares in the BIM-SA and in the Banque de développement du Mali (BDM-SA), and to co-ordinate this operation with the sale of the shares owned by the CBWAS. The strategy for the financial sector will be reviewed after completion of the evaluation programme for the regional financial sector (planned for late 2007) and of Mali's Financial Sector Assessment Programme (FSAP), which is to succeed it.

Mali's strategic framework for growth and poverty reduction (CSCRP) 2007-11 understandably placed the accent on the development of the private sector to drive growth. Considering the trends and the current reform projects, real growth of GDP is estimated to stand around 5 per cent, which is beneath the 7 per cent goal set in the CSCRP 2007-11. Two conditions seem essential for accelerating growth: improving the business climate through legal and regulatory reforms; and refocusing the state on its sovereign functions while reinforcing governance by promoting more responsible and more transparent public-finance management.

In July 2007, the authorities signed a loan and leasing agreement with the Islamic Development Bank (IDB) with a much lower level of concessionality than the minimum set by the electricity programme, to finance an increase in electricity production capacities. The authorities decided to acquire a high-output 60-megawatt production unit, operating on heavy fuel oil and not on diesel oil, as is currently the case for a number of relatively weak, old and inefficient generators. This investment was judged to be indispensable and urgent, in order to avoid electricity shortages. The World Bank is helping the government to seek means of reducing the financing costs for the energy sector.

Technical and Vocational Skills Development

A national directorate for technical and vocational education (DNETP) was set up in 2002. Its mission is to draw up the features of national policy for technical and vocational education. Its responsibility is to define and open up educational options to fit the needs of the economy, to promote public and private technical and vocational education, and to co-ordinate and ensure technical supervision of colleges offering technical and vocational education.

Technical and vocational education comprises two types of option: a short two-year curriculum leading to a vocational training certificate (CAP); and a four-year curriculum awarding a technician's certificate when completed.

Between 1996/97 and 2003/04, the total number of enrolments in technical- and vocational-education institutions grew from 18 179 to 39 669. Enrolments in the public institutions more-or-less stagnated, whereas in the private institutions, they increased significantly. Consequently, private institutions, which accounted for 55 per cent of enrolments in this form of education (long or short curriculum) in 1996/97, had increased their share to 75 per cent by 2003/04.

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The present structure of operating expenditure per education category seems to be consistent with the development objectives for the sector. The efficiency and equity of resource allocation for basic education have been greatly improved, considering the gains in terms of social return and contribution to reduction in inequality. Investment expenditure recorded strong progression at every level. The priority accorded to technical and vocational education is expressed in the figures: it drew nearly 15.6 per cent of investment expenditure in 2008, against 12.7 per cent in 2005.

Political Context

In the elections of April 2007, President Amadou T. Touré was re-elected on the first round for a second five-year term, with 68.3 per cent of the votes. He should therefore remain in power until 2012. The runner-up, Ibrahim Boubacar Keïta, who was President of the National Assembly when the elections were held, scored only 18.6 per cent of the votes. This election put the re-elected president in a stronger position, which meant that he was able to apply a number of somewhat controversial policies. His re-election energised the Alliance pour la démocratie et le progrès (ADP), a coalition of political parties in the presidential line, for the general elections. The ADP won 113 seats out of a total of 147, up from 97 seats in the previous legislature. The presidential line can also count on the support of so-called independent parties, which secured 15 seats. The president of the ADEMA (Alliance pour la démocratie), the largest party within the ADP, was elected president of the National Assembly on 3 September 2007.

Modibo Sidibé was named Prime Minister, and a 26-member government was formed. The Parti pour la renaissance nationale (PARENA), Solidarité africaine pour la démocratie et l'indépendance (SADI) and the Rassemblement pour le Mali (RPM) proclaimed themselves leaders of the opposition. Among the government's priorities will be to reinforce security in the north of the country, and to carry out the ambitious poverty-reduction programme. To do so, it benefits from the support of the community of technical and financial partners.

The Algiers agreement, signed in July 2006 and currently being enacted, is meeting some opposition. Twareg rebels continued their attacks in 2007. In May, a dissident Twareg rebel, Ibrahim Ag Bahanga, attacked an army post in the north-eastern city of Tinzaoutene. In August, tension stepped up even more when 40 soldiers were kidnapped by Ibrahim Ag Bahanga's rebels in the north of the country. To calm things down, the government asked Iyad Ag Ghaly, the leader of the Alliance démocratique du 23 mai 2006 pour le changement (the Twareg group formed by Colonel Fagaga, Iyad Ag Ghaly, Ahmed Ag Beiba and Ibrahim Ag Bahanga) to represent the Twareg movement in the implementation of the Algiers agreement. This solution failed to work, and the government asked Iyad Ag Ghaly to mediate in finding a solution to the crisis. Most Twareg rebels surrendered their weapons in March and are now regrouped in Kidal.

Social Context and Human Resources Development

The United Nations Population Fund (UNFPA) estimated Mali's population to be about 12.3 million in 2007. The fertility rate is very high — nearly 6.5 children per woman —but so are the child-mortality and emigration rates. Nearly 3 million Malians live abroad, mainly in France and in Côte d'Ivoire.

According to national sources, life expectancy at birth was estimated to be 48.9 years in 2004 (49.7 years for women and 48.4 years for men). The infant-mortality rate (127 deaths per 1 000 live births in 2007) is one of the highest in the world. There is an average of eight practising physicians per 10 000 population, and 41 per cent of births are assisted by qualified medical personnel. These figures, however, conceal the huge disparities between the rural world and the urban world. Only 36 per cent of the population has access to health services within 5 kilometres from their home, and only 8 per cent have access to modern sanitary services.

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Mali is amongst the countries featuring the greatest illiteracy rate. In 2007, according to the United Nations Educational, Scientific and Cultural Organization (UNESCO), nearly 70 per cent of the population could neither read nor write (79 per cent of women and 58.3 per cent of men).

Access to education improved significantly in the past decade, but considerable disparities between girls and boys remain. The GER (gross enrolment rate) in primary education grew by nearly 9.7 per cent, from 64.4 per cent in 2002/03 to almost 80 per cent in 2005/06. Both girls and boys have benefited from this evolution. Sociocultural tradition has however continued to weigh on the gender factor, and illiteracy remains much higher amongst girls than amongst boys. The PTR (pupil-teacher ratio) remained constant between 2002 and 2004 (57 pupils per teacher). In 2005, it went down to 54.4 pupils per teacher. This positive change is the result of considerable investments in school infrastructure and in the hiring of contract teachers.

Gender disparities in access to education vary depending on the region, and this trend has become more accentuated over time. The city of Bamako, along with four regions — Kayes, Koulikoro, Sikasso and Ségou — have gender gaps in access to education that are greater than 20 points in favour of boys.

Repetition rates are quite high in primary education, and they worsen with increasing years and education level. There is a 35 per cent average repetition rate in primary schools. The repetition rate in the first years of school has fallen substantially, but that of the later years has increased. This therefore raises the issue of the quality and effectiveness of education.

Only 55 per cent of pupils pass their entrance exams into junior secondary school, and 66 per cent of those obtain the junior secondary education certificate (BEPC). The number of teaching hours per year is distinctly lower than the minimum 780 hours recommended by UNESCO.

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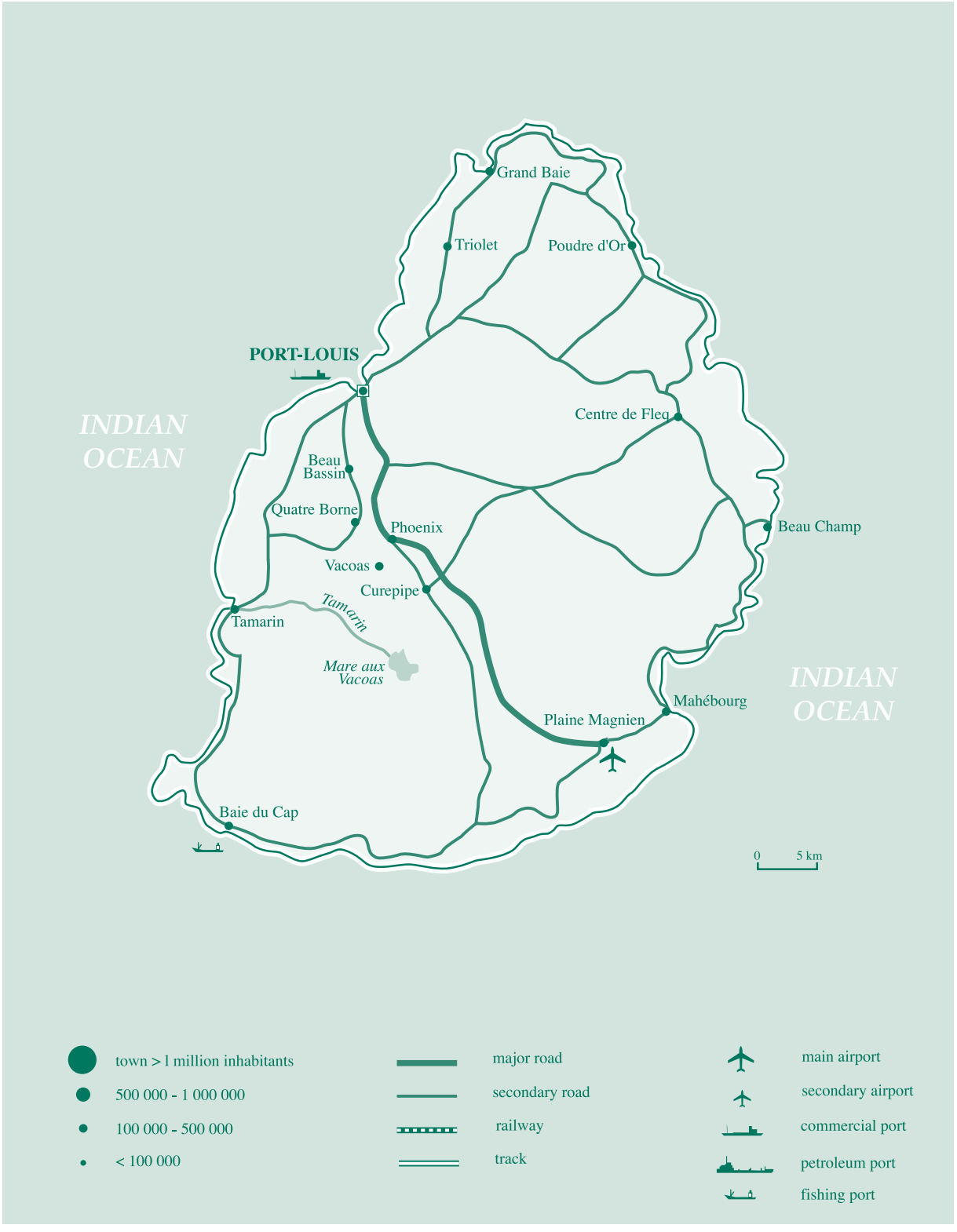
Mauritius



key figures

• Land area, thousands of km²	2
• Population, thousands (2007)	1 262
• GDP per capita, USD at constant 2000 prices (2007)	4 649
• Life expectancy (2007)	72.8
• Illiteracy rate (2007)	12.9

Mauritius


Grand Baie
Triolet
Poudre d'Or
PORT-LOUIS
INDIAN OCEAN
Centre de Flec
Beau Bassin
Quatre Borne
Phoenix
Beau Champ
Vacoas
Curepipe
Tamarin
Tamarin
Mare aux Vacoas
INDIAN OCEAN
Mahébourg
Plaine Magnien
Baie du Cap
0 5 km
town > 1 million inhabitants
500 000 - 1 000 000
100 000 - 500 000
< 100 000
major road
secondary road
railway
track
main airport
secondary airport
commercial port
petroleum port
fishing port

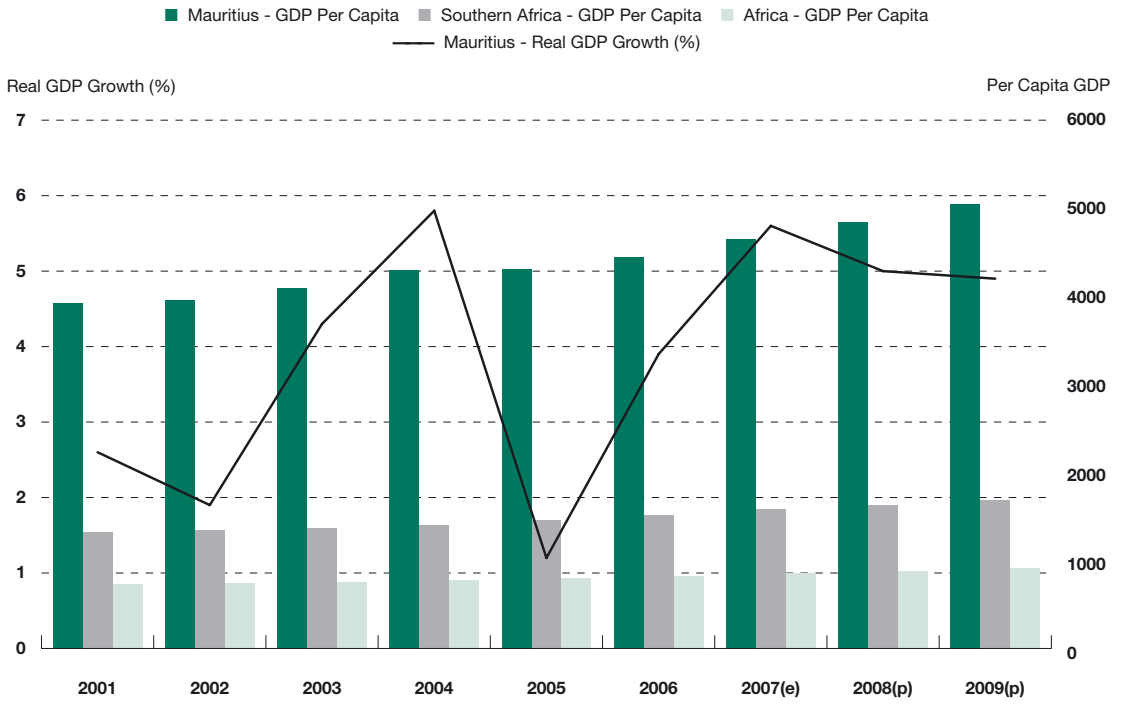
Mauritius

In spite of increases in the prices of imported food and fuel and of the lingering effects of the end of preferential trade agreements, the Mauritian economy has performed well. In 2007 it continued to recover from weakness in the sugar sector, growing by 5.6 per cent, up from 3.9 per cent in 2006. Excluding sugar, the economy has performed even better, as the growth rate was 6.4 per cent compared to 5.3 per cent in the previous year. The good performance of the economy in 2007 was in large part driven by a boom in the tourism sector, which in turn led to strong growth in the construction sector, and by a better performing textile industry.

In 2008 and 2009 the Mauritian economy is expected to grow by about 5 per cent. However, it remains vulnerable to external shocks, such as continued high oil and other commodity prices, and a further adverse performance of the sugar sector would result in slower growth. Individuals may become accustomed to expecting a high level of inflation and that could exert upward pressure on wages, which in turn could contribute to even higher inflation. The good external competitiveness of Mauritius in 2007 was also the result of the past nominal and real depreciation of the rupee vis-à-vis the currencies of its main trading partners. But the rupee stabilised, and even appreciated, against major currencies towards the end of 2007. Competitiveness in the export sector is central to its future performance. Productivity gains seem to be

Reforms and high private investment have partly compensated for lost preferential agreements.

Figure 1 - **Real GDP Growth and Per Capita GDP**
(USD at constant 2000 prices)



Source: IMF and Central Statistical Office data estimates (e) and projections (p) based on authors' calculations

StatLink http://dx.doi.org/10.1787/316632322614

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required, together with success in containing inflation and wage pressures. In the tourism sector, the challenge will be to maintain high growth without sacrificing quality of service and still targeting high-spending tourists.

On the social front, the recent increase in inequality, combined with a relatively high unemployment rate, could constitute fertile ground for social unrest. Finally, the government wants to reposition its economy further up the value chain and to build a knowledge economy. Meeting this objective requires skilled labour. That aim faces a problem inasmuch as only a small section of the current labour force has the required skills and the education system must change to produce a large number of skilled workers.

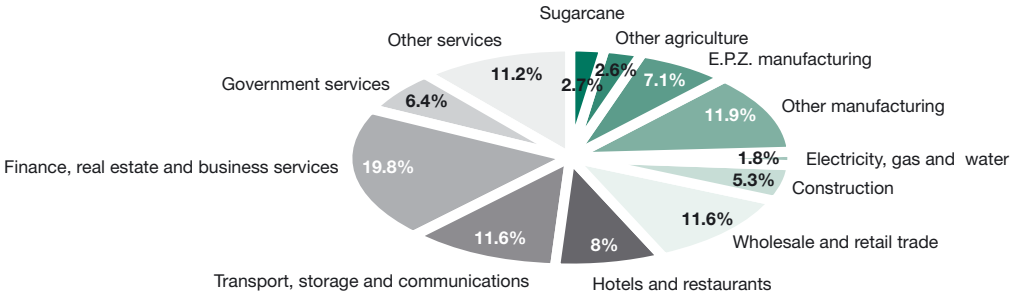
Recent Economic Developments

Private investment made the most important contribution to economic growth in 2007, increasing by 17.5 per cent in 2007 after the already high growth of 15.3 per cent in 2006. This increase is mostly attributable to investment in hotels and Integrated Resorts Schemes (IRS) projects. However, as a result of the decision to contain the budget deficit, public sector investment fell by 24.6 per cent (in real terms) in 2007. The strong growth in private investment helped total investment grow by 4.2 per cent in 2007 but, as a share of GDP, investment fell to 24.1 per cent of GDP in 2007, down from 26.4 per cent in 2006. Excluding aircraft, the rate would have increased to 22.8 per cent in 2007 compared to 21.6 per cent in 2006.

Tourist arrivals reached 906 971 in 2007, which translates into a growth rate of 15.1 per cent compared with 3.5 per cent in 2006. While all source markets increased, the greatest rise in the number of arrivals came from China (58.7 per cent) while France – the first source market – grew by an impressive 31.7 per cent. Tourism receipts, denominated in domestic currency, increased by 30 per cent in 2007. The exceptional performance of the tourism sector is the result of good marketing campaigns and better air access. Construction grew at an impressive 15 per cent, compared to 5.2 per cent in 2006, mainly as a consequence of the construction and renovation of hotels, Integrated Resort Scheme (IRS) projects and expansion of the textile and clothing industries. The manufacturing sector grew marginally more slowly in 2007 at 3.7 per cent compared with 4 per cent in 2006. Textile and food processing industries performed fairly well as they grew respectively by 7.2 per cent and 3.9 per cent. Sugar is the only sector which showed negative growth in 2007. Indeed, following the downward trend in the recent past, as a result of the fall in guaranteed prices to ACP producers and adverse weather, sugar production contracted by 7.9 per cent with an output of 465 000 tonnes compared with 504 857 tonnes in 2006.

Inflation was a major concern during 2007 and reached 8.8 per cent for the full year. Among the reasons for a doubling of the inflation rate in 2007 the increase

Figure 2 - **GDP by Sector in 2006** (percentage)



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

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in commodity and food prices played a major role. The removal of subsidies on basic foodstuffs, the rise in excise duties brought about in the 2006/07 budget, and the expansion of the monetary base also help explain the high inflation rate.

The finance, real estate and business services sector is the chief contributor to GDP. An important development in that sector has been the amendment of the 2004 Banking Act to allow for Islamic banking. The Finance Act 2007 defines Islamic banking business as any financial business, the aims and operations of which are, in addition to the conventional good governance and risk management rules, consonant with the ethos and value system of Islam. An Islamic deposit means a sum of money or monetary equivalent of goods or services received by or paid to any person, under which the receipt and repayment shall be in accordance with the terms of an agreement made on any basis including custody or profit sharing. The Central Bank of Mauritius became an associate member of the Islamic Financial Services Board in November 2007 and any bank in Mauritius can opt to offer Islamic banking through a special window, or by launching a full fledged Islamic bank.

The banking sector was for the first time subject to a special levy based on turnover (0.5 per cent) and

Table 1 - **Demand Composition**

	Percentage of GDP (current prices)		Percentage changes, volume			Contribution to real GDP growth		
	1999	2006	2007(e)	2008(p)	2009(p)	2007(e)	2008(p)	2009(p)
Gross capital formation	**26.8**	**26.4**	**4.2**	**8.8**	**7.8**	**1.1**	**2.0**	**1.9**
Public	9.3	7.7	-24.6	5.0	4.0	-1.8	0.3	0.2
Private	17.4	18.7	17.5	10.0	9.0	3.1	1.8	1.7
Consumption	**76.7**	**84.9**	**4.0**	**3.1**	**4.2**	**1.1**	**2.6**	**3.5**
Public	14.3	14.3	1.1	3.0	2.2	0.2	0.4	0.3
Private	62.4	70.6	4.5	3.1	4.6	0.9	2.2	3.2
External Demand	**-3.5**	**-11.3**				**3.4**	**0.4**	**-0.5**
Exports	63.9	61.7	5.1	8.8	5.2	2.7	4.7	2.9
Imports	-67.4	-73.0	-1.2	7.1	5.4	0.7	-4.3	-3.4
Real GDP growth						**5.6**	**5.0**	**4.9**

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

StatLink http://dx.doi.org/10.1787/321285125564

accounting profits (1.7 per cent). Only 30 per cent of the levy was payable in the first year of application (2007/08).

Mauritius has based its development on preferential access to European markets. The sugar sector has been facing a major challenge as a result of the decision by the European Union (EU) decision to reduce the guaranteed price to African, Caribbean and Pacific (ACP) sugar producers by 39 per cent. The island is in the process of restructuring the sector with the objective of becoming a competitive producer of refined sugar and derivative products based on sugar cane.

Cost reduction will be achieved through the closure of seven of the existing 11 factories. Three of the remaining four are expected to produce more than 100 000 tonnes of raw sugar each. As a result there will be a reduction in labour costs; a substantial reduction of overhead costs at operational, administrative and institutional levels; and substantial economies of scale at all levels. As provided for in the Annual Adaptation Strategy Action Plan 2006-2015 (MAAS), factory closures and retirement schemes will be financed by EU accompanying measures. Following the successful conclusion between the government and the Mauritius Sugar Producers Association in December 2007, the

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remainder of EUR 58 million in EU grants for the fiscal year 2007/08 is in the process of being secured.

The EU and the Eastern and Southern Africa (ESA) states, which include Mauritius, have concluded negotiations on an interim agreement that will establish the Economic Partnership Agreement (EPA). On 4 December 2007, Mauritius initialled the ESA-EU framework agreement and added its own market schedule. Mauritius has agreed to liberalise 95.6 per cent of its imports from the EU by 2022. The agreement was concluded as part of a package including provisions on trade, fisheries and economic development co-operation. On trade provisions, the EU will grant duty-free and quota-free market access to all goods exported by ESA states except for sugar and rice, which are subject to short transition arrangements. The ESA states which have initialled the agreement have also secured an additional quota of 75 000 tonnes that will be available from the 2008 marketing season. In respect of textiles and clothing the EU agreed to provide the "single transformation" rule of origin. This means that Mauritian clothing companies can now source fabrics from anywhere in the world, transform them, and export them to the EU free of duty and quotas. On fisheries, the ESA states which have initialled the agreement have obtained an automatic derogation on tuna and tuna loin exports of 10 000 tonnes. That means these products can be exported to the EU irrespective of the origin of the fish.

ESA states have agreed gradually to liberalise imports from the EU, covering mainly capital, raw material and intermediate products, for the most part over 15 years with an initial five-year preparatory period. Negotiations will continue on outstanding issues, namely agriculture, trade-related issues and trade in services.

Macroeconomic Policies

Fiscal Policy

The fiscal deficit was reduced from 5.3 per cent of GDP in 2005/06 to 4.3 per cent in 2006/07. In fact, the primary balance has improved considerably and has stabilised at around -0.3 per cent of GDP. The primary balance is an important performance indicator for the government, as it forms part of the criteria for disbursement by development partners. This performance is due to a number of measures taken by the government as well as to better economic conditions. Starting in 2006/07, the government reduced recurrent expenditures by containing wages and salaries as well as transfers and subsidies. In respect of wages and salaries, the government decided to fill vacancies only on a needs basis, contained pay increases and reduced the use of overtime. As regards current transfers and subsidies, they fell from 9.3 per cent of GDP in 2005/06 to 8.6 per cent in 2006/07. One reason for this improved

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

	1998/99	2003/04	2004/05	2005/06	2006/07(e)	2007/08(p)	2008/09(p)
Total revenue and grants[a]	**20.2**	**20.3**	**19.9**	**20.0**	**19.2**	**19.3**	**21.6**
Tax revenue	17.2	17.5	18.1	18.1	17.4	17.4	19.4
Grants	0.1	0.4	0.2	0.2	0.1	0.1	0.1
Total expenditure and net lending[a]	**23.7**	**25.7**	**24.9**	**25.3**	**23.5**	**24.1**	**26.7**
Current expenditure	21.2	21.0	21.0	21.4	20.1	20.4	22.5
Excluding interest	*17.5*	*17.1*	*17.1*	*17.7*	*16.1*	*15.9*	*17.8*
Wages and salaries	6.9	6.6	6.5	6.3	5.6	5.4	5.7
Interest	3.6	4.0	4.0	3.8	4.1	4.5	4.7
Capital expenditure	3.2	4.3	3.5	3.6	3.2	3.6	4.1
Primary balance	**0.1**	**-1.4**	**-1.0**	**-1.5**	**-0.3**	**-0.3**	**-0.4**
Overall balance	**-3.6**	**-5.4**	**-5.0**	**-5.3**	**-4.3**	**-4.8**	**-5.1**

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

StatLink http://dx.doi.org/10.1787/322088207525

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fiscal deficit is that total expenditure, including capital expenditure, grew more slowly in 2006/07 than inflation. Finally, the government is benefiting from a large inflow of grants. Projections for 2007/08 indicate a slight worsening of the fiscal deficit to 4.8 per cent of GDP.

The Mauritian government has embarked on a major reform programme targeting both revenue and expenditure with the objective of containing the budget deficit. In particular it has taken measures aimed at fiscal consolidation, and has been implementing programme-based budgeting as well as the Medium Term Expenditure Framework (MTEF). By doing so it seeks to restructure public expenditure, strengthen expenditure controls and improve budgetary processes. This new system should enable it to focus more closely on objectives, results and performance.

On the revenue side, in the hope of boosting economic growth and entrepreneurship, the government had announced in its 2006/07 budget the introduction of a flat-rate personal and corporate income tax of 15 per cent effective as from 2008. However, it decided to accelerate the implementation of this change to 2007. Revenue collection has also been enhanced by consolidating revenue collection agencies under one authority, the newly established Mauritius Revenue Authority, thus eliminating overlapping, duplication of functions and waste. In an effort to get more individuals and businesses to pay taxes, the government introduced a Voluntary Disclosure Incentive Scheme (VDIS) and a Tax Arrears Payment Incentive Scheme (TAPIS). VDIS allowed individuals and companies to come forward and make voluntary disclosure of undeclared earnings with only 25 per cent of the penalty and interest that would have been imposed under normal provision.

On the expenditure side the government removed all subsidies on rice and flour, and those on the payment of School Certificate and Higher School Certificate examination fees in its 2006/07 budget. The policy is now to target needy households. For example, it now pays the full examination fees of students from such households. There is also an attempt to increase productivity in the public sector. Finally, the government has moved to performance-based budgeting. However, some high expenditure items, such as subsidies to bus owners in exchange for providing free transportation to students and old-age pensioners, are still in the budget.

Public debt – composed of central government debt, domestic and external debt of parastatals, but excluding the Consolidated Sinking Fund - as a share of GDP has stabilised over the past three years and even started to fall as a share of GDP. Total public sector debt declined from 69.4 per cent of GDP in June 2005, or MUR 126 billion (Mauritian rupees: in March 2008 $1 = MUR 27.375), to 63.1 per cent (MUR 138 billion rupees) in June 2007. This reduction can be dissected into a reduction of 3.7 percentage points in central government debt and 2.6 percentage points in the debt of public corporations. It should, however, be noted that external debt sustainability is not a problem in Mauritius. The problem lies with domestic debt which accounted for 50 per cent of GDP in June 2007. Public sector debt carries important risks because government debt is mostly domestic and short term, while parastatal debt is mostly external and long term.

The government is taking a number of measures to reduce further the debt burden to the EU benchmark of 60 per cent. It aims to improve debt management, including reviewing the mix of borrowing and lengthening the maturity. In doing so it seeks to address the fact that government debt is mostly domestic and short-term. Moreover, it wants to re-engineer parastatal entities to improve performance and reduce contingent liabilities. The government is implementing a new debt management strategy with the focus on mitigating major risks to the portfolio. One interesting measure concerns the roll-over risks of debt. In the medium term, the objective is to limit the amount of debt maturing in a year to 25 per cent to 30 per cent of the total. The process for lengthening the maturity structure of domestic debt has already started and the share of short and medium term instruments in total central government debt was reduced from around 82 per cent at the end of December 2004 to 75.5 per cent at the end of June 2007.

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Monetary Policy

The primary objective of the Bank of Mauritius is to maintain price stability and to promote orderly and balanced economic development (Bank of Mauritius Act 2004). However, the bank has more recently moved in the direction of focusing mainly on targeting inflation by introducing a new monetary policy framework. The new strategy is based on a more comprehensive set of measures which *i)* focuses on economic analysis that measures short and medium-term risks to price stability and *ii)* evaluates monetary development and the associated long-term risks to price stability. In the new framework, the Bank of Mauritius uses the repurchase rate for treasury bills (repo rate) to regulate the supply of reserve money. An interesting innovation is the setting up a monetary policy committee, which meets on a quarterly basis, to vote on the repo rate. Such meetings have taken place as scheduled and decisions have been taken on the rate. However, there has been very little, if any, repurchase transaction between the Bank of Mauritius and commercial banks. Commercial banks have been placing their excess liquidity in government bonds.

The Mauritian rupee appreciated slightly in 2007 against the currencies of its major trading partners. This reflected the good performance of the economy, the increased arrival of tourists and inflows of foreign direct investment (FDI). In this respect, 2007 differed quite markedly from the previous years, during which the Mauritian rupee depreciated and thus helped exporters to stay competitive in their main export markets.

External Position

The main imports into Mauritius were refined petroleum products (15 per cent), telecommunications, sound recording and reproducing apparatus and equipment (10 per cent), and road vehicles (5 per cent). Thus, around 30 per cent of total imports have no local substitutes. The main exports of Mauritius are clothing and apparel (35 per cent of total export revenue) and sugar (16 per cent).

Thanks to the good economic performance, inflow of FDI and foreign assistance Mauritius has a healthy level of net international reserves. Based on the value of the import bill for 2006/07, these amounted to 40 weeks of imports in September 2007.

After several years of contraction related to the phasing out of the Multifibre Agreement, the exports of articles of apparel and clothing accessories increased during the past three years from MUR 21.8 billion in 2005, to MUR 24.5 billion in 2006 and are expected to exceed MUR 28 billion in 2007. Employment also rebounded slightly, with the number of those in work increasing to 54 199 in March 2007 from 45 573 in March 2006. This rebound can be explained by two factors: first the weak rupee vis-à-vis the euro stimulated exports, and second Mauritius benefited from the temporary restrictions on China's exports to the United States and the EU which were in place until the end of 2007.

Under the Cotonou agreement Mauritius exports clothing products to the EU duty-free. It also exports

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

	1999	2004	2005	2006	2007(e)	2008(p)	2009(p)
Trade balance	-11.4	-9.1	-12.7	-16.8	-15.9	-18.1	-18.8
Exports of goods (f.o.b.)	39.9	31.3	34.1	35.9	31.6	32.2	31.4
Imports of goods (f.o.b.)	51.4	40.4	46.8	52.7	47.6	50.4	50.2
Services	7.2	6.7	6.7	10.5	7.2	7.8	9.3
Factor income	-0.4	-0.2	-0.1	0.8	2.0	1.2	1.0
Current transfers	2.4	0.8	1.0	1.1	1.5	2.4	2.0
Current account balance	**-2.2**	**-1.8**	**-5.2**	**-4.3**	**-5.2**	**-6.7**	**-6.6**

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

StatLink http://dx.doi.org/10.1787/323103311363

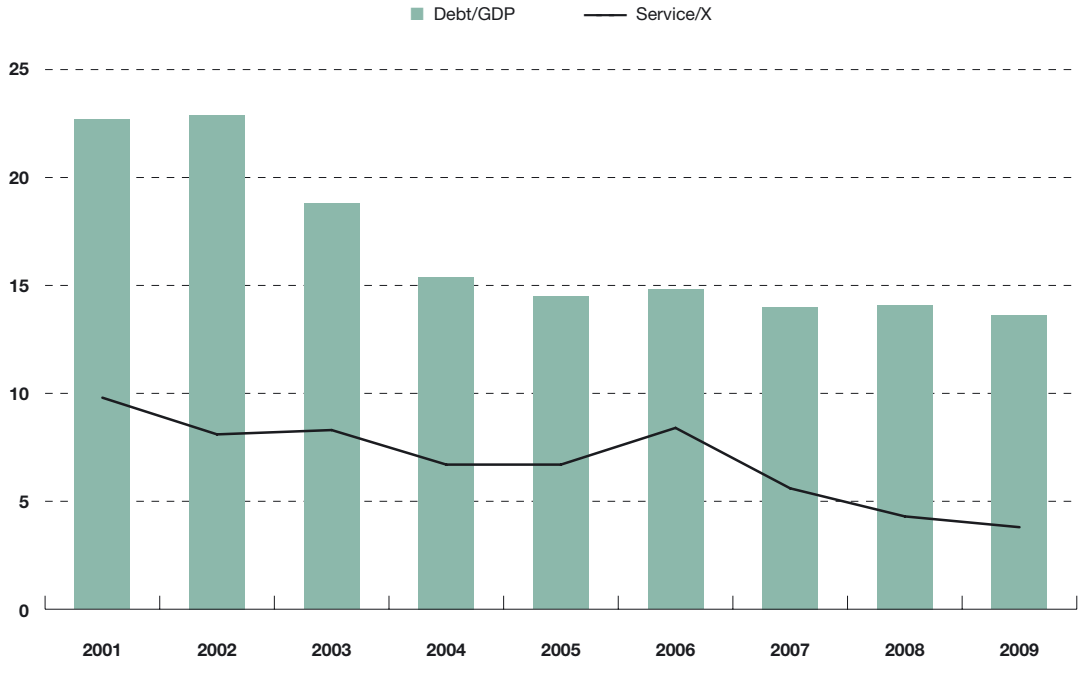
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mostly clothing to the United States under the African Growth and Opportunity Act (AGOA). However, Mauritius is not classified as a Least Developed Country and thus cannot use non-qualifying third-country textile inputs in the manufacture of AGOA-eligible clothing exports. As a result, only 40 per cent of Mauritian exports in the textiles and apparel category qualify for AGOA benefits. Mauritius continues to import a large share of its textiles inputs. There was, however, a fall in the imports of textiles and fabrics after 2003, mainly as a result of the creation of two new cotton-spinning mills in 2003 and 2004.

Mauritius has the second largest container port in sub-Saharan Africa which is capable of handling fifth generation vessels with drafts of up to 13 metres. There were bottlenecks in the port in 2007, in part because of the higher number of vessels transiting in Mauritius from Asia en route to Africa. While total container traffic increased by 10 per cent in fiscal year 2006/07 transhipment container traffic increased by 28 per cent. Similarly, fish traffic more than doubled between fiscal years 2003/04 and 2006/07.

Given the assumption of this report that the average price of oil on the world market in 2008 will be slightly higher than in 2007, and the large share of oil in total imports, the trade balance is expected to deteriorate. The deterioration in the current account balance can be explained on the one hand by higher imports, which are driven by high commodity and oil prices, as well as by a relatively high growth rate, especially in tourism and construction, which prompts increased demand for imported products, and on the other hand by low sugar exports. Given the inflow of external resources, and depending on the success of the reform programme being implemented by the government to increase the competitiveness of the economy, there is a good chance that this gap can be closed. In particular, it is expected that textile companies will gradually become more competitive *vis-à-vis* their Asian counterparts, and that the exports of fish and fish products will increase over

Figure 3 - **Stock of Total External Debt** (percentage of GDP) **and Debt Service** (percentage of exports of goods and services)



Source: IMF.

StatLink http://dx.doi.org/10.1787/320048072226

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time. All those factors should contribute to reduce the current account deficit in the medium and long term.

The government has also attempted to put in place an oil import strategy to mitigate the adverse effects of the high price of oil. The State Trading Corporation (STC) usually procures petroleum products through open international tenders. However, for the fiscal year 2006/07 it imported its entire annual petroleum product requirement from Mangalore Refinery and Petrochemicals Limited (MRPL) in India. In July 2007, a new agreement was signed between the two parties for a period of three years ending in mid-2010.

Mauritius benefited from significant FDI in 2007. For the nine-month period ending September 2007, realised investment, according to the Board of Investment (BOI) of Mauritius, was MUR 7.637 billion. This amounted to a larger FDI inflow than in 2006 and confirms that Mauritius is an attractive destination for FDI. Although the Export Processing Zone (EPZ) sector recorded the larger part of FDI inflows, the hotel and services sector also benefited. In 1997, it was the banking sector that attracted the most FDI, registering more than 90 per cent of total FDI inflows. A few years ago, a large amount of FDI flowed into telecommunications, through the purchase of 40 per cent of the equity capital of Mauritius Telecom by France Telecom. More recently it has been the tourism sector that has been the main beneficiary of FDI through investment in hotel construction and Integrated Resort Schemes. During the last three years, the United Kingdom, the United States and France have been the main source of FDI for the country. Mauritius has also concluded 33 tax treaties and is negotiating a number of others. It has benefited particularly from the tax treaty with India.

Structural Issues

Recent Developments

Communication infrastructure and provision in Mauritius are among the best in the African region. Internet access is readily available to residential and business users and the number of Internet users has grown rapidly over the years. Currently the number of dial-up Internet subscribers is around 60 000 (40 per cent business and 60 per cent residential) and the estimated number of users is around 146 000. In general, there has been a steady increase in communications and internet access since 1998.

The Port of Mauritius was ranked a lowly 137th in the 2007 World Bank Logistics Port Index. But the government is taking steps to improve its performance. For example, on 25 October 2007, a Customs Mutual Assistance Agreement between Mauritius and the United States was signed with a view to assisting the customs administration to implement the SAFE Framework of Standards of the World Customs Organisation. Its aim is to improve co-operation between the customs administrations of Mauritius and the United States with a view to helping fight customs fraud and other malpractices that may affect their economic, fiscal and commercial interests. Through this agreement Mauritius expects *i)* to benefit from the US experience in fraud prevention and detection; *ii)* to modernise its customs administration; and *iii)* benefit from the transfer of knowhow.

The World Bank's *Doing Business* report ranked Mauritius as the best place in Africa to do business, and 27th in the world, ahead of Korea, France and Chile. Measures to reduce the cost of doing business on the island started with the 2006 Business Facilitation Act. The act provided a new legal framework whereby businesses are expected to operate on the basis of self-adherence to comprehensive and clear guidelines. The authorities check compliance with these by exercising *ex post* control. The act also facilitates the establishment of businesses and the acquisition of properties by foreigners and enables small enterprises to start their business activities within three working days.

In the June 2007 budget a number of measures were announced in an attempt to facilitate business in Mauritius. Some of the measures which have already been implemented are:

- All foreigners who have been working in Mauritius for at least three years and with a

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minimum basic monthly salary of MUR 150 000 are eligible for a permanent residence permit and will be allowed to purchase property.
- The maximum number of days allowed for a business visa was increased from 90 to 180 days.
- A short-term residence permit of up to nine months will be given to foreigners who have to work in Mauritius for less than a year.

Mauritius has an open, efficient, and competitive financial system. Distinctions between onshore and offshore banks were eliminated in 2004. The Stock Exchange of Mauritius (SEM) had a record year in 2007. Market capitalisation in local currency increased by 70 per cent over 2006, and was worth more than 100 per cent of GDP in early 2008. The SEM also provided a very good return to investors as the SEMDEX, the main stock exchange index, rose by 54 per cent in 2007. As a result of its good performance, the SEM has been included in the list of 19 markets that the MSCI Frontier Markets Indices will be tracking.

Over the last year, the Financial Services Commission (FSC) has taken several measures to reinforce its capacity to regulate the insurance sector and ensure consumer confidence. The commission has required insurance companies to put in place new complaints-handling procedures. Each insurer is required to appoint a complaints co-ordinator and have effective consumer complaints procedures to process complaints from persons not satisfied with the handling of their claims by the insurer. Complaints not satisfactorily resolved by the insurer would then be referred to the commission.

Integrated Resort Schemes (IRS) are an important component of the government's development policy. These projects are targeted at high net worth individuals whose spending habits are bound to have a large multiplier effect. The IRS policy was reinforced in 2007 when the government extended the concept to smaller plots of land (fewer than 10 hectares).

Technical and Vocational Skills Development

Technical and vocational training begins in secondary school. In general to be admitted to this level, students have to sit a national examination, supervised by the Mauritius Examination Syndicate (MES), to receive a Certificate of Primary Education (CPE). At secondary school level students have to take the School Certificate (SC) and Higher School Certificate (HSC) exams. To take the SC exams, students must have attended secondary school for at least five years. After passing the SC level students have to attend school for two more years and then sit the HSC exams. The University of Cambridge Local Examinations Syndicate, along with the MES, oversees the final examinations for secondary students. Then the students move to the tertiary level.

A new pre-vocational education scheme was launched in 2001. This made provision for education for primary school leavers who failed the CPE twice or were too old for primary schooling after one failure and thus could not obtain access to secondary education. One of the objectives was to provide access to secondary education for drop-outs from the primary cycle for continued learning till the age of 16. The pre-vocational stream of study lasts for three years. The pre-vocational sector caters for around 4 000 students who failed to complete the primary cycle and thus did not meet the criterion for promotion to the mainstream secondary schools. Here the method of teaching is different from that in ordinary secondary schools. The emphasis is not so much on academic subjects but is more oriented towards preparing the students for vocational jobs. After their three years at the pre-vocational school, students are steered towards continuing their vocational studies. Since 2004 a one-year National Trade Certificate (NTC) Foundation Course has been run by the Industrial and Vocational Training Board (IVTB) to prepare them to join the first level of the vocational programme at the IVTB.

The IVTB was set up by the IVT Act of 1988 and became operational from January 1989 under the direct responsibility of the prime minister's office.

In 2004/05, Mauritius introduced compulsory and free education up until the age of 16. As of 2006, children who failed to pass the CPE were allowed to enter secondary school in pre-vocational classes enabling

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successful pupils to enter the NTC foundation courses, and to proceed along this route to other professional courses. Depending on the field that they chose, students are admitted in different centres under the IVTB.

Private schools are widespread in Mauritius. The Education Act allows any business or individual in the country to create a primary or secondary school. The Private Secondary Schools Authority (PSSA) oversees government funding to private institutions. Private post-secondary institutions must be approved by the IVTB and are subject to audit by the National Accreditation and Equivalence Council

Technical and vocational education and training (TVET) objectives in Mauritius are to enhance the relevance, efficiency and effectiveness of IVTB services; create an environment which encourages the commitment and development of IVTB staffs; increase the supply of TVET; promote the development of knowledge management; develop IVTB as a knowledge organisation; and enhance responsiveness to demand for training in the region. The IVTB was initially expected to be a provider, a facilitator and a regulator of training in Mauritius. Experience has shown that the three roles of IVTB could give rise to conflicts of interest and were inconsistent with the principle of good governance. It was decided in 2001 that the IVTB would concentrate on its role as provider of training. In 2002, the role of regulator was transferred to the Mauritius Qualification Authority. The role of facilitator (design and management of the levy grant scheme) was transferred to the Human Resource Development Council (HRDC) in 2004. The objectives of MQA are to develop, implement and maintain a national qualifications framework; to ensure compliance with provisions for registration and accreditation; and to ensure that standards and qualifications are internationally comparable (quality assurance).

There are institutions that provide TVET throughout Mauritius. However, it is important to note that some of these institutions offer specialised courses that are not offered by any others. All of them have a main area of training. As Mauritius is very small and transport by bus is free for students, the question of decentralisation does not really arise.

The Mauritius Qualifications Authority (MQA) is responsible for ensuring the quality of all training, be it the state or the private sector, and also deals with recognition and equivalence of technical qualifications. The MQA registers training institutions, managers, programme officers and trainers and approves courses as well as accrediting training institutions and courses. The quality assurance mechanism allows for accreditation of the providers of training, which ensures that courses delivered at different levels are evaluated for high quality education and training.

The IVTB's portfolio of training services covers 10 distinct vocational fields, namely: automotive engineering; building and utility maintenance; electronics and telecommunications; food and beverages services; hospitality and tourism management; industrial engineering; IT and multimedia; printing and graphic design; textile production; and wood technology. The training programmes are delivered in three modes: full-time, part-time and via an apprenticeship scheme. Through its mobile training unit, IVTB provides training to out-of-school young adults coming from underprivileged families who cannot travel long distances to follow a training programme. This is a social project, set up in collaboration with the trust fund for the social integration of vulnerable groups and the ministry of women's rights, child development and family welfare. Normally the length of this course varies between 150 to 200 hours and the following fields have been chosen: domestic installation works; basic plumbing and pipe-fitting; basic sewing skills; basic craft skills; and basic housekeeping. The unit consists in principle of a container that has been fully refurbished, equipped and furnished with basic tools and training facilities. Six such units are available.

Employers in Mauritius have to pay an equivalent of 1 per cent of their salary bill to the Human Resource Development Council (HRDC) for training purposes (training levy). The Training Levy Grant Scheme, which has been in operation since 1990, has been managed by the HRDC since 1 August 2004, before which the

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IVTB was responsible for collecting the levy. The council, set up under the HRD Act 2003, has been vested with the responsibility of setting up and managing the National Training Fund. To encourage employers to provide training to as many staff as possible the council HRDC offers training grants as incentives. Under the existing provisions employers can recover up to 75 per cent of training costs, depending on their tax rate. To qualify for the training grant, training programmes may either be conducted in-house or in training institutions registered with the MQA.

The private sector and donors do not have a formalised way of contributing towards financing training on a yearly basis, except that firms have to contribute towards the training levy mentioned above. However, on an *ad hoc* basis several donors have contributed by donating vehicles or other equipment.

TVET in Mauritius faces the challenge of training enough people for the new sectors which are developing rapidly. For instance, the strong growth in the tourism sector will translate into the need for highly trained personnel. Similarly, the same holds true in the information and communications technology sector. Finally, TVET must be mainstreamed in the education curriculum so that it becomes a real choice for all students.

Political Context

The current government is in its second year in office and has three more years before elections are held in 2010. Although the economic reforms undertaken since it first came to power have met some resistance from members of the ruling party, it is likely that it will be in a position to complete its term,

Mauritius continues to be recognised as having some of the best institutions in Africa. It was, for instance, ranked first in the 2007 governance league table of the Ibrahim Index of African Governance. However, according to Transparency International, the perception of corruption increased in Mauritius between 2006 and 2007 with the country being ranked 53rd (out of 179) compared to 42nd (out of 163) in 2006. Mauritius is ranked as the world's 18th freest economy according to the Heritage Foundation *2008 Index of Economic Freedom*. Its overall score increased by 3.1 percentage points compared to 2006, the second most improved economy in the 2008 index. Mauritius was also ranked first in Africa, and its overall score is well above the African average and even above that of France and Germany.

Social Context and Human Resources Development

Life expectancy increased from 63 years in 1985 to 71 years in 2005. At 75.6 years, women's life expectancy exceeds that of men's by 6.9 years. Infant mortality has declined from 24.2 per live 1 000 births in 1987 to 13.2 per live 1 000 births in 2005. Public health care is mainly provided free of charge and is used by 85 per cent of the population with the remaining 15 per cent purchasing private health care. As a result, the ministry of health and quality of life is third in importance among programme ministries and its 2007 budget should absorb 7.2 per cent of the budget. Mauritius nevertheless faces a number of challenges on the health front.

First, it has one of the highest prevalences of diabetes in the world. Nearly one in five adults was found to suffer from the disease in 2004, and more than 20 per cent of deaths are caused by diabetes. It is particularly worrying that half of those with it do not know they have it. The government has made the fight against diabetes a priority and formulated a National Service Framework for Diabetes (NSFD) in May 2004. Some of the proposed measures to fight the illness include the establishment of a register of the clinical details of all patients suffering from diabetes and prevention of Type 2 diabetes through prevention and advocacy.

A second emerging health challenge is HIV/AIDS. Although the extent of HIV/AIDS in Mauritius remains fairly limited, and is significantly lower than in many neighbouring countries and among the lowest in the

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sub-Saharan African region overall, there are signs of an increasing upward trend in cases in recent years. Recent data coming from national sources quoted a prevalence rate of 1.8 per cent while it stood at less than 0.6 per cent in 2003. However, a direct comparison between those two figures is not straightforward because they do not arise from the same methodology. There is evidence that HIV prevalence rates are higher among certain populations in Mauritius, including sex workers, injecting drug users and patients being treated for other sexually-transmitted infections. Any HIV-positive person requiring treatment has free access to anti-retroviral drugs in Mauritius.

The unemployment rate for 2007 was estimated at 8.8 per cent against 9.1 per cent in 2006. The female unemployment rate was significantly higher, at 15.6 per cent, than that of males which stood at 5.6 per cent. Indeed, the female unemployment rate has been continuously on the rise since 2000 when it stood at 9.2 per cent. However, the 2007 small drop in the unemployment rate hides the fact that the Mauritian economy created more jobs in 2007 (7 100) than in 2006 (6 900). In spite of the high unemployment rate, there are a large number of vacancies which cannot be filled. Employers also report that they have difficulties in finding skilled workers. All this indicates there is a skills mismatch in the labour market. Moreover, it must be noted that the tripartite government-union-private sector wage compensation negotiations have been abolished. A national wage council was set up with the objective of linking wages to workers' productivity and companies' financial situation.

There is a recognition that particular attention must be paid to the social consequences of the sugar adaptation plan. To this end provision has been made for employees whose contracts are terminated to be appropriately compensated. In December 2007 an agreement was reached between the government and the Mauritius Sugar Planters Association (MSPA). The MSPA agreed to give 2 000 hectares of land to the government to facilitate the social acceptability of the economic reform. Also in this agreement the shares of planters and employees in the sugar cluster increased from 20 per cent to 35 per cent.

By international measures, there has not been any change in poverty in Mauritius: the percentage of persons living below the $2 a day poverty line remained unchanged at 1 per cent in both the 2001/02 and 2006/07 household surveys. By all accounts, poverty as measured by the share of the population living below a dollar a day has been eradicated in Mauritius. However, relative poverty increased between 2001 and 2007. The proportion of poor households living below the relative poverty line (set at half median household income per adult equivalent) was 7.7 per cent in 2001/02 and 8 per cent in 2006/07. By the same measure, the proportion of poor persons below the relative poverty line increased from 7.8 per cent in 2001/02 to 8.7 per cent in 2006/07.

The government allocates close to 13 per cent of its budget to education. Secondary education absorbs approximately 43 per cent of the education budget while primary education accounts for close to 27 per cent. Primary and secondary schools are free for all Mauritians. Mauritius needs to train sufficient skilled workers to meet the current and long term demands of the labour market. In that regard, both government and civil society recognise that the education system and school curriculum, which are skewed towards rote learning instead of problem-solving, need to be changed.

Under the current education system, students sit for the CPE at the end of primary school. Their performance in the CPE determines the secondary school they attend: better CPE results allow primary school graduates to secure positions in better secondary schools which is turn conditions their performance in the SC and HSC exams, university studies and labour market performance.

The CPE is seen by many as being a bottleneck given that more than 30 per cent of students fail the exam. While the pass rate had increased from 62.6 per cent in 2005 to 67.9 per cent in 2006, it fell to 66.2 per cent in 2007. Of particular interest is the low CPE performance in the Priority Education Zone with a pass rate of 35.6 per cent. One explanation for the lower pass rate in 2007 than in 2006 is the change in exam questions which required students to think

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through new problems. Children had the greatest difficulty with history and geography, with the pass rate dropping from 75 per cent last year to 70 per cent. The papers had more open-ended questions requiring the students to produce personal answers instead of choosing from formatted multiple choice questions.

Noteworthy developments have been taking place at the tertiary level. The Jeetah Trust fund, an Indian offshore campus, started operations in 2007. This is a privately-owned and run university with Mauritian and Indian capital. A private Indian-owned teaching hospital (Apollo) has been granted permission to start operations in Mauritius. Plans are under way for construction to start.

Enrolment at the University of Mauritius increased from 6 602 to 7 370 in 2006/07. It is of interest to note that more females (3 863) than males (3 507) were registered students at the University of Mauritius. This was true for all faculties except engineering. University students went on strike in 2007, protesting against group dissertation at the Master's level, the need to attend lectures in secondary schools because of lack of space in the main campus, and the large number of students per course. Following the strike, the decision to have group dissertation was reversed.

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Morocco



key figures

• Land area, thousands of km²	711
• Population, thousands (2007)	31 224
• GDP per capita, USD at constant 2000 prices (2007)	1 664
• Life expectancy (2007)	71.2
• Illiteracy rate (2007)	44.9

Morocco


MEDITERRANEAN SEA
ATLANTIC OCEAN
ALGERIA
MAURITANIA
Tanger
Ceuta
Tétouan
Melilla
Kénitra
RABAT
Fès
Oujda
Casablanca
Meknès
Khouribga
Safi
Bou Arfa
Figuig
Marrakech
Erfoud
Ouarzazate
Agadir
Zagora
Tan-Tan Plage
14 Nov. 1975
Laayoune
Smara
Galtat Zemmour
Dakhla
Nouadhibou
0
200 km
town > 1 million inhabitants
500 000 - 1 000 000
100 000 - 500 000
< 100 000
major road
secondary road
railway
track
main airport
secondary airport
commercial port
petroleum port
fishing port

Morocco

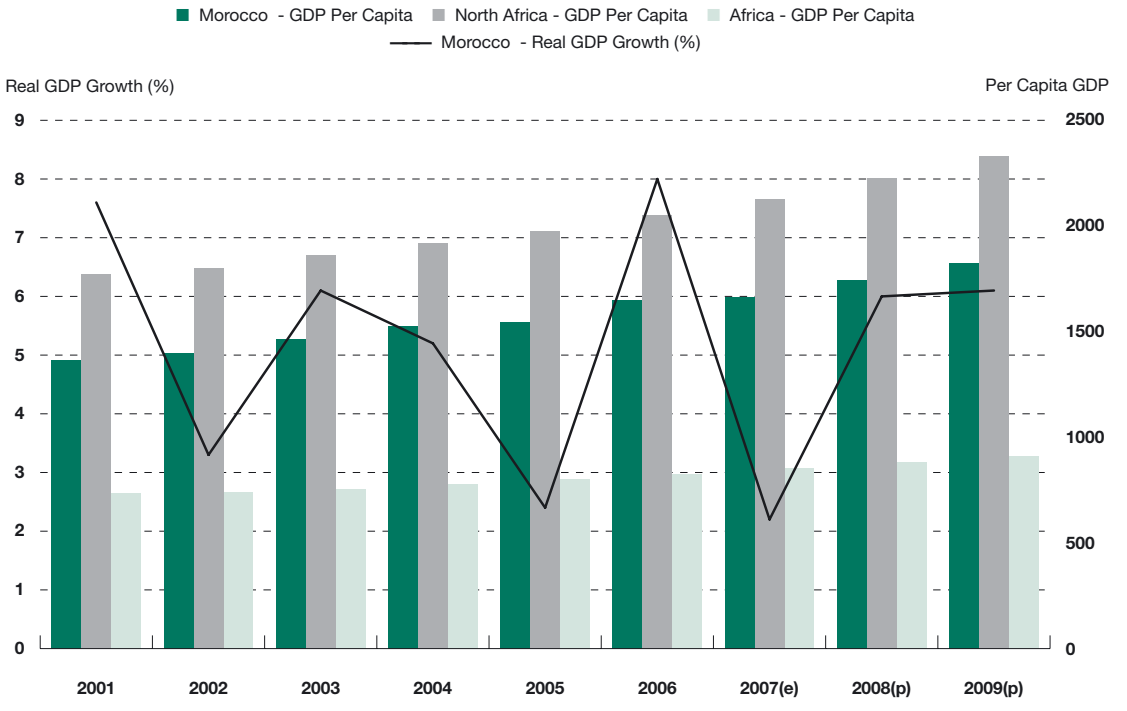
MOROCCO'S ECONOMIC PERFORMANCE in recent years has been remarkable, due to both favourable international conditions and macroeconomic modernisation underlined by reforms to boost competitiveness and diversification. Thriving production sectors greatly increased imports due to increased investment, lower customs duties and strong internal demand. Financial sector reform and stabilisation of government spending has made it easier to attract financial investment since 2001, amounting to an average 2.9 per cent of GDP a year.

Having signed free-trade agreements with its main trading partners, the country had no choice but to embark on the path of modernising and opening up its economy. The government and private sector have designed a range of reforms and targeted strategies, focusing on upgrading and expanding economic infrastructure to strengthen the performance of traditional sectors and encourage new high value-added production sectors, such as information and communication technology (ICT), vehicle manufacture and the aeronautics industry.

Modernisation of the administration is crucial to future development.

But despite substantial progress in promoting growth and employment to continue on this path, modernisation of government services and the strengthening of the institutional and legal framework need to be pursued to consolidate its gains and entrench long-term growth and human development.

Figure 1 - **Real GDP Growth and Per Capita GDP**
(USD at constant 2000 prices)



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

StatLink http://dx.doi.org/10.1787/316614205563

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Recent Economic Developments

The 2.2 per cent real growth recorded in 2007 fell short of the 3.1 per cent target due to a nearly 18 per cent drop in agricultural production. An exceptional primary sector performance had pushed overall growth to 8 per cent in 2006. Both years showed how the country is still at the mercy of the weather. Growth in 2008 is expected to be 6 per cent if the harvest is average.

Economic diversification continues with an increasing GDP contribution by the secondary and tertiary sectors. Non-agricultural activity expanded 5.6 per cent in 2007 (5.9 per cent in 2006 and 5 per cent in 2005) and this should continue in 2008 (+6.1 per cent) driven by industry, construction and telecommunications.

The primary sector benefited from a good nationwide harvest and buoyant world prices in 2006 and grew by a record 21 per cent. Cereal production topped 92 million quintals (up 114.6 per cent on 2005) thanks to plentiful rain but slumped dramatically in 2007 to about 20 million quintals. It should be better in 2008, at around 60 million quintals, contributing to 12.8 per cent growth in agriculture.

Increased output of other crops, especially agro-industrial fruit and horticultural items, helped make up for poor cereal production. The fruit and vegetable harvest was up 11.4 per cent in 2007 mainly due to an 11 per cent rise in the tomato crop and 13.9 per cent in miscellaneous vegetables. Potato production rose only slightly (2 per cent), but citrus was up 6.2 per cent and olives 7 per cent.

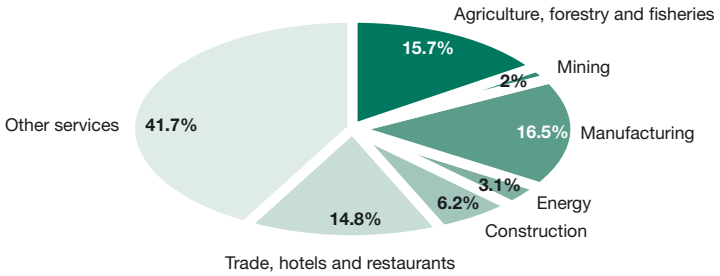
Agricultural exports increased 3.5 per cent (down from 8.9 per cent in 2006) but did not include all the country's flagship crops. Citrus exports had trouble in their traditional markets and were down 18.2 per cent in 2007 (after falling 5.4 per cent in 2006).

Livestock profited from the previous year's good harvest and new measures to protect animals. Fisheries were also expected to continue advancing in 2008, partly due to a coastal improvement programme, modernisation of inshore fishing and processing, and expansion of distribution and marketing networks. Value exports of crustaceans, molluscs and shellfish rose 5.9 per cent in 2007, partly offsetting a 6.4 per cent drop in canned fish and a 2.7 per cent drop in fresh fish. This limited the fall in the primary sector's growth to an estimated 16.4 per cent.

Morocco nevertheless had good economic growth in 2007 thanks to booming secondary and tertiary sectors. Industrial activity growth speeded up 5.5 per cent (from 3.9 per cent in 2006) due to high internal demand caused by the free trade agreements and the European Union's (EU) protection measures against Chinese goods.

Output also increased in industry (5 per cent), mining (8.9 per cent) and energy (3.9 per cent). Textiles were up 13.1 per cent and leather 6.8 per cent year-

Figure 2 - **GDP by Sector in 2006** (percentage)



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

StatLink http://dx.doi.org/10.1787/317845273775

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on-year in the first half of 2007. Wood (+15.4 per cent), vehicles (+13.4 per cent) and electrical machinery and appliances (+6.9 per cent) also did well. A January 2008 framework agreement between the government and Renault-Nissan to build a EUR 600 million factory in Tangiers to turn out 200 000 vehicles a year by 2010 should boost the sector. Metal products were up 15.5 per cent in second-quarter 2007, but agro-industry output stagnated with a rise of only 0.3 per cent, reflecting the poor rainfall in 2007. The secondary sector growth prediction for 2008 is 5.7 per cent because of expected good performance in nearly all its branches.

Construction has grown strongly over the past two years – 8.6 per cent in 2006 and 8.7 per cent in 2007 – because of new large-scale government building programmes (housing, motorways, ports, industrial zones and tourist areas). The number of construction sites increased by 6.5 per cent in 2007 (compared with 6.3 per cent more in 2006). It included 18.5 per cent more sales of cement and 34.2 per cent more bank loans to the sector.

World prices remained good for the mining industry, especially for the country's main export, phosphates. Production increased 8.9 per cent in second-quarter 2007 (up from 1.4 per cent over the same period in 2006), due to 11.4 per cent more output of metal ores and 3.1 per cent more phosphates. Energy continued to do well (+4 per cent in the first half of 2007 after falling 1.1 per cent in 2006), with electricity production up 8.9 per cent year-on-year by May because of strong demand by businesses and households and more oil refining (up 1.3 per cent year-on-year by May 2006).

The prosperous secondary sector had a positive effect in 2007 on tertiary activity, which grew 5.7 per cent (5.5 per cent in 2006) with a forecast 6.2 per cent increase in 2008, driven by tourism, telecommunications and financial services.

Nearly 6.3 million tourists visited Morocco between January and the end of October 2007, a 14 per cent year-on-year increase. France is the main source of visitors (2.44 million), followed by Spain (1.34 million), Belgium (370 000) and the United Kingdom (358 000). This increased tourism revenue 13 per cent to MAD 49.5 billion dirhams (over MAD 43 billion in the same period in 2006). It also benefited registered hotels, which saw a 4 per cent rise in overnight stays to a total of 14.6 million bringing the occupancy rate to 50 per cent over the 10-month 2007 period. Marrakesh and Agadir were the most popular places, with 68 and 67 per cent occupancy, respectively.

Transport and telecommunications continued to do well, stimulated by strong air traffic and mobile phone and Internet activity. Transport, boosted by expanding tourism, earned about MAD 31.4 billion in the first seven months of 2007 (up 10.6 per cent year-on-year). International air passenger traffic (the number passing through airports) grew 19 per cent between June 2006 and June 2007, partly due to the opening-up of Moroccan air space.

Telecommunications also continued to advance and in the first half of 2007 mobile phone subscribers grew 33.2 per cent year-on-year, to a total of 17.6 million. Internet subscribers rose 39.5 per cent (to about 480 000) year-on-year, mainly due to installation of broadband connections. The fixed-line phone sector expanded 89 per cent in 2007 (after a sharp drop in 2006) and had 2 393 767 subscribers at the end of the year, largely because of the introduction of partly mobile fixed lines. Prospects for 2008 are good, with the arrival on the scene of new operator Wana.

The domestic trade sector produced MAD 63 billion of added value in 2006 (contributing 11 per cent of GDP) and employed over 1.2 million people, 40 per cent of them working casually or occasionally, especially in the countryside. The sector was expected to have been boosted in 2007 by the Rawaj 2020 Plan, which aims to restructure the movement of fresh produce through a plan to geographically redistribute wholesale vegetable, fruit and fish markets, along with slaughterhouses.

Internal demand, which was buoyed in 2006 by the primary sector, slowed somewhat in 2007 but still grew 5.5 per cent, with an expected 8.6 per cent in 2008 due to revival of the primary sector and higher rural household incomes. Consumer loans rose 26.3 per

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Table 1 - **Demand Composition**

	Percentage of GDP (current prices)		Percentage changes, volume			Contribution to real GDP growth		
	1999	2006	2007(e)	2008(p)	2009(p)	2007(e)	2008(p)	2009(p)
Gross capital formation	**24.8**	**31.6**	**8.1**	**7.4**	**7.2**	**2.4**	**2.3**	**2.3**
Public	3.1	5.5	11.0	9.0	8.0	0.6	0.5	0.5
Private	21.7	26.1	7.5	7.0	7.0	1.8	1.8	1.8
Consumption	**78.5**	**73.8**	**-0.1**	**5.5**	**6.1**	**-0.1**	**3.8**	**4.2**
Public	18.0	18.3	4.6	4.4	3.4	0.7	0.7	0.5
Private	60.6	55.5	-1.4	5.8	6.9	-0.8	3.1	3.7
External demand	**-3.3**	**-5.4**				**-0.2**	**-0.1**	**-0.4**
Exports	26.2	33.0	2.9	5.0	6.3	1.0	1.7	2.1
Imports	-29.6	-38.4	3.3	5.2	7.4	-1.1	-1.8	-2.5
Real GDP growth, volume						**2.2**	**6.0**	**6.1**

Source: Economy and Finance Ministry data; estimates (e) and predictions (p) based on authors' calculations.

StatLink http://dx.doi.org/10.1787/321282166745

cent in the first eight months of 2007 and housing loans 24 per cent. Overall investment was up 8.1 per cent in 2007, boosting it to 34.2 per cent of GDP (31.6 per cent in 2006), and should continue to grow in 2008 (by 7.4 per cent), chiefly because of major programmes to speed up infrastructure work and tourist area improvements.

Macroeconomic Policies

Fiscal Policy

Morocco adopted a policy of budgetary consolidation after application of the structural adjustment plans of the 1980s and 1990s. The good economic performance since then has allowed these laudable efforts to increase revenue and control spending to continue.

The overall deficit fell to 2.2 per cent of GDP in 2006 (from 5.6 per cent in 2005) and was 3.3 per cent in 2007. The budget deficit is forecast at about 3.8 per cent in 2008. The improvement in public finances is due to government efforts to make budget policy a key priority and way to achieve economic and social development targets. The focus is on transparency, modernising taxation and control of spending. Streamlining the tax system, making it more rigorous and broadening the tax base produced 12.8 per cent more revenue in 2006 and 9.5 per cent in 2007. This stemmed from steady growth of the yield from value-added tax, company tax and stamp and registration duties.

But non-tax revenue fell 10.2 per cent year-on-year in the first seven months of 2007 due to 15.6 per cent less money from privatisation and a 6.4 per cent drop in non-tax revenue.

Ordinary expenditure (including the price-subsidy fund) rose 6.4 per cent to MAD 132.1 billion (24.2 per cent of GDP) in 2007 from MAD 124.2 billion (23.6 per cent of GDP) in 2006, reflecting higher spending on goods and services (+10.3 per cent), personnel (+6.4 per cent) and supplies (+16.8 per cent). But subsidies fell 12.4 per cent to MAD 7.3 billion. Investment spending rose 11 per cent in 2007 to MAD 16.2 billion with continued government support for major structural projects focused on fighting poverty.

Predictions for 2008 take account of pressure from world raw material prices. Imported energy products, which the country depends on for nearly 96 per cent of its needs, will continue to be a heavy public finance burden. Subsidies will cost MAD 14.4 billion, including 8.7 billion for oil products. Interest on national debt rose 3.1 per cent in 2007 to MAD 19.5 billion (3.2 per

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

	1999	2004	2005	2006	2007(e)	2008(p)	2009(p)
Total revenue and grants[a]	**26.0**	**22.7**	**24.3**	**25.6**	**25.5**	**25.3**	**25.1**
Tax revenue	24.3	20.2	21.9	22.3	22.2	22.1	22.0
Grants	0.0	0.3	0.5	0.4	0.4	0.3	0.3
Total expenditure and net lending[a]	**35.6**	**27.0**	**29.9**	**27.8**	**28.8**	**29.0**	**28.6**
Current expenditure	31.3	22.8	26.1	23.6	24.2	24.1	23.6
Excluding interest	*26.8*	*19.3*	*22.8*	*20.4*	*21.0*	*21.0*	*20.7*
Wages and salaries	10.5	11.3	11.9	11.0	11.2	11.0	10.9
Interest	4.5	3.5	3.3	3.2	3.2	3.2	2.9
Capital expenditure	4.6	4.3	3.8	4.2	4.7	4.9	5.0
Primary balance	**-5.0**	**-0.8**	**-2.3**	**1.1**	**-0.2**	**-0.6**	**-0.6**
Overall balance	**-9.5**	**-4.3**	**-5.6**	**-2.2**	**-3.4**	**-3.8**	**-3.5**

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

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cent of GDP), due to 3.7 per cent more interest on the internal debt as it was inflated by excess liquidity in the capital market. The national debt is expected to be 57 per cent of GDP in the medium term. Government debt should continue to be sustainable.

Monetary Policy

Inflation, up 3.3 per cent in 2006 due to strong internal demand and growth of the money supply, will be affected in 2007 and 2008 by erratic prices of oil and other imported raw materials. But estimates of lower inflation (2.5 per cent) in 2007 reflect the fall in agricultural output and thus slower growth of internal demand. This is expected to continue in 2008, with inflation at 2.6 per cent.

The money supply rose 10.1 per cent in the first quarter of 2007 (compared with 7.5 per cent in the same period of 2006) mainly due to a 15.1 per cent increase in loans to the economy, including consumption (+23.5 per cent), housing (+20.3 per cent), Treasury facilities (+17.7 per cent) and capital goods (+11.7 per cent).

The exchange rate of the dirham is still pegged to a basket of currencies dominated by the euro, which was MAD 11.135 in 2007 (11.01 in 2006), while the US dollar weakened to MAD 8.34 (8.765 in 2006).

External Position

Despite the economic integration opportunities of the new Arab Maghreb Union (AMU), inter-Maghreb trade is still small (2 per cent of the country's USD 137 billion total trade in 2007) compared to that with EU countries (66 per cent). The 2004 Agadir Agreement between Morocco, Tunisia, Egypt and Jordan to eliminate tariff and non-tariff trade barriers finally came into effect in March 2007 but has had little impact. Morocco's negligible trade with its southern Mediterranean neighbours illustrates the continued obstacles to trade liberalisation. However, the trade agreement with the EU (which came into effect in January 2006) and bilateral agreements with Turkey and the United States should boost trade with these partners as Morocco wants to expand its ties with Europe to bolster its economic liberalisation. Such efforts are key to making the country into a regional export platform and priority destination for foreign direct investment (FDI).

Internal demand from households and businesses boosted imports 14.9 per cent year-on-year in the first eight months of 2007. These consisted of mainly food products (up 45.8 per cent) because of the bad local harvest due to poor rainfall, wholesale purchases (+16.8 per cent), semi-manufactures (+16.3 per cent), consumer items (+14.7 per cent) and finished machinery products (+12.7 per cent).

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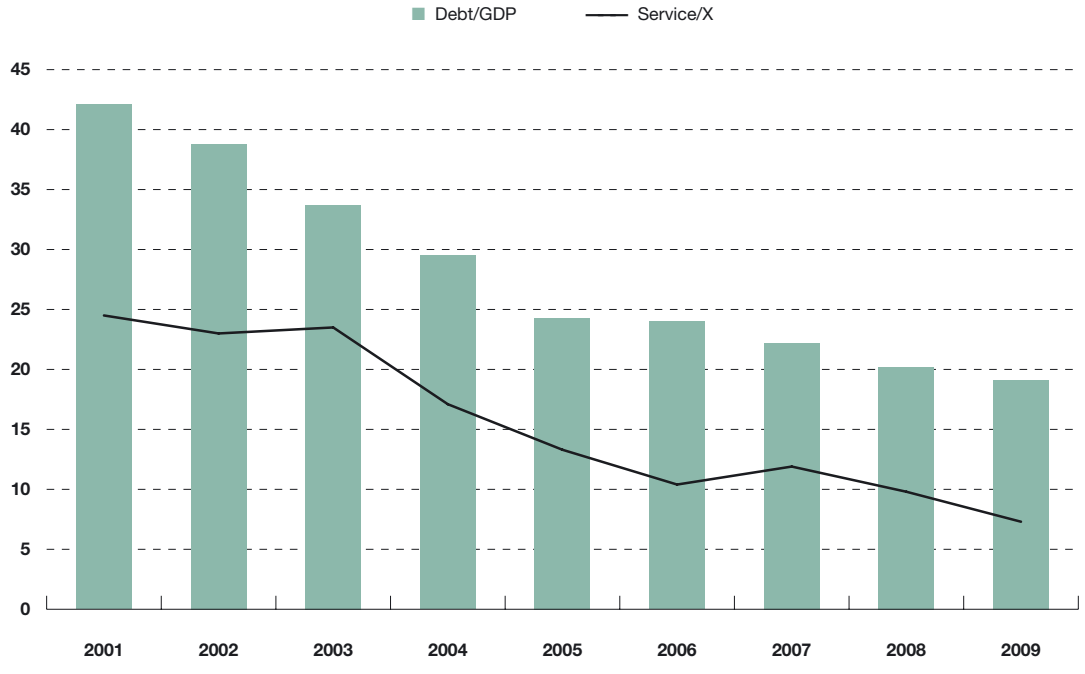
Table 3 - **Current Account** (percentage of GDP)

	1999	2004	2005	2006	2007(e)	2008(p)	2009(p)
Trade balance	-6.2	-11.5	-13.4	-13.8	-14.2	-15.8	-16.4
Exports of good (f.o.b.)	18.9	17.5	18.9	19.3	19.4	19.5	18.8
Imports of goods f.o.b.)	25.0	29.0	32.4	33.1	33.6	35.3	35.1
Services	2.8	5.8	7.2	8.2	8.2	8.3	8.5
Factor income	-2.5	-1.2	-0.5	-0.6	-0.8	-1.0	-0.9
Current transfers	5.4	8.6	9.1	9.6	9.7	9.2	8.9
Current account balance	**-0.4**	**1.7**	**2.4**	**3.4**	**2.8**	**0.7**	**0.1**

Source: Economy and Finance Ministry data; estimates (e) and predictions (p) based on authors' calculations.

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Figure 3 - **Stock of Total External Debt** (percentage of GDP) **and Debt Service** (percentage of exports of goods and services)



Source: IMF.

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Exports rose only slightly (4.5 per cent) over the same period, mainly hosiery (+11.9 per cent), crustaceans, molluscs and other shellfish (+7.5 per cent), fresh tomatoes (+54.8 per cent) and electrical wire and cables (+4.5 per cent). Exports of phosphates and by-products continued to grow (+13.3 per cent). The faster increase in imports over exports meant coverage fell 4.8 percentage points year-on year to 48 per cent by the end of August 2007. The external current account balance is likely to decline from 3.4 per cent of GDP in 2006 to 2.8 per cent in 2007.

Structural Issues

Recent Developments

The government's extensive reform programme to pave the way for long-term growth that will absorb economic and social deficits continued in 2007, with many steps taken in government services, agriculture, the environment, the financial and private sectors, human resources and social sectors.

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Substantial progress was made in government services reform thanks to further introduction of ICT. The 2006-12 Progress Contract to push ICT growth aims to increase the sector's annual turnover to nearly MAD 60 billion and create more than 33 000 jobs. ITC would be introduced into some 50 000 firms to reduce their costs and by 2012 1.8 million people would be connected to the Internet. The E-government Project has already put 42.5 per cent of all government services and procedures online.

The government continued its programme to modernise public services (Parap) – funded by the African Development Bank (AfDB), the World Bank and the EU – focusing on human resources management, control of the wage bill, integrated spending management and pushing e-services.

The 2002 Community Charter furthered the process of devolution and decentralisation, expanding local financial autonomy and general powers, including more say in wealth and job creation. An organigramme of ministries and rules for transferring responsibility to local bodies through perennial contracts was issued in 2002.

Management of public bodies continued to be streamlined through action plans to restructure strategic sectors such as transport, telecommunications, housing, social services, energy and water. The government and private sector are working to revive these sectors. The 2006 Emergence Plan aims to establish the country in the world e-services market and encourage delocalisation and outsourcing of work in new fields such as software development, call-centres and customer services, data-processing and library digitalisation. The plan, which promotes the private sector, is based on support for telecommunications and the Internet and on expanding skills and human resources. It highlights "world-class" local sectors such as textiles, agro-industry and fisheries and aims for 16 per cent GDP growth and creation of 440 000 direct and indirect jobs.

Agriculture is a government priority because of its size (12.9 per cent of GDP, 40 per cent of the working population and 10.5 per cent of 2007 export earnings) and huge potential. The government designed a programme in 2006 to make agriculture more competitive and improve irrigation policy. Seedlings were 80 per cent subsidised and interest on loans to buy machinery cut by 11 per cent. The sector's productivity was supported by a policy of helping farmers switch from growing cereals and by a programme contract signed between the government and the Crédit Agricole du Maroc bank to set up a funding system for farmers unable to get standard bank loans.

The MAD 500 million Oléa Capital investment fund was set up in 2006 by Crédit Agricole and the French bank Société Générale to promote major industrial olive oil production and a 1 600 hectare farm was funded in 2007 in the Beni Mellal region. The government is also helping marine fishing with the aim of increasing export added-value by MAD 1-2 billion by 2012 and creating 65 000 jobs.

Morocco has been badly hit by global warming and has signed all international agreements to protect the environment. Unreliable rainfall and general aridity means water supply is a major obstacle for agriculture as well as for the public supply of drinking water. The government has a policy for long-term water management and providing clean water. A 2006-08 action plan was drawn up in 2005 to improve irrigation. Programme contracts were drawn up in 2006 by local water authorities and the government to provide purification and sewage treatment facilities, economic use of water, protection against flooding and conservation of water-tables.

The 2003-07 strategic plan enabled extension of clean water supply to towns by the end of 2006. In the countryside, the PAGER programme has managed to achieve 90 per cent coverage and in 2007 provided more than 500 000 days of work as part of its goal to supply 31 000 communities and 11 million people. A major national purification and sewage treatment programme was launched in 2005 to upgrade facilities in 259 towns, restore water quality and reduce pollution 60 per cent by 2010. The goal is to have 80 per cent of the population connected to mains supply by 2015.

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The government is boosting growth of the private sector by modernising business laws, resolving tax problems and clarifying the relationship between the government and small and medium-sized enterprises (SME). The launch in 2007 of an Internet website for public procurement contracts was a big step towards greater transparency and competition.

SMEs, as providers of long-term job-creating growth, are a pillar of government policy and facilities and incentives have been introduced to speed up their restructuring and adaptation to new market conditions. The July 2002 SME Charter (Law 53-00) is the framework for government efforts with the private sector to help them by funding start-up infrastructure and providing tax incentives to invest.

The government is also encouraging development of new activities that are a key to economic growth. These include attracting delocalised subcontracting operations in the vehicle, aeronautics and electronics industries. Special zones with proper infrastructure and modern telecommunications, along with incentives, have been established to attract foreign investors and make Morocco a beacon for delocalised services. Two such zones, Casashore and Rabat Technopolis, cost MAD 3.2 billion.

Reform of the financial sector continued in 2006 with a new banking law and new statutes for the Al-Maghrib Bank, both officially coming into effect in July 2007. The Caisse de Dépôt et de Gestion, the Caisse Centrale de Garantie, the post office and microfinance institutions are all now under the banking law and prudential and accounting rules. The Basel II prudential directives also came into force in 2006. A new privately-run risk centre should begin operating in 2008. Funding instruments have also been diversified and their legal framework sent to parliament for approval in July 2007. Amendments to the royal decree concerning on the Casablanca stock exchange came into force in May 2007 and should make it easier for traded firms to raise capital abroad.

An anti-money-laundering law was passed in April 2007 in line with the UN convention which also pledges to fight funding of terrorism and transnational organised crime. The law will set up a financial information unit.

Morocco has begun to expand its economic infrastructure to take advantage of its geographical position and make itself an international trade and production platform. The government is focusing very strongly on modernisation and enlargement of the transport sector, with projects for high-speed trains and rebuilding ports and airports to suit industry and tourism. They include the Tangiers-Med port complex whose first container terminal began operating in 2007. The motorway network, which should be 1 500 km by 2010, is growing by 160 km a year. The MAD 6 billion Tangiers-Saidia ring-road should be in operation in 2008 and open up the northeast of the country.

Morocco also wants to upgrade its oil-refining capacity and expand its electricity generation and delivery network. The plan is to secure supplies, diversify energy sources, provide energy for all and make energy use more efficient by curbing demand for it. Development partners such as the AfDB are backing a huge programme that is boosting production (which includes building a second refinery by 2012) and extending delivery networks. Current projects will be speeded up, including wind-farms in Essaouira (60 MW), Tangiers (140 MW) and Tarfaya (200 MW), as well as a solar energy plant at Ain Beni Mathar (450 MW).

Technical and Vocational Skills Development

Technical education and vocational training (TVET) is clearly distinguished in Morocco from standard education and has its own ministry and a public structure that organises and provides training: the financially-autonomous national office for vocational training and work promotion (OFPPT). It is crucial for initial and continuous TVET because it received two-thirds of the TVET tax in 2007 and provides about half of all initial training.

The weaknesses and shortcomings of the education system were detected from the 1980s with rising

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unemployment, which was estimated at 9.9 per cent of the working population in 2007. Its persistence has led the government to put job promotion at the centre of its economic and social development strategy. The 2000-10 period has been declared a national decade of education and training.

Efforts since 1984 have concentrated on meeting the needs of firms for skilled workers and getting trainees into the job market. Reforms include boosting the TVET sector's institutional autonomy from the rest of the education system and welcoming participation by the private sector and a range of providers. TVET is also regulated at national, provincial and local levels.

The Ministry of Labour and Vocational Training's local offices (which do not cover the whole country) are: the national jobs and skills promotion agency (Anapec), which has 50 branches; the employment department (43 branches); the vocational training department (DFP) (16 branches); and, the OFPPT (10 branches).

Morocco has 1 858 private vocational and technical schools (79 per cent of the total TVET institutions), but the minority of government-run schools train 71 per cent of the students.

Initial training at government centres is free, while private schools are entirely funded by student registration fees. The four sources of funding for initial training are the TVET tax (1.6 per cent of the wage bill of organisations signed up to the national social security fund), government budget allocations, money from aid donors and family contributions. On-the-job training is funded by the GIAC inter-professional aid and advisory groups and special training contracts (CSF) that are overseen by the OFPPT and run jointly at national level by government, employers and employees.

Funding of TVET in 2007 came from the government (5.4 per cent), the OFPPT (75.8 per cent) and other sources including private schools (18.9 per cent). The Ministry of Labour and Vocational Training was allocated MAD 815.3 million (62.1 per cent for the DFP). Overall funding should rise 4.9 per cent in 2008.

TVET syllabuses are adapted to the general educational level of trainees and offer courses at four levels – "specialisation" (for those who have done five years of primary school), "qualification" (those with nine years of schooling), "technicians" (secondary school graduates) and "specialised technicians" (for graduates).

The number of women trainees is steadily rising and was 44 per cent of the total in 2005/06. The TVET schools have achieved good results and official figures show 70 per cent leave with a certificate. More than half of them (men or women) find a job within nine months, showing that the courses are well adapted to the job market. More and more people are signing up for TVET and the number of pupils rose from 133 000

Table 4 - **Trainees by Economic Sector**

Sector	Total	Women	Percentage of women
Health	5 383	4 343	81
Textiles, clothing	14 048	10 013	71
Handicrafts	12 479	8 432	68
Administration, management	62 827	36 272	58
Hotels and tourism	8 843	3 778	43
Others	8 442	3 499	41
Service trades	31 940	12 227	38
Agriculture	3 064	656	21
Construction	12 975	1 537	12
Metallurgical and electronic industries	26 600	1 252	5
Total	**186 601**	**82 009**	**44**

Source: State Secretariat for Vocational Training, 2005/06.

StatLink http://dx.doi.org/10.1787/323427453114

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in 1999/2000 to 239 000 in 2006/07 and should reach 258 000 in 2007/08 and 300 000 in 2009/10.

Nine new government-funded TVET schools with 1 530 places were opened in 2006/07. The OFPPT has become more active, completing construction, equipping or rebuilding of 15 schools and expanding 16 others.

The OFPPT plans to enrol 185 000 trainees in 2008/09 (12 per cent more than in 2007/08) in the first phase of the 2008-12 five-year plan to train 650 000 young people. The aim is to meet the skills needs of new economic sectors such as vehicle manufacture and aeronautics and supply workers for structural projects, such as tourism and hotels, ICT, construction, transport and agro-industry. The OFPPT plans to open seven new schools, four mixed training centres in partnership with the Mohammed V Solidarity Foundation and four others in prisons with the help of the Mohammed VI Foundation for the Reintegration of Prisoners. This will bring OFPPT's network of schools to 301, including 29 in prisons, in 2008/09.

Political Context

Morocco is politically stable despite security problems from terrorist threats since the May 2003 bombings in Casablanca. It has tense relations with neighbouring Algeria because of the Western Sahara dispute and with Spain, because of the Spanish enclaves of Ceuta and Melilla. Morocco and the Polisario Front held two days of talks about Western Sahara in New York in January 2008 but failed to reach an agreement. Relations with Spain are improving after a diplomatic crisis caused by Spanish King Carlos' visit to the enclaves in November 2007.

The country is a constitutional monarchy where the king has executive powers. A process of opening up and democratising political life began when a two-chamber parliament was installed after a constitutional amendment in September 1996 and parliamentary elections were held in September 2007. The official 37 per cent voter turnout was the lowest in the country's history, showing people's apathy towards elections but the surprise result was the easy return to power of Morocco's oldest political party, the Istiqlal, which named a prime minister to head a coalition government.

Morocco has made significant human rights progress by strengthening the democratic process and the fight against inequality and gender discrimination. The quest for better governance is based on administrative reforms, state withdrawal from the quasi-public sector, the justice system and transparent management of the budget and public procurement contracts. Steps to bring the justice system up to international standards have been taken, including modernising courts, reforming family jurisdiction, upgrading trade registers, creating an administrative appeals court and increasing and improving human resources.

Social Context and Human Resources Development

Morocco is keen to meet the Millennium Development Goals (MDG), especially gender equality. Some 14.2 per cent of the population live below the poverty line (22 per cent in the countryside and 7.9 per cent in towns and cities). Women are most vulnerable and are barely 30 per cent of the working population. Their involvement in economic activity in 2005 was still only 27.9 per cent, compared with 76.9 per cent of men. The government wants to speed up female inclusion in economic and social development, and gender equality featured in the 2007 budget as part of credit allocation and results-based management.

The National Human Development Initiative (INDH), launched in May 2005, is also a major step in promoting gender equality. By the end of 2006, about 1 600 out of 6 127 projects had been completed and 4 527 were in progress. Income-generating projects rose from 144 in 2005 to more than 1 400 in 2006. Support for vulnerable social groups was provided through 667 local human development projects and approval of 16 regional programmes to combat vulnerability. Local governments raised MAD 2.75 billion in 2006-07.

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The government has drafted a strategic health plan to 2015 based on a nationwide medical supply network and extending the reach of healthcare, especially in rural areas. Compulsory health insurance (AMO), a key to basic healthcare, was introduced in August 2005 and has expanded medical coverage from 17 per cent of the population in 2005 to about 34 per cent in 2007. More than 200 000 private sector pensioners, hitherto excluded from AMO services, now benefit from it. Efforts are being made to strengthen healthcare facilities for the very poor, who are covered by a body called RAMED.

Morocco's programme to reform medical coverage (Parcoum), supported by the EU and the AfDB, is in its second (2008-10) phase and is setting up insurance and medical assistance facilities to make healthcare access more affordable. The first phase helped low-income independent workers with a system called Inaya ("care"), which covered about 1 500 000 people in 2007.

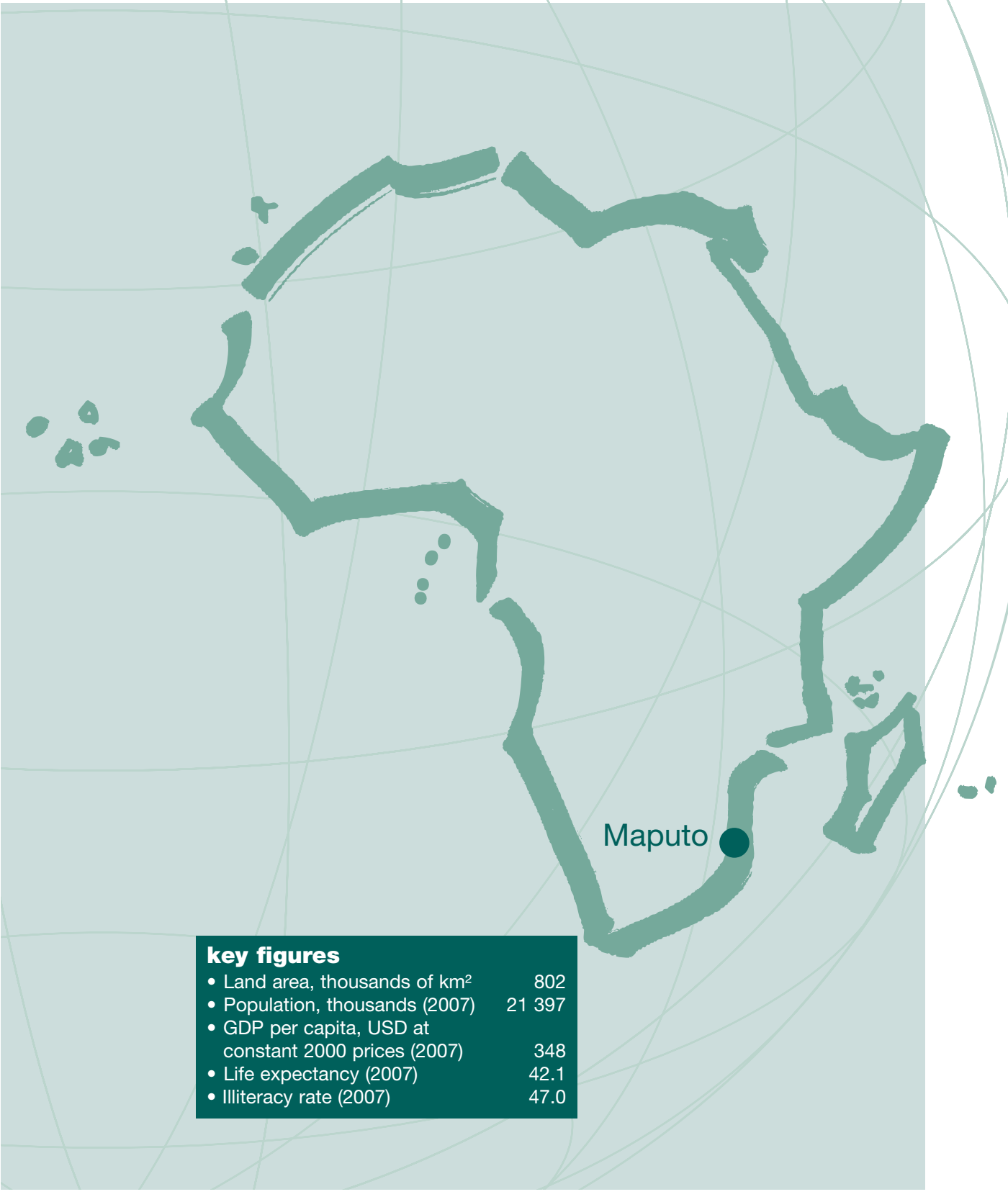
Educational reforms are included in the 2008-10 national education and training charter, which aims to have at least 90 per cent of children completing primary education, with special attention to girls in rural areas, and 80 per cent completing junior secondary school. Efforts are also being made to use educational resources and infrastructure better, improve curriculum design and offer a wider range of courses to meet the needs of the labour market.

The EU, AfDB, World Bank and the French Development Agency are backing the national education assistance programme (Parsem), whose second phase begins in 2008 and aims to reform the strategic framework and make short and medium-term efforts to speed up achievement of key goals of the education and training charter.

The government is giving priority to literacy and wants to reduce illiteracy among the population over 10 years old to less than 20 per cent by 2010 and eradicate it completely by 2015. Extensive literacy campaigns and adult basic education programmes aim to reduce illiteracy among those between 15 and 45 to 9 per cent by 2010 and to 17 per cent among all those over 15. Nearly 1 million adults and 27 000 children not in school should benefit from the programme. A new labour law, along with measures to encourage creation of "Taahil Al Mokawalat" (TAM) businesses to employ jobless graduates, helped to boost the employment rate to 46 per cent of the working population in 2007.

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Mozambique



key figures

• Land area, thousands of km²	802
• Population, thousands (2007)	21 397
• GDP per capita, USD at constant 2000 prices (2007)	348
• Life expectancy (2007)	42.1
• Illiteracy rate (2007)	47.0

Mozambique


TANZANIA
Cabo Delgado
Rovuma
Mocimboa da Praia
Mueda
MALAWI
Lake Malawi
Pemba
Lichinga
Lilongwe
ZAMBIA
Rio Lurio
Cuamba
Nacala
Ullongwé
Ilha de Moçambique
Nampula
Zumbo
Cahora Bassa Dam
Blantyre
Angoche
Songo
Tete
Mocuba
Guro
Zambezi
Harare
Catandica
Quelimane
Chimoio
ZIMBABWE
Beira
INDIAN OCEAN
Sofala
Save
Chicualacuala
Mabote
Vilanculos
Limpopo
Inhambane
Massingir
SOUTH AFRICA
Chokue
Xai-Xai
Johannesburg
MAPUTO
SWAZILAND
0
100 km
town > 1 million inhabitants
500 000 - 1 000 000
100 000 - 500 000
< 100 000
major road
secondary road
railway
track
main airport
secondary airport
commercial port
petroleum port
fishing port

Mozambique

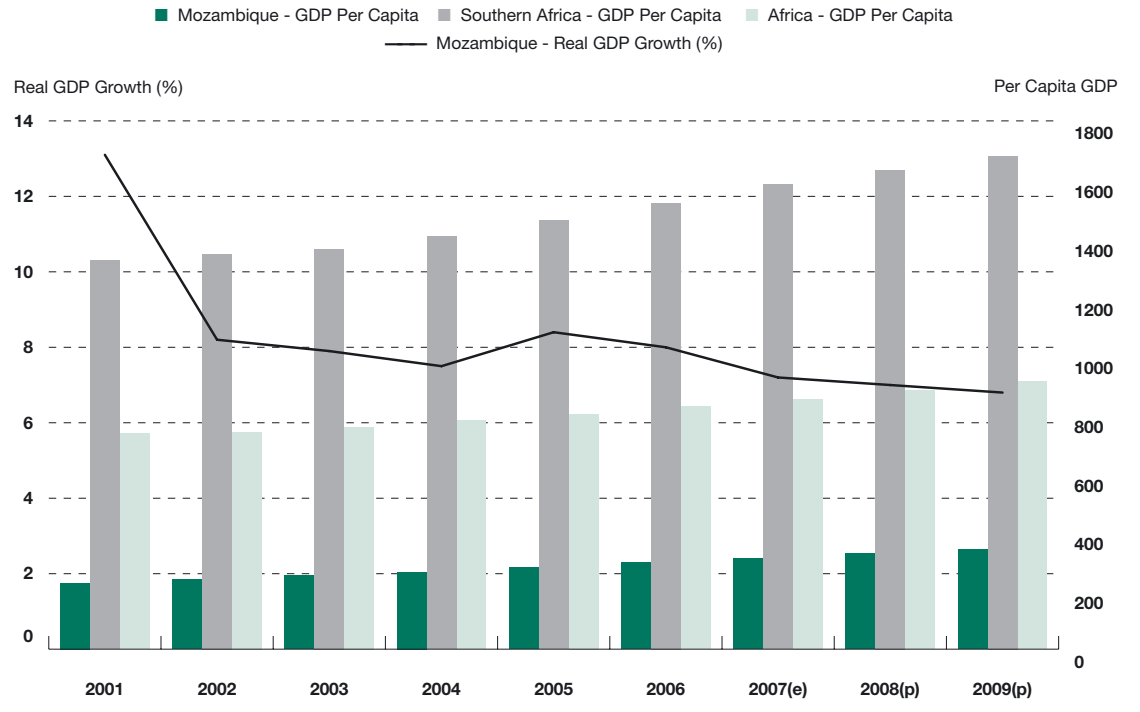
MOZAMBIQUE REMAINS A SUCCESSFUL example of post-conflict transition, with impressive economic growth averaging 8 per cent from 2000 to 2006 and sustained macroeconomic and political stability. Strong economic growth continues to be driven primarily by foreign-financed "mega-projects" and large aid inflows.

Real GDP growth moderated slightly to an estimated 7.2 per cent in 2007, down from 8 per cent in 2006, because of oil price increases and a downturn in traditional exports. Growth was driven mainly by booming investment in mineral resources, industry, services, and agro-industry, as well as by the good performance of the construction sector as a result of donor-financed infrastructure projects. Overall, economic expansion in Mozambique will be robust in the short term, with GDP growth expected to be 7 per cent and 6.8 per cent in 2008 and 2009 respectively.

The country has made major progress on the macroeconomic front, thanks mainly to prudent fiscal and monetary policies. Inflation declined from an average of 13 per cent in 2002-04 to 9 per cent in 2005-07. Substantial improvements have been made in the reporting and management of expenditure and revenue collection. Nevertheless, further revision of the tax

More needs to be done to collect tax revenues from the private sector.

Figure 1 - **Real GDP Growth and Per Capita GDP**
(USD at constant 2000 prices)



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

StatLink http://dx.doi.org/10.1787/316667717047

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treatment of mega-projects, which have historically benefited from substantial incentives, is desirable. Regulations on the new mining and petroleum fiscal regime laws must be issued in time to ensure that all new projects are subject to the new fiscal regime. In addition, mega-projects, public-private partnerships (PPPs) and concessions should be monitored more systematically.

Important revisions of the tax code governing mining and oil investments and reforms of labour regulations were approved in 2007. A more vigorous pursuit of "second wave" reforms is nevertheless still needed, notably of the judicial system and in the fight against corruption.

Mozambique's foreign trade continues to be dominated by the mega-projects, including the Mozal aluminium smelter, the Sasol natural gas pipeline and the Cahora Bassa hydro-electric facility. Though those projects have reached a certain maturity, new mega-projects, particularly linked to coal production, promise continued vitality. Concerns about the limited job-creation capacity of mega-projects linger. The capital-intensive nature of those projects pushes up demand for skilled labour, doing little to absorb the surplus of unskilled labour.

Official development assistance (ODA) will finance more than half of government expenditure in 2008: nearly half of ODA takes the form of direct budget support, a sign of donors' continued confidence in Mozambique. Donor support is expected to decrease in the medium term, increasing the urgency of mobilising additional tax revenue.

Elections for provincial assemblies have been postponed, raising the possibility of joint provincial, presidential and parliamentary elections in late 2009.

Poverty dropped 22 percentage points between 1997 and 2003. While more recent data are not available, poverty reduction has apparently stalled, with some sectors and regions not benefiting from good economic performance. Already vulnerable sectors of the population were buffeted by flooding of the Zambezi River in early 2007 and again in early 2008, and by cyclone Favio in early 2007.

Recent Economic Developments

The 2006/07 agriculture season in much of the southern region and parts of the central region was affected by moderate to severe rainfall deficits. According to the production estimates from the ministry of agriculture, the southern region's main season cereal harvest in 2006/07 was about 30 per cent below average, leaving some 469 000 Mozambicans in need of food assistance.

The government predicts growth of agricultural production of about 7.5 per cent in 2007/08, through increases in the area under cultivation and gains in productivity. The latter will include increased use of animal traction, and the spread of improved agricultural technologies as part of the "Green Revolution" that the government is promoting. The plan envisages growth of output of 9 per cent in grains and 12 per cent in beans and groundnuts.

But the outlook for success in raising agricultural output is uncertain. Although the start of the 2007/08 agriculture season was characterised by satisfactory rains, farmers were short of seeds, particularly in the south. In addition the areas under cultivation in Central Mozambique are expected to suffer from the floods of early 2008.

Droughts in 2007 led to a decline in cotton production in 2007 to about 90 000 tonnes, a significant decline compared to the 2006 harvest, when production reached 122 000 tonnes, the highest level in more than three decades. The ministry of agriculture expects that cotton will rebound in 2008 to near its 2006 level.

Over the last few years, sugar has boomed, with production growing by about 60 per cent per annum. South African and Mauritian investments of about USD 300 million for the rehabilitation and partial privatisation of four sugar-processing plants in the Maputo and Sofala provinces have enabled the country to become a net exporter. The industry employs about 26 000 workers and is a catalyst for the development of rural areas, especially around Marromeu and Mafambisse. For 2008, the government foresees an

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increase of 16.5 per cent in the area under sugar cane cultivation, while the four sugar mills (at Marromeu, Mafambisse, Xinavane and Maragra) are expected to produce 273 000 tonnes of sugar, an increase of 36.2 per cent compared with 2007.

Nevertheless, Mozambique's sugar mills are small compared with those of the world's major sugar-exporting countries, translating into higher milling costs. In addition, Mozambican competitiveness is hampered by poor transport links and lack of sugar storage and loading facilities at the port of Beira.

Increased market access over the next few years could provide the sugar industry with the opportunity to expand and achieve greater economies of scale. In particular, Mozambique will benefit from the granting of unlimited duty-free access to the lucrative EU market under the Everything But Arms (EBA) initiative. EU sugar prices remain well above world market levels, although they started converging towards the world price in 2006 and are due to continue to do so in the next few years.

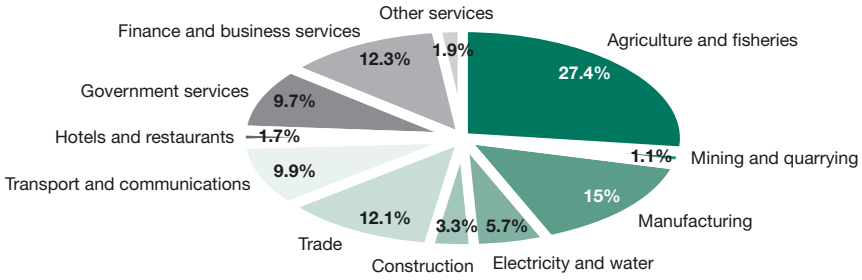
Mozambique's government is considering a series of projects to produce bio-fuels in the country. Recent studies show that the country could produce 40 million litres of bio-diesel and 21 million litres of bio-ethanol per year. Jatropha, ricin, African palm and coconuts could be used to produce bio-diesel, and sugar cane, maize and cassava to produce bio-ethanol. Several investment projects have already been approved, and the government is currently drawing up a new bio-fuel law to make the bio-fuel sector more attractive for investors.

Industry's share of GDP has expanded sharply in the last 10 years largely because of mega-projects. The Mozal aluminium smelter in Maputo province, created with a USD 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 exporters of aluminium. Other capital-intensive manufacturing industries, such as cement, beverages and tobacco-processing all recorded good performances. Industrial output is expected to expand further in 2008 and 2009, with a USD 5 billion oil refinery and a large bio-ethanol fuel project under construction.

The mining sector has registered strong growth, at about 40 per cent in recent years, and is expected to grow at more than 30 per cent in 2008 as the Moma titanium smelter enters its first full year of production. Mining for titanium minerals began in September 2007. The first exports consisted of 23 000 tonnes of ilmenite. It is estimated that the Moma mine will provide 6 per cent of the world production of ilmenite, rutile and zircon. Currently Kenmare intends to produce annually 800 000 tonnes of ilmenite, 56 000 tonnes of zircon and 21 000 tonnes of rutile. If market conditions allow, this will be increased by 2010 to 1.2 million tonnes of ilmentite, 80 000 tonnes of zircon and 30 000 tonnes of rutile.

The most dynamic mining sector is coal. Most recently, steel giant Arcelor-Mittal declared in November 2007 its intention to purchase 35 per cent of the Rio Minjova company, with the option to become the majority owner if coal exploration in the western

Figure 2 - **GDP by Sector in 2006** (percentage)



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

StatLink http://dx.doi.org/10.1787/318001142574

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province of Tete proves successful. Also in Tete, a joint venture of Indian Tata Steel and Australian Riversdale Mining is carrying out a feasibility study to produce coal from land on which it holds rights. In June 2007, the Mozambican government and the Brazilian mining giant Companhia Vale do Rio Doce (Vale), the world's largest iron ore producer, reached a contractual agreement on the Moatize coal project in Tete. The exploitation of the Moatize coal project will begin in 2010. The Moatize basin contains at least 2.4 billion tonnes of coal. Vale believes Moatize represents the last great unexploited coal reserves in the world. The company plans to produce about 26 million tonnes of coal a year, most of which is to feed its Brazilian steel plant.

Negotiating with multinational companies such as Mozal is a challenge for the Mozambican government, and it may not have secured the most favourable terms. Moreover, there is some basis to the view that the mega-projects have brought limited benefits in terms of job creation and fiscal revenue. Mozambique has taken these criticisms seriously and is now setting tougher conditions for new foreign investment projects. It should be stressed that given the complexity of the contracts for the existing mega-projects, the new legislation for the mining and petroleum sector will only apply to new investments, and, as a result, some experts claim that it is uncertain whether the legislation will significantly boost tax revenue. Nevertheless, although the contract for the Moatize coal mine was signed before the new stricter mining legislation went into effect, it is reportedly broadly in line with the new rules.

The construction sector also continues to grow, spurred by the mega-projects as well as by donor-funded infrastructure rehabilitation. Further expansion in construction is expected in 2008, thanks to continued road rehabilitation and the continuing construction of the Corridor Sands titanium project. Transport and communications are benefiting from private and public investment in ports, railways, airports, roads and mobile telephony, and are expected to grow by 22.7 per cent. In particular, 150 new buses will enter service on the country's roads, and new air traffic routes will be inaugurated, while communication services will continue to expand (dominated by the mobile phone companies M-cel and its South African rival Vodacom). Services, which account for more than 20 per cent of GDP, are benefiting from higher domestic demand and growth in local companies supplying services.

A total of 186 foreign direct investment (FDI) projects worth USD 7.5 billion, with a potential to generate about 20 000 jobs, were approved in 2007, making it one of the best years since independence for FDI, surpassing by far the years of the Mozal aluminium smelter project (USD 2 billion) and Sasol's natural gas project (USD 1.3 billion). Minerals, industry, tourism, services, agriculture and agro-industry received the largest volumes of FDI. The provinces of Nampula, Tete, Sofala and Gaza received the biggest number of such projects. The FDI originates from 34 countries, notably the United States, Switzerland, Mauritius, South Africa, the United Kingdom, China, Portugal, Tanzania, Spain and Canada.

Private investment contributed strongly to growth in 2007 and is expected to play an increasingly important role in 2008 and 2009 as a result of continued FDI in mining and industry. Public investment, notably in donor-supported infrastructure development, increased dramatically in 2007 and is expected to grow further in 2008 before moderating in 2009. Government consumption also grew in 2007 and is expected to continue growing in 2008, although at a more moderate pace as authorities intend to recruit 12 000 teachers and 5 000 health workers. Private consumption slowed in 2007, as a consequence of the poor harvest. Thanks to better agriculture output in 2008 and 2009, private consumption is expected to grow. In spite of strong exports of gas, electricity and aluminium, the external demand deteriorated in 2007, reflecting a downturn of traditional exports and a high oil import bill. Although export volumes are expected to increase in 2008, and 2009, reflecting increased exports of minerals, the external demand will be affected by lower metal prices, notably for aluminium. At the same time, imports are expected to increase, reflecting the rising oil import bill, and the need for capital goods imports for the new wave of mega-projects.

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Table 1 - **Demand Composition**

	Percentage of GDP (current prices)		Percentage changes, volume			Contribution to real GDP growth		
	1999	2006	2007(e)	2008(p)	2009(p)	2007(e)	2008(p)	2009(p)
Gross capital formation	**36.7**	**24.9**	**20.0**	**12.5**	**8.2**	**5.4**	**3.8**	**2.6**
Public	11.6	11.0	30.0	12.0	0.8	3.6	1.8	0.1
Private	25.1	13.9	12.0	13.0	15.0	1.8	2.1	2.5
Consumption	**86.7**	**81.2**	**2.4**	**3.5**	**3.3**	**2.4**	**3.3**	**3.0**
Public	9.5	10.0	11.2	6.9	2.0	0.9	0.6	0.2
Private	77.2	71.3	1.6	3.2	3.4	1.5	2.7	2.8
External demand	**-23.4**	**-6.1**				**-0.6**	**-0.1**	**1.1**
Exports	14.7	37.3	1.5	6.6	13.6	0.2	1.0	2.1
Imports	-38.0	-43.5	2.0	2.7	2.5	-0.9	-1.1	-1.0
Real GDP growth						**7.2**	**7.0**	**6.8**

Source: IMF and National Institute of Statistics data; projections based on authors' calculations.

StatLink http://dx.doi.org/10.1787/321305683381

Macroeconomic Policies

Mozambique has achieved reasonable macroeconomic stability, through prudent fiscal and monetary policies as mandated by the 2005-2010 Action Plan for the Reduction of Absolute Poverty (PARPA) and the three-year Poverty Reduction Growth Facility (PRGF) agreed with the International Monetary Fund (IMF) in July 2004. A recently approved IMF policy support instrument (PSI) has replaced the PRGF, which expired in July 2007.

Fiscal Policy

Substantial progress has been made in the reporting and management of public expenditure. Nevertheless, more should be done to mobilise tax revenues, especially from mega-projects, in order to reduce dependence on foreign aid, which currently finances more than 50 per cent of the budget. It is particularly important to strengthen fiscal transparency in light of the number of large investment projects and concessions in the pipeline. The authorities are committed to implementing the new mining and petroleum fiscal regime laws and to adhering to the principles of the Extractive Industries Transparency Initiative.

Revenues increased in 2007, largely thanks to rising income tax receipts and revenue from privatisation, mining concessions and dividends. Revenue collection procedures improved, leading to tax revenue reaching an estimated 13.6 per cent of GDP in 2007 from 11 per cent of GDP in 1999. In the first half of 2007 alone, income tax revenue reached 60.8 per cent of the target for the year and was 12.3 percentage points of GDP higher than that collected in the first half of 2006. Tax revenue from goods and services also increased by 13.8 per cent as the fall from custom tariffs caused by the phasing down of customs duties in accordance with the South African Development Community's (SADC) Free Trade Protocol was more than offset by improvement in VAT collections

The government boosted fiscal spending substantially in 2007, in particular on public sector wages and priority social sectors (health, education, infrastructure, agriculture), a third of which was financed by donor inflows. Capital expenditure increased by more than 3 per cent of GDP compared with 2006 and almost doubled in percentage of GDP compared with 2005. The implementation of the SISTAFE (Integrated System for the Administration of State Finances) system, helped improve management of spending. Despite lower execution rates in the first half of 2007, donor-financed project execution picked up toward the year's end, approaching the PARPA target of 65 per cent.

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Total debt service in 2007 was equivalent to USD 54 million, over two thirds of which was paid on domestic debt. Overall, although revenue collection was above expectations in 2007, expenditure increased at a faster rate, and in turn the budget deficit inclusive of grants for 2007 as a whole is estimated at 5.1 per cent, above the 4.5 per cent target.

In 2008, tax revenue is planned to increase by 0.4 percentage points of GDP over 2007. The 2008 budget foresees an increase of donor support, in part as a result of the appreciation of the euro and other currencies against the US dollar, thereby increasing the value of aid in dollar terms. Increased spending is focused on achieving the Millennium Development Objectives. Nevertheless, aid is expected to decline in the medium term from a projected 14.2 per cent of GDP in 2008 to 12 per cent in 2010. Mobilising additional tax revenue is therefore essential to compensate for declining aid as well as loss of customs revenue.

The authorities intend to widen the tax base through the continued increase in the identification of tax arrears and through simplification of tax laws to encourage compliance, but the effects of these reforms are likely to be limited. More also remains to be done to rationalise tax incentives across key sectors, including agriculture and special economic zones, and to strengthen the fiscal contribution of mega-projects, which have benefited from substantial tax holidays.

In 2008 Official Development Assistance (ODA) is expected to finance 56 per cent of government expenditure. It is expected that 48.8 per cent of ODA to Mozambique in 2008 will take the form of direct budget support. Indeed, the 19 donors who provide direct budget support to Mozambique – led by the United Kingdom, the World Bank, the European Commission and Sweden – announced that direct budget support for 2008 would total USD 435 million, an increase over earlier announcements caused largely by the appreciation of the euro relative to the US dollar. Some 68.1 per cent of 2008 ODA (budget support and earmarked spending taken together) will take the form of grants and 31.9 per cent will be loans.

On the expenditure side, the government aims to boost investment in the priority sectors of education, health, agriculture, infrastructure and governance, particularly at provincial and district levels. Public expenditures in 2008 are expected to reach 36.6 per cent of GDP, an increase of three percentage points over 2007. The majority of this increase will be for investment, much of which is funded by foreign aid. Current expenditures are also expected to rise, mainly for the recruiting of 12 000 teachers and 5 000 health

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

	1999	2004	2005	2006	2007(e)	2008(p)	2009(p)
Total revenue and grants[a]	**23.7**	**20.2**	**20.7**	**26.6**	**28.5**	**30.4**	**29.6**
Tax revenue	11.0	11.7	12.2	13.4	13.6	14.0	14.1
Grants	11.7	7.5	6.6	11.0	12.8	14.2	13.4
Total expenditure and net lending	**25.1**	**24.7**	**23.0**	**28.0**	**33.6**	**36.6**	**35.1**
Current expenditure	12.6	14.5	14.2	14.7	15.5	16.8	16.5
Excluding interest	*12.0*	*13.5*	*13.3*	*13.9*	*14.8*	*16.0*	*15.6*
Wages and salaries	5.8	6.9	7.0	7.5	7.7	8.2	7.8
Interest on public debt	0.6	1.0	0.8	0.8	0.7	0.7	0.9
Capital expenditure	11.6	9.4	8.4	12.3	15.6	17.2	16.9
Primary balance	**-0.8**	**-3.5**	**-1.5**	**-0.6**	**-4.4**	**-5.4**	**-4.6**
Overall balance	**-1.5**	**-4.5**	**-2.4**	**-1.4**	**-5.1**	**-6.2**	**-5.6**

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

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workers and improving public services. Initiatives to strengthen internal controls and external audits are expected to continue in 2008 at central and provincial levels. At the same time, the rollout of e-SISTAFE (a computerised integrated financial management information system) to all public entities (central and provincial) and a number of districts in early 2008 should improve expenditure monitoring.

As a result of higher capital and current spending, the overall fiscal deficit is expected to widen in 2008 to 6.2 per cent of GDP and then narrow slightly in 2009 to 5.6 per cent.

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 sterilise the changes in the monetary base that are associated with balance-of-payments shocks.

Inflation remained in single digits during 2007 but it accelerated to 9 per cent in the last quarter, on the back of rising food prices, reflecting the start of the lean season. The lean season typically lasts until February, so food inflation pressures continued through early 2008. In addition, in late November, as the world oil prices surged, the prices of petrol, diesel, kerosene and liquefied petroleum increased by 20 per cent. For the year as a whole, inflation is estimated at 7.9 per cent in 2007, above the target of 6.4 per cent.

To reduce inflationary pressures, the Bank of Mozambique is expected to continue pursuing a tight monetary policy in 2008, restraining broad money growth to below 16 per cent and reducing liquidity in the economy through the issuing of Treasury bills and the sale of foreign exchange. For 2008 and 2009 food and fuel prices are expected to continue to pose some inflationary risks as does the likelihood that the government will increase expenditure in the run-up to municipal and national elections. Overall, inflation is expected to average 7 per cent in 2008 and to decrease to 5.3 per cent in 2009.

External Position

After an improvement of the trade balance in 2006 due to high aluminium prices and strong growth of traditional exports, particularly cashew nuts, sugar, tobacco and prawns, the trade deficit widened in 2007, reflecting the high oil import bill and the deterioration in the performance of traditional exports. The poor performance of traditional exports was largely caused by the poaching of prawns by illegal foreign fishing boats. Lower cashew nut prices more than offset the improvement in output. On the other hand, cotton exports grew strongly. Electricity and natural gas exports boomed. Electricity exports responded to shortages in Mozambique's two biggest markets, South Africa and Zimbabwe. Imports rose because of high oil prices, and spending on consumer durables (automobiles) and capital goods.

The mega-projects loom large in Mozambique's foreign trade: for the first quarter 2007, for example, mega-projects accounted for 81 per cent of exports, but for only 24 per cent of imports, largely because of completion of major projects at Cahora Bassa and Kenmare.

In spite of higher export volumes of minerals and the country's first titanium exports, the trade balance is expected to deteriorate over 2008 and 2009 given the expected downturn of metal prices, notably for aluminium, the lack of manufacturing or other high-value exports, and the rising oil import bill. However, while the impact of older mega-projects on imports and exports is less than in previous years, new foreign direct investments hold the promise of generating substantial exports in the medium term, notably in coal, as discussed above.

The Free Trade Area of the SADC has been in force since 1 January 2008, and in principle the vast majority of goods (85 per cent) produced in other SADC countries can now enter Mozambique free of customs duties. For goods from South Africa, however, higher tariffs often apply. To benefit from the scrapping of customs duties, importers will need to produce a certificate of origin, guaranteeing that the goods come

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

	1999	2004	2005	2006	2007(e)	2008(p)	2009(p)
Trade balance	-22.4	-9.0	-11.0	-7.7	-9.4	-13.9	-15.5
Exports of goods (f.o.b.)	6.9	25.5	26.5	34.3	34.1	32.7	30.3
Imports of goods (f.o.b.)	29.3	34.5	37.5	41.9	43.5	46.5	45.8
Services	-0.5	0.7	0.8	1.8	1.8	2.0	1.9
Factor income	-5.2	-5.8	-6.3	-10.3	-13.9	-12.4	-11.0
Current transfers	6.2	5.5	7.0	37.0	13.8	15.7	14.8
Current account balance	**-22.0**	**-8.6**	**-9.4**	**20.8**	**-7.6**	**-8.6**	**-9.8**

a. Factor income is included in services.
Source: IMF and Bank of Mozambique data; estimates (e) and projections (p) based on authors' estimates.

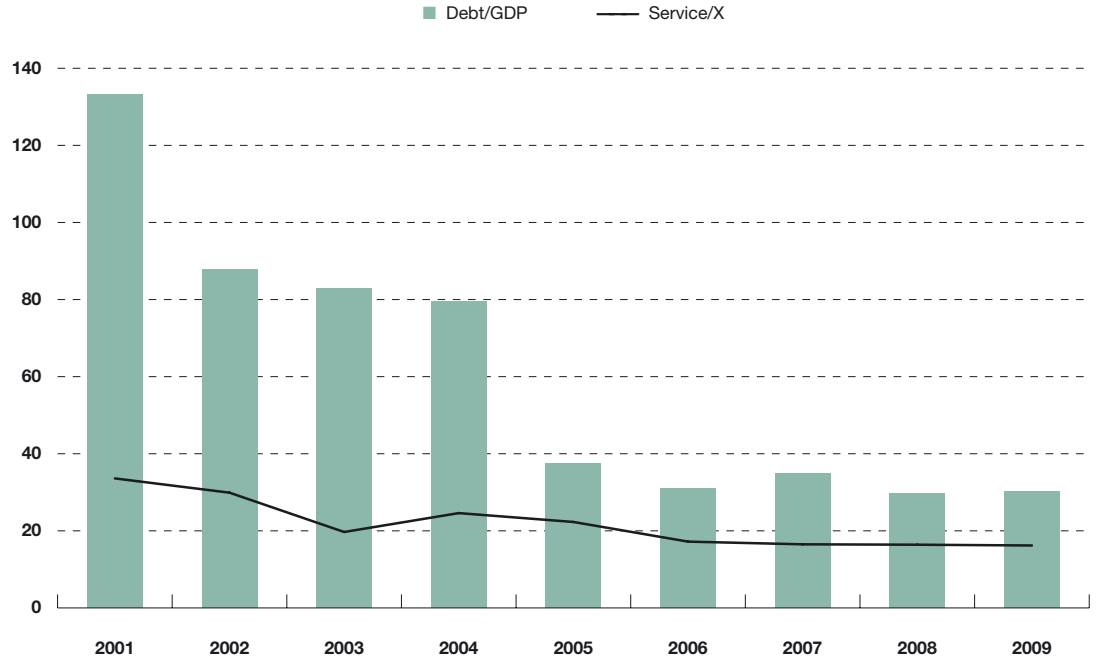
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from other SADC member states. In order to protect Mozambican producers, tariffs remain in place on certain agricultural goods for another four years.

Member countries of the OECD's Development Assistance Committee (DAC) made commitments to Mozambique of USD 1.6 billion in ODA in 2006, an increase of 26.2 per cent over 2005, above the 24.5 per cent increase in overall ODA commitments to all of Africa during the same period. Net disbursement of aid to Mozambique in 2006 was over 97 per cent of the committed amount. This aid spending is equivalent to 23.3 per cent of Mozambican GDP, much higher than the sub-Saharan African average of 6.1 per cent.

External debt service in 2006 fell to 1.2 per cent of GDP, down from 2 per cent in 2005 thanks to debt relief; debt service is estimated to have fallen further to 1.1 per cent of GDP in 2007. Mozambique benefited from debt-relief efforts including the Multilateral Debt Relief

Figure 3 - **Stock of Total External Debt** (percentage of GDP) **and Debt Service** (percentage of exports of goods and services)



Source: IMF.

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Initiative (MDRI) and the enhanced Heavily Indebted Poor Country (HIPC) initiative. In 2006, MDRI relief consisted of USD 1.32 billion from the International Development Association, USD 465 million from the African Development Bank and USD 120 million from the IMF.

Mozambique successfully bought back its commercial debt (worth USD 153 million), with the assistance of the World Bank and Norway, in October 2007 at 9 cents per dollar. Debt relief discussions are continuing or soon to start, partly in the context of the enhanced HIPC initiative, with other creditors, including Bulgaria, Hungary, Iraq, Libya, Portugal, Romania and Russia

Structural Issues

Recent Developments

To sustain its remarkable recent growth, the Mozambican economy will need to generate increased foreign and domestic investment. The investment climate, however, remains dissuasive. Investment has been substantial, but concentrated in a few mega-projects. For example, there was USD 7.3 billion in approved investment during the first three quarters of 2007, but the lion's share of that amount was accounted for by a single project, the oil refinery at Nacala-a-Velha in Nampula province.

Mozambique continues to occupy a low ranking in the International Finance Corporation's annual *Doing Business* report comparing the business environment in 178 economies. Nevertheless, the country improved from 140th in 2007 to 134th in 2008, reflecting substantial improvements in two dimensions of the IFC's index: protecting investors and starting a business. Mozambique's *Doing Business* ranking was surely helped by new rules allowing electronic publication of firms' bylaws, which reduce from 113 to 29 days the amount of time it takes to start a new business.

The passage by the legislature of a new labour law in May 2007, long sought by employers and promoted by donors including the World Bank and the IMF, was another step forward. The bill was the result of a compromise between labour unions and employer groups. The bill eases several labour-market rigidities that allegedly inhibit job creation. The bill permits, for example, a wider range of contracts, including short-term contracts for fixed periods. On the other hand, severance payments to laid-off workers will be linked to their earnings and the duration of employment, as had been sought by the unions. The new law will have little or no effect on the overwhelming majority of Mozambican workers in the informal sector, except insofar as it succeeds in boosting formal sector employment.

The government's priorities for improving the business environment in 2008/09 are: reducing the cost of inspections and fines while improving compliance; reducing the regulatory burden; simplifying the procedures for closing businesses; facilitating customs procedures; improving the system for VAT refunds; simplification of tax filing; and speeding up property registration.

Eliminating red tape by itself is insufficient to bolster investment; the managerial and technical capacities of firms and entrepreneurs must also be upgraded. Some increases in regulations and taxation are in the public interest. For example, new tax regimes were adopted in 2007 for extractive industries. These new regulations establish rates of tax on oil (10 per cent) and natural gas (6 per cent) production, as well as for mining products (10 per cent for diamonds and precious stones, gold, silver and platinum, less for semi-precious stones, base metals, coal and other products). Mining producers will also pay a tax on the surface area of the mine. These reforms and others enacted in 2007 regarding tax incentives for mega-projects increase the tax burden. The generosity of the previous set of taxes and exemptions was increasingly seen by the authorities as too costly in foregone revenues, and given the increased stability of Mozambique's macroeconomic situation, such incentives are no longer viewed as necessary.

Improvements of Mozambique's physical infrastructure will contribute to growth. The country recently formally took control of Africa's second-largest

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dam, Cahora Bassa, with a capacity of 2 075 MW. In November 2007, the governments of Portugal and Mozambique transferred ownership of the operating company Hidroelectrica de Cahora Bassa (HCB) to Mozambique. With financing from a consortium led by Calyon of France, Mozambique will pay Portugal USD 700 million and control 85 per cent of HCB. The minister of energy has given assurances that loan repayment will be financed by earnings from sales of electricity generated by the dam, largely to South Africa, Zimbabwe and Mozambique, rather than from the general budget.

Transport infrastructure improvements are underway. The integrated port facilities at Nacala, in particular, are attracting consequential investment flows, linked in part with investment in a nearby oil refinery. Meanwhile, the publicly owned national railroad company, with aid from the World Bank, has become profitable after years of restructuring. An investment of USD 20 million is under way on the Ressano Garcia line, which connects Mozambique and South Africa. The intention is to increase cargo traffic to 9 million tonnes annually by 2009. Other lines have been leased to private operating companies.

The government's Economic and Social Plan for 2007 (PES) planned to increase the proportion of Mozambicans with access to clean drinking water to 48.5 per cent (up from 46 per cent a year earlier). New water supply systems were inaugurated in 2007 for the cities of Quelimane, Beira and Donodo, more than doubling water availability. These efforts will be bolstered by an agreement with the United States Millennium Challenge Corporation, signed in July 2007, to provide over USD 200 million for water and sanitation projects in the northern provinces of Zambezia, Nampula, Cabo Delgado and Niassa over five years. Also, a EUR 95 million multi-year project to increase water supply coverage in Maputo, Matola and Boane from 40 per cent today to 73 per cent in 2010 was launched by the prime minister in April 2007.

Technical and Vocational Skills Development

The vast majority of the population, in agriculture and in micro enterprises in urban areas, are in need of training. The mega-projects have increased the demand for medium to high skills, especially in the areas of the metal, gas and telecommunication industries, where about 10 000 to 20 000 jobs have been created. The existing technical education and vocational training system has been slow to respond to changing labour market demands in both the formal and informal sectors.

Overall, the Mozambican workforce is poorly educated and lacks technical skills. More than 75 per cent of the population have five years or fewer of school attendance and only 8.5 per cent have achieved secondary or tertiary education. A mere 1 per cent of the total school enrolment, or 15 per cent of the total of secondary level students, participate in formal technical and vocational education and training (TVET) courses each year, of which about 90 per cent are in the 45 technical schools managed by the ministry of education and culture (MEC). Failure rates (50 per cent) and drop out rates (30 per cent) remain consistently high as a result in part of under-qualified instructors, a shortage of learning materials, and dilapidated workshop facilities.

The increasingly large numbers of primary school graduates who do not move on to secondary schooling are increasing pressure on the technical education system. Access to technical schools is further restricted by an urban bias in that nearly all the formal technical schools are located in the major towns and cities.

In addition to those provided by the MEC, vocational training courses are offered by various other ministries, including the Institute of Employment and Training (INEFP) under the ministry of labour, the ministry of agriculture, and the ministry of transport, tourism, and public works. There are also a number of private training providers that offer specialised skills training for niche markets. One of the most successful is a company that provides skills training on a fee-for-service basis for some of the largest multinational firms in the country such as Mozal, based in one of INEFP's training centres in Maputo. This centre is in fact the only viable fully functional TVET institution in the country offering mechanical/electrical skills training of a quality standard recognised by industry.

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The overall technical and vocational education and training system in Mozambique is managed in a fragmented and unco-ordinated manner. The system lacks an overall institutional and planning framework to organise, integrate and regulate the system and to ensure the quality of training interventions and programmes. Since its inception the TVET system has been dominated by a supply-led approach to planning and training delivery completely disconnected from industry needs. An additional cause for concern is the acute shortage of relevant training targeted at the informal sector, particularly for those with only a primary education.

The TVET system is almost entirely dependent on government resources, which are inadequate even in comparison to the general education system. In 2003 the government spent 0.2 per cent of GDP, or 2.3 per cent of the education budget, on TVET.

In 2005, in response to these challenges, the government launched new policy measures and a strategic plan for a new TVET co-ordinating body, including the private sector and civil society. The first implementation phase of the TVET reform process (known as PIREP, or integrated professional reform programme) covers the period 2006-11 and is financed by several donors. PIREP's objectives are to facilitate the transition to a demand-led training system and provide the beneficiaries with more market-relevant skills, through the following mechanisms: the establishment of a TVET governance framework with representation from government, industry and civil society; the setting up a new TVET qualifications framework with occupational standards for sectors experiencing employment growth and skill shortages; and the diversification of funding sources of TVET to ensure its sustainability. Further steps include decentralised management of TVET institutions by 2009, increasing curriculum relevance, improved teacher training and greater focus on the informal sector.

Sixteen different institutions have been chosen as pilot sites for testing of the new Competency-Based Training (CBT) courses, in four sectors: tourism, agriculture, industrial maintenance and administration.

PIREP has also introduced a Skills Development Fund (FUNDEC) for employment-oriented TVET for underserved population groups (children and adults in rural areas), through small grants offered to public, private and NGO providers.

The implementation of the pilot project is proceeding at a slow pace. Only six schools will be ready to host new pilot projects by the middle of 2008. This is mainly because of the poor condition of the training facilities, which require substantial rehabilitation and re-equipping, and the shortage of funds. Little progress has been made so far in the introduction of a new competency-based curriculum and training of qualified teachers. No incentives have yet been put in place to attract the best qualified teachers operating in the private sector.

Two years after the start of the PIREP project, there is also no progress in bringing the planning processes of different ministries under a single institutional umbrella and on the development of a national strategic plan, and there is no unified accreditation and qualification framework. Some donors contribute to the fragmentation through their own pet projects in collaboration with various ministries, disregarding the PIREP guidelines. INEFP needs to set more realistic targets and to provide more detailed financial, physical and human resource planning. Furthermore, very little has been done with regard to the critical problem of providing training for the informal sector.

Political Context

In the 2004 elections FRELIMO (Liberation Front of Mozambique) remained in power, with new President Armando Emílio Guebuza replacing Joaquim Chissano who had been in office for 18 years. Elections for provincial assemblies, originally scheduled for January 2008, were postponed by a presidential decree in November 2007 because of delays in voter registration. The provincial elections may be held concurrently with the presidential and parliamentary elections scheduled for late 2009.

Reducing corruption has been a centre-piece of President Guebuza's political programme. The

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appointment of Augusto Paulino as the new attorney-general in August 2007 sent a strong signal about the president's commitment. Paulino, previously presiding judge of the Maputo city court, came into the spotlight when he presided over the trial of six men accused of the murder of investigative journalist Carlos Cardoso. (The men were sentenced to long prison terms.) Nevertheless, donors express concern that the government's anti-corruption strategy has delivered too few visible results. In particular, there are worries in relation to the irregularity of the publication of data about the fight against corruption and about the lack of trials of corruption cases in 2006 and 2007. Donors advocate the setting up of measurable targets for anti-corruption plans to allow progress in monitoring and assessment of the impact of these activities.

Social Context and Human Resources Development

Mozambique, perennially vulnerable to natural disasters, was hit both by flooding of the Zambezi River and by cyclone Favio in early 2007. The flooding killed at least 29 people and affected some 285 000 more in January and February 2007. Cyclone Favio, in late February, killed 10 people and affected 162 700 others in Vilanculo (Inhambane province). A July 2007 assessment by the Mozambican authorities of the effects of these disasters on food security found that 520 000 people faced high levels of food insecurity and an additional 140 000 were at risk. The government and donors funded relief and reconstruction, to continue at least until the end of March 2008. Again in 2008, heavy rainfall at the beginning of the year resulted in flooding of a large portion of central Mozambique. Some 76 000 people were displaced and up to 1 million were adversely affected by the floods, including lack of accessibility to roads and growing levels of water-borne diseases.

Mozambique has experienced one of the most dramatic reductions in poverty in the world in recent decades. Based on a national poverty line, income poverty fell from 69.4 per cent of the population in 1997 to 54.1 per cent in 2003. Measures of the depth and severity of poverty declined even more.

Nevertheless, Mozambique remains among the poorest countries in the world. Moreover, the country's poverty reduction efforts have had uneven results across regions. In particular, poverty rates increased in Maputo city and province. Moreover, a recent report by the World Bank[1] provides evidence of a "nutritional paradox": while real consumption levels have risen across the country, chronic malnutrition has not declined apace, and has even worsened in some areas (Zambezia, Sofala, Inhambane, Gaza, Maputo province).

Household survey data that would permit an updating of poverty rates since 2003 are not available. But a poverty and vulnerability survey (PVS) carried out by the Universidade Eduardo Mondlane in 2006 and analysed by the World Bank suggests that poverty reduction may be slowing and that inequality is an increasing problem. Some 40 per cent of poor households surveyed by the PVS reported that their level of income – low to begin with - had remained the same or deteriorated over the previous five years. Rising national income is apparently not leading to an across-the-board alleviation of poverty, particularly in rural areas where more than 60 per cent of Mozambicans live. In short, the gains from growth are apparently not reaching many of the poor.

During the first half of 2007, primary level school enrolment reached 94.1 per cent of school-age children, according to national sources. For girls the rate was 90.9 per cent. Although the government's commitments and strong donor support aimed at reaching the Millennium Development Goals have led to a significant expansion of enrolment in primary education, this has taken place at the expense of quality and of the development of post-primary education. It is estimated that each year more than 160 000 primary school leavers cannot find places in secondary schools because of a lack of schools and qualified teachers.

1. The World Bank, Beating the Odds: Sustaining Inclusion in a Growing Economy. A Mozambique Poverty, Gender and Social Assessment. Africa Region, Poverty Reduction and Economic Management, Report No. 40048-MZ, 2007.

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Recently published results of a 2004/2005 labour-force survey allow an assessment of levels and trends of unemployment, underemployment and earnings[2]. Using an international definition, the survey found unemployment rates of 1.3 per cent in rural regions and 21 per cent in urban regions. Using a broader definition that counts occasional workers and idle self-employed and family workers as unemployed, the unemployment rate rises to 12.9 per cent in rural regions and 31 per cent in urban regions. Underemployment – the proportion of workers who work fewer than 40 hours per week though they want to work more – affects 18.6 per cent of men and 8.3 per cent of women.

In Mozambique 75 per cent of the labour force operate in the informal sector. Another 17 per cent are unemployed, with only 8 per cent having jobs in the formal labour market[3]. In the rural areas 87 per cent of workers are informal, compared with only 50 per cent of urban workers. Regionally, Maputo city leads in formal employment, with 33 per cent of workers in the formal sector, but with even more – 40 per cent – unemployed. Of informal-sector workers 90 per cent are in agriculture, with only 2 per cent in manufacturing and construction, 5 per cent in trade and tourism, and 2 per cent in other services.

The government is taking steps to stem the effects of malaria, the deadliest disease in Mozambique. Between 2004 and 2007, 2.23 million mosquito nets were distributed, reaching 54.6 per cent of children under five and pregnant women. Nevertheless, according to the latest joint review of the Mozambican government and donors, the country has registered an increase of maternal mortality by 38.7 per cent.

The incidence rate of HIV/AIDS in Mozambique was estimated at a very high 16.2 per cent of the adult population in 2004, and the ministry of health estimates the national rate is little changed since that time. The regional variations in HIV/AIDS incidence, however, have changed in recent years. The central provinces of Mozambique, long marked by the highest incidence rates, have seen declines with the maturation of the epidemic. In Sofala, for example, the incidence rate fell from 26.5 per cent to 23 per cent between 2004 and 2007. At the same time, however, the incidence rate in southern Mozambique has risen, quite markedly in some cases, e.g. from 19.9 per cent to 27 per cent in Gaza province, and from 20.7 per cent to 26 per cent in Maputo province.

According to a report presented to the parliament in March 2007, just over 50 000 HIV-positive Mozambicans were receiving anti-retroviral therapy (ART), well short of the 300 000 in need of treatment. The cost of ART in Mozambique is estimated at USD 140 per patient per year.

2. Instituto Nacional de Estatística (INE), Inquérito Integrado à Força de Trabalho (IFTRAB 2004/2005). Relatório Final, 2006.

3. Instituto Nacional de Estatística (INE), O Sector Informal em Moçambique. Resultados do Primeiro Inquérito Nacional (2005), 2006.

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Namibia



key figures

• Land area, thousands of km²	824
• Population, thousands (2007)	2 074
• GDP per capita, USD at constant 2000 prices (2007)	2 246
• Life expectancy (2007)	52.9
• Illiteracy rate (2007)	13.4

Namibia


Lubango
ANGOLA
Cunene
Ruacana
Oshakati
Okavango
Rundu
Zambezi
Caprivi Strip
Etosha
National Park
Kamanjab
Tsumeb
Grootfontein
Tsumkwe
Namib
Otjiwarongo
BOTSWANA
Okahandja
Karibib
Swakop
Bge de
Von Bach
Gobabis
Gaborone
Swakopmund
WINDHOEK
Walvis Bay
Rehoboth
Nossob
Kalahari Desert
Desert
Aranos
ATLANTIC
OCEAN
Mariental
Malthahöhe
Olifants
Bethanie
Keetmanshoop
Lüderitz
Grünau
Upington
Oranjemund
Orange
SOUTH
AFRICA
Cape Town
0
150 km
Town 100 000 - 500 000 inhabitants
< 100 000
Major road
Secondary road
Railway
Main airport
Secondary airport
Commercial port
Fishing port

Namibia

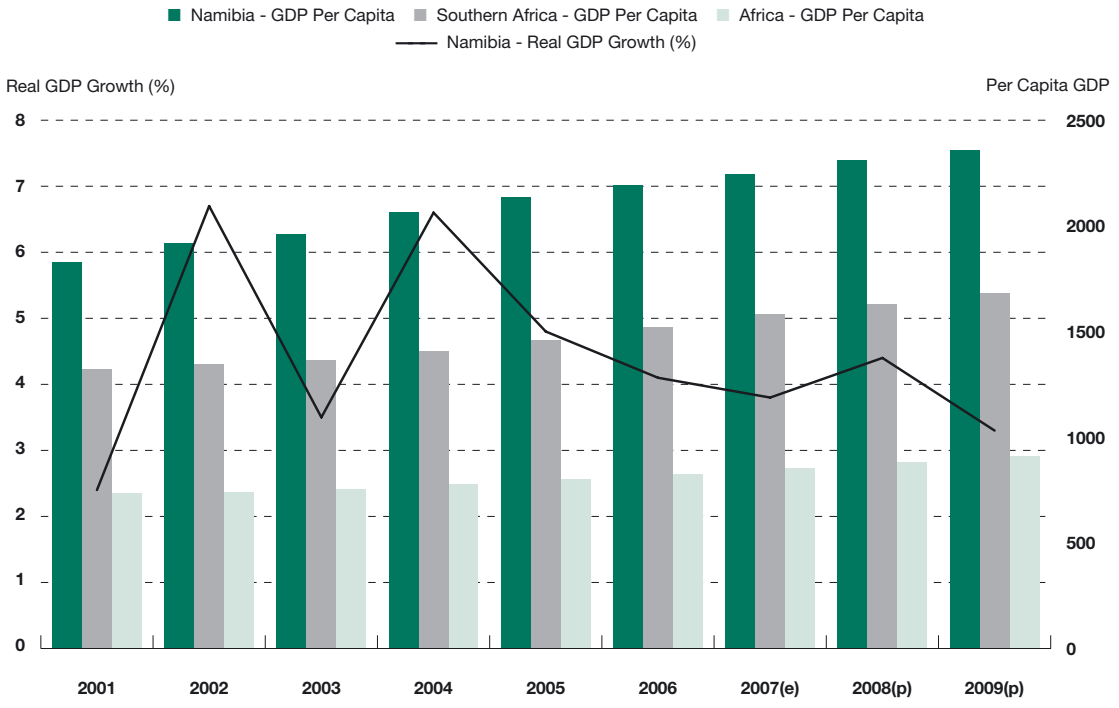
NAMIBIA HAS EXPERIENCED a decade of moderate growth, averaging 4.2 per cent per year, thanks mainly to strong performance in diamond production and sound macroeconomic policies. However, the country is also characterised by a skewed income distribution and persistent poverty.

Real GDP (Gross Domestic Product) growth in 2007 is estimated at 3.8 per cent compared with 4.1 per cent in 2006 partly as a result of the poor performance of diamond and other mining activities. Economic growth is expected to accelerate to 4.4 per cent in 2008 as offshore diamond production increases and mineral production, such as that of uranium, expands. A forecast decline in diamond production in 2009 is mainly behind the expected drop of economic growth to 3.3 per cent.

The country is facing major challenges. These include ensuring employment-creating growth, strengthening competitiveness and a smooth process of land reform. In spite of economic growth exceeding 4 per cent a year on average over the past decade, the unemployment rate increased between 2000 and 2004. Namibia's competitiveness is hampered by the lack of a skilled work force and a poor work ethic. Although the country has allocated more resources as a proportion of GDP to education than most other African countries, the outcome is not good. Drop-out and repetition rates remain high and Namibian school students perform poorly in subjects such as English and mathematics compared with other

Strong demand for minerals has not created the jobs needed to address poverty and inequality.

Figure 1 - **Real GDP Growth and Per Capita GDP**
(USD at constant 2000 prices)



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

StatLink http://dx.doi.org/10.1787/316675370187

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countries in the region. The government has embarked on an Education and Training Sector Improvement Programme (ETSIP) to address these shortcomings. An unequal distribution of land to the advantage of a small minority of commercial farmers was inherited from the colonial era. Some 4 000 commercial farms share a similar proportion of the country as the traditionally managed communal farms (around 150 000 families). Thus the challenge facing Namibia is a redistribution of land without endangering agricultural output, total national production, foreign exchange earnings, and farm-workers' employment and income.

Recent Economic Developments

In the past 10 years, average annual real GDP growth amounted to 4.2 per cent. The highest growth rate recorded was 6.7 per cent in 2002. Since 2004 real growth rates have moderated from 6.6 per cent in 2004 to 3.8 per cent (2007). Thanks to considerable terms of trade gains since 1996, real national income grew more rapidly than GDP.

The tertiary sector contributes more than 50 per cent to GDP, followed by primary and secondary industries. Within the primary sector mining and quarrying industries contribute around 13 per cent to GDP compared with 6 per cent and 4 per cent for agriculture and fisheries respectively. The single most important primary industry is diamond mining which contributes nearly 9 per cent to GDP. Commercial agriculture contributes about twice as much as communal (i.e. subsistence) agriculture to GDP.

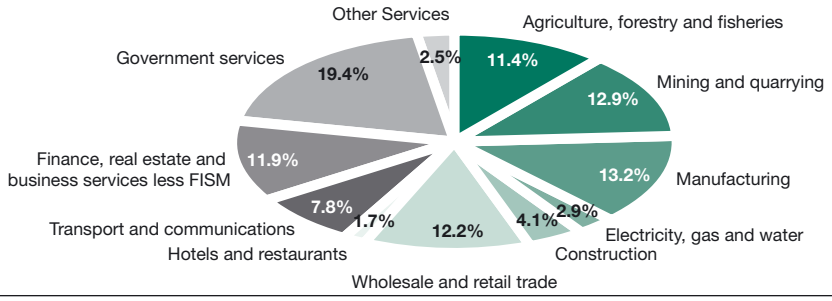
The mining sector continues to benefit from strong and increasing world market prices and has attracted additional investment. New mining sites, especially uranium deposits, are being developed and the lifespan of existing mines is being extended while new lower-grade deposits are explored and exploited. The projected growth for the mining sector in 2007 was 1.7 per cent, mainly because of unforeseen shortfalls in diamond and uranium production. A growth of 9 per cent is anticipated for 2008, because of the expected increase in uranium and diamond production. Offshore diamond mining activities are due to grow.

Agriculture has also benefited from rising world market prices. Local horticultural production increased its market share over the years from 7 per cent to about 30 per cent, with some horticultural produce being exported to South Africa. However, the agricultural sector's performance is heavily dependent on weather conditions. Livestock marketing increased considerably because of last season's poor rainfalls (November 2006 to March 2007) which led farmers to reduce herd sizes. Livestock was either slaughtered locally or exported on-the-hoof to feedlots and abattoirs in South Africa. It is expected that farmers will rebuild their herds of cattle and other livestock in 2008. The general outlook for the agricultural sector is positive with growth expected to be 3.7 per cent in 2008 – up from 3.2 per cent in 2007. Prospects in the fishery sector remain bleak. At the beginning of 2007, output declined as a result of shrinking fish stocks. The government reacted by reducing the total allowable catch (TAC) for some of the most endangered (and economically most important) species, such as hake, and introduced a moratorium in October 2007 on hake catches. This further reduced the output of the fishery industry. Other factors contributing to the sector's poor performance are the high price of oil, low market prices and unfavourable oceanic conditions. Growth of the sector was estimated at 1.5 per cent in 2007 and is expected to be similar in 2008.

Within the secondary sector manufacturing activities dominate, contributing 13.2 per cent to GDP. The sector comprises mainly the production of meat, fish, and beverages as well as copper and zinc processing. Construction contributes around 4 per cent to GDP, while electricity and water account for about 3 per cent. The sub-sector of meat processing benefited during 2007 from an increase in livestock sales. Local processing of minerals and other raw materials is on an upward trend because of increased production at the zinc refinery and copper smelter. Diamond cutting and polishing activities are expected to benefit from the newly formed Namibia Diamond Trading Company (a joint venture between De Beers and the government)

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Figure 2 - **GDP by Sector in 2006** (percentage)



Source: Central Bureau of Statistics – National Accounts 1996 -2006 data.

StatLink http://dx.doi.org/10.1787/318016371804

that will allow Namibian manufacturers to buy uncut diamonds directly in Namibia for the first time. It is estimated that about 14 per cent of rough diamonds will be made available to various local cutting and polishing factories.

Electricity generation increased because of supply limitations in South Africa and good rainfalls in Angola, benefiting Namibia's hydro-power plant at the border with Angola. The construction sector continues to show strong growth mainly as a result of projects under way in the mining, transport and communications sectors. Chinese firms play an increasingly important role in this sector. Growth of 9.5 per cent is expected in 2008, up from 9.3 per cent in 2007. Growth in the mining sector, which is the largest consumer of electricity and water, is expected to lead to an increase in electricity and water production.

Within the tertiary sector, government services (about 19 per cent of GDP) played the most important role, although their share has declined since 1996 (22.7 per cent). Wholesale and retail trade ranked second with 12 per cent. Hotels and restaurants are an important part of the flourishing tourism industry. Namibia is identified by the World Travel and Tourism Council as the sixth fastest growing tourism industry in the world. According to the Tourism Satellite Accounts, tourism contributes about 17 per cent to GDP and employment. Initial data for 2007 show an

Table 1 - **Demand Composition**

	Percentage of GDP (current prices)		Percentage changes, volume			Contribution to real GDP growth		
	1999	2006	2007(e)	2008(p)	2009(p)	2007(e)	2008(p)	2009(p)
Gross capital formation	**23.3**	**26.7**	**16.2**	**13.2**	**10.0**	**4.5**	**4.1**	**3.4**
Public	11.0	6.2	20.0	17.0	10.0	1.3	1.3	0.8
Private	12.3	20.5	15.0	12.0	10.0	3.2	2.8	2.5
Consumption	**87.5**	**73.6**	**4.3**	**5.1**	**4.8**	**3.2**	**3.8**	**3.6**
Public	30.3	22.5	5.1	4.6	4.1	1.1	1.0	0.9
Private	57.2	51.1	4.0	5.3	5.1	2.1	2.7	2.7
External demand	**-10.8**	**-0.3**				**-3.9**	**-3.5**	**-3.7**
Exports	46.2	52.2	3.5	3.5	1.9	1.9	1.9	1.0
Imports	-56.9	-52.5	10.5	9.1	7.6	-5.8	-5.4	-4.6
Real GDP growth						**3.8**	**4.4**	**3.3**

Source: Central Bureau of Statistics data; estimates (e) and projections (p) based on authors' calculations.

StatLink http://dx.doi.org/10.1787/321313015537

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increase in tourist arrivals and bed occupancy rates, which bodes well for growth in the sector. Several tourism facilities are expected to be upgraded during 2008 to serve the higher value market segment.

The transport and storage sub-sectors have benefited from the growing business at Namibian ports (mainly Walvis Bay) and airports (chiefly Windhoek). The communication sector was revitalised by the arrival of a new competitor in the mobile phone market.

There have been major changes between 1998 and 2007 in the behaviour of the components of final demand (see Table 1.). Consumption as a percentage of GDP decreased from 88 per cent in 1999 to 74 per cent in 2006. Private consumption fell by 6 percentage points from 57 per cent to 51 per cent during the same period, while public consumption decreased from 30 per cent to 23 per cent. Gross Capital Formation increased from 23 per cent in 1999 to 27 per cent in 2006. Exports showed stronger growth during the period than imports, thereby reducing the deficit on goods and non-factor services from 10.8 per cent in 1999 to 0.3 per cent in 2006. Public and private investment are projected to grow strongly in 2008 and to contribute slightly more to growth than public and private consumption. However, consumption is expected to be a stronger driver of growth than investment in 2009.

Macroeconomic Policy

Namibia's economic policy is based on the long-term Vision 2030, implemented through medium-term development plans. The Third National Development Plan covers the period 2007-2011. The reduction of poverty and income inequality; creation of private sector employment; promotion of Black Economic Empowerment (BEE); achieving sustained economic growth; and reduction of the spread of HIV/AIDS have been the main objectives of these development plans. In addition, ministries prepare medium-term plans to support their budget requests. These plans include output and outcome indicators that the ministries intend to achieve with the allocations.

Fiscal Policy

Namibia recorded its first budget surplus since independence in 1990 during the 2006/07 fiscal year, equivalent to 1.9 per cent of GDP. The fiscal year 2007/08 is expected to yield again a surplus of about 0.3 per cent of GDP. The budget surplus expected in 2007/08 is partly attributable to further increases in revenue from the Southern African Customs Union (SACU) Common Revenue Pool and improved domestic tax collection. The additional income is used to reduce debt as well as to increase expenditures.

The government's three-year medium-term expenditure framework (MTEF) continues to address the challenges of poverty reduction and sustainable economic growth. In the 2007/08 budget the personal income tax threshold was raised from NAD 24 000 (Namibian dollars: in March 2008 USD 1= NAD 7.84) to NAD 36 000. The deduction allowable for retirement contribution was increased from NAD 30 000 to NAD 40 000. This improves the ability of employees to cater for their pension needs and also provides an incentive for increased savings. The budget also makes additional funds available for a major expansion in the provision of grants and allowances for orphans and vulnerable children. An amount of NAD 450 million was made available to extend further the AIDS treatment programme in line with the government's commitment to ensure that all Namibians in need of anti-retroviral treatment (ART) are able to receive it. Additional resources are also made available to improve education through ETSIP.

Deficits are projected to be 0.7 per cent and 1 per cent in 2008/09 and 2009/10 respectively, slightly lower than the deficits of 1.1 per cent of GDP for both years projected in the MTEF. The deterioration in the deficit from a small surplus in 2007/08 can be mainly attributed to the decline in SACU receipts following the expected phasing in of SACU free trade agreements with third parties in 2008. However, the effects of the free trade agreements might be limited as a result of robust growth in South Africa and hence growing imports to that country. The substantial dependence on revenue from international trade taxes (around

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

	1999/00	2004/05	2005/06	2006/07(e)	2007/08(e)	2008/09(p)	2009/10(p)
Total revenue and grants[a]	**32.1**	**30.6**	**31.6**	**33.8**	**32.3**	**30.7**	**30.2**
Tax revenue	28.6	28.1	28.8	30.4	29.0	27.4	27.0
Grants	0.2	0.2	0.1	0.2	0.3	0.2	0.2
Total expenditure and net lending[a]	**36.0**	**34.2**	**31.8**	**31.9**	**32.0**	**31.4**	**31.2**
Current expenditure	31.7	28.9	27.8	26.1	25.4	25.4	25.4
Excluding interest	*29.1*	*26.1*	*24.9*	*23.1*	*23.1*	*23.5*	*23.5*
Wages and salaries	16.4	14.8	14.2	12.8	12.2	11.9	11.6
Interest	2.5	2.8	2.9	3.1	2.3	2.0	1.9
Capital expenditure	3.8	4.3	3.5	4.4	4.9	5.4	5.8
Primary balance	**-1.4**	**-0.8**	**2.7**	**5.0**	**2.6**	**1.2**	**0.9**
Overall balance	**-3.9**	**-3.6**	**-0.2**	**1.9**	**0.3**	**-0.7**	**-1.0**

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

StatLink http://dx.doi.org/10.1787/322124135076

35 per cent of total revenue) poses fiscal challenges for the near future since free trade agreements as well as the Economic Partnership Agreement (EPA) with the EU are expected to result in a decline of revenue from this source. Total expenditure is forecast to decrease from 32 per cent in 2007/08 to 31.4 per cent of GDP in 2008/09 and to be about the same in 2009/10.

Prudent fiscal policies which resulted in budget surpluses for 2006/07 and 2007/08 (estimated) will enable the government to reduce public debt. The ratio of total public debt to GDP for 2007/08 is 24.8 per cent and is expected to decrease to 23.6 per cent in 2008/09 and 23.8 per cent in 2009/10, thus falling into line with the stated target of less than 25 per cent. Domestic debt accounted for more than 80 per cent of total debt in 2006. At the end of 2006 public foreign debt accounted for 18.7 per cent of total debt. The share increased to 25 per cent in 2007 and is expected to increase to 26 per cent in 2008 and 2009. The level of public debt is in line with the medium term expenditure framework.

Monetary Policy

Namibia is a member of the Common Monetary Area (CMA) together with South Africa, Lesotho and Swaziland. As in Lesotho and Swaziland, the Namibian dollar is pegged to the South African rand on a one-to-one basis. Each member of the CMA has its own central bank and maintains responsibilities normally performed by such institutions, such as regulating commercial banks and acting as a lender of last resort. There is a bilateral agreement with South Africa which requires Namibia to back its currency fully with foreign exchange reserves. This arrangement links Namibia to the inflation targeting framework of South Africa which covers a band of 3 per cent to 6 per cent. Hence monetary policy in the smaller CMA member countries is determined to a large extent by South Africa, limiting its use as policy tool.

Inflation in the Rand Area accelerated in the first half of 2007, triggering interest rate increases by the South African Reserve Bank in response. The repurchase rate was raised in four steps from 9 per cent at the beginning of 2007 to 11 per cent in December. The Bank of Namibia followed suit except for the last increase, resulting in a difference in the bank rate of 50 basis points between Namibia and South Africa. Subsequently, the prime lending rate in Namibia increased from 13.75 per cent in May to 15.25 per cent at the end of 2007. Commercial banks were criticised for increasing the prime rate in line with the South African repurchase rate increase, ignoring the softer stance of the Bank of Namibia in December 2007. Interest rates remained at the current level at the end of January 2008 because of declining private sector credit demand in Namibia but in spite of continuing inflationary pressure.

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While inflation moderated slightly to 6.7 per cent in September from 6.8 per cent in August, international oil prices that reached USD 100 in the second half of 2007, as well as rising food prices, led to price increase of 7.1 per cent in December. Food prices rose by 13.6 per cent during that month, compared with the same month in 2006. Costs for the operation of transport equipment increased by 13 per cent, resulting in an inflation rate of 6.7 per cent for the year as a whole. It is expected that prices will increase at a slower pace during 2008 and 2009, namely by 6 per cent and 5.1 per cent respectively.

External Position

South Africa remains Namibia's main trading partner. Namibia imports about 80 per cent of its products from or through South Africa, while about 30 per cent of Namibia's exports are destined for South Africa. The EU is a major destination for Namibia's products, in particular diamonds, beef and grapes. Angola ranks as the second most important export destination in Africa. Namibia has taken advantage of the US African Growth and Opportunity Act (AGOA) to attract investment in the textile industry in order to export the products to the US market.

Namibia is a member of the Southern African Customs Union (SACU) and the Southern African Development Community (SADC). SACU concluded an agreement with the European Free Trade Association (EFTA) in 2006. Individual countries are currently in the process of ratifying the agreements but have not yet implemented it. The negotiations between SACU and the United States for a free trade agreement are stalled. The SADC Free Trade Area is supposed to be launched in 2008 but not all member countries are yet ready.

Namibia is a party to the SADC-EPA negotiations. The trade preference granted to the African, Caribbean and Pacific (ACP) group of states ended on 31 December 2007. SADC and the EU began negotiating an EPA in good time in order to conclude before the expiry date. However, towards the end of 2007 no agreement had been signed because of unresolved outstanding issues, such as infant industry protection and the demand of the EU that the most favoured nations tariffs automatically apply to EU products. There was grave concern that the Namibian economy would incur losses in 2008 if no agreement were reached before the end of 2007 because products such as beef, grapes and fish would not be competitive in the EU market without preferential access. At the last minute both parties signed an Interim EPA that allows duty-free and quota-free access of all Namibian products to any of the 27 EU member states from January 2008. On the other hand, Namibia is required to phase in reciprocal market access for EU products starting from the second half of 2008.

Namibia generated its first trade surplus of NAD 642 million, equivalent to 1.4 per cent of GDP (see Table 3), resulting in an increase of the current account as a percentage of GDP from 7 per cent in 2005 to 17 per cent in 2006. However, during the first half of 2007 imports grew more strongly than exports,

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

	1999	2004	2005	2006	2007(e)	2008(p)	2009(p)
Trade balance	-6.0	-5.0	-4.3	1.4	-0.2	-3.7	-5.8
Exports of goods (f.o.b.)	35.4	32.2	33.1	38.2	37.5	37.5	36.4
Imports of goods (f.o.b.)	41.4	37.2	37.4	36.8	37.7	41.2	42.2
Services	-3.6	1.0	0.7	1.4	1.6	1.6	1.6
Factor income	5.4	1.7	-0.3	0.2	0.2	0.2	0.2
Current transfers	11.5	11.8	10.7	13.7	12.1	9.0	7.8
Current account balance	**7.3**	**9.4**	**6.9**	**16.6**	**13.7**	**7.0**	**3.8**

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

StatLink http://dx.doi.org/10.1787/323157711867

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resulting in a trade deficit of some NAD 550 million. The export performance was mainly influenced by a decline in diamond production.

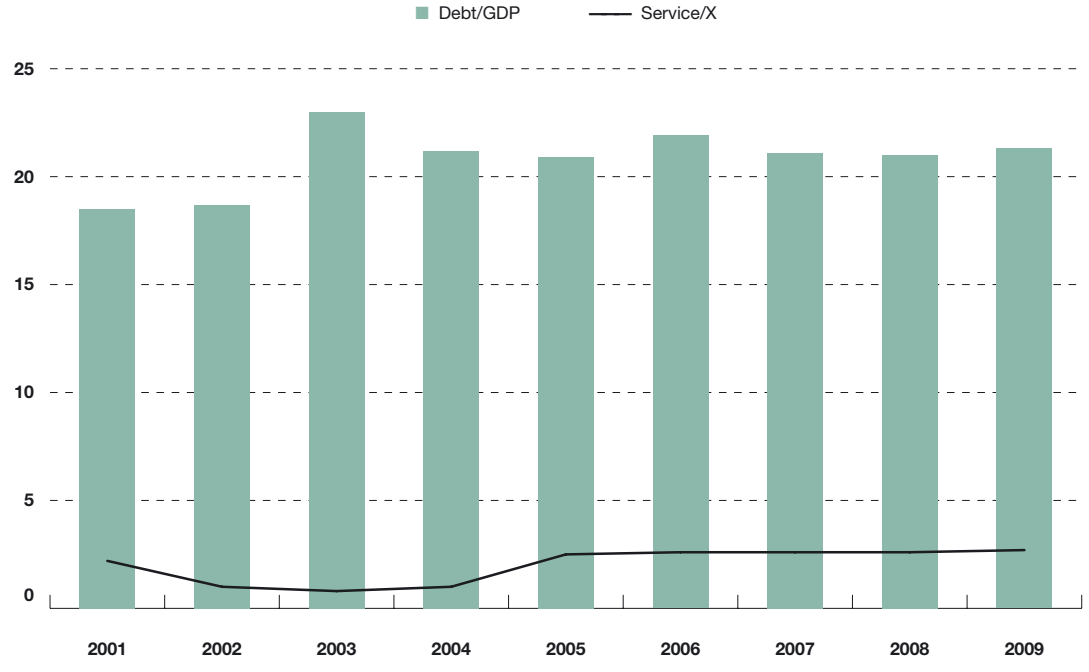
The trade balance as a percentage of GDP is forecast to exhibit a deficit of 4 per cent and 6 per cent in the years 2008 and 2009 respectively. A lower net inflow of current transfers not fully offset by an increase in tourism earnings contributed to a current account surplus of 13.4 per cent in 2007, down from 16.6 per cent in 2006. The current account surplus is projected to fall further to 7 and 3.8 per cent of GDP in 2008 and 2009 respectively. The expected decline in the current account surplus for the next two years is due to a shrinking SACU common revenue pool because of trade liberalisation beginning in 2008.

International foreign exchange reserves increased significantly. This resulted in international reserve stock of more than NAD 6 billion, which represents 13.5 weeks of import cover. It therefore exceeds the international benchmark of 12 weeks import cover for the first time since independence, indicating a positive outlook for the Namibian economy.

Foreign direct investment (FDI) continues to play an important role in some of the most dynamic sectors (fishing, mining, manufacturing, construction, tourism, telecommunications and financial services) of the Namibian economy, not least by crowding in local investment. The mining sector was the main beneficiary of FDI. Nevertheless, the capital account recorded a higher deficit in 2007 compared with 2006, because of a significant outflow of portfolio investment and a slowdown in the inflow of direct investment. Although the deficit on the capital account was significant, it was offset by the large current account surplus. This resulted in the overall balance of payment surplus of more than NAD 2 billion in 2007.

The international investment position of Namibia improved in 2007, with net foreign assets exceeding

Figure 3 - **Stock of Total External Debt** (percentage of GDP) **and Debt Service** (percentage of exports of goods and services)



Source: IMF.

StatLink http://dx.doi.org/10.1787/320072575166

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NAD 25 billion. Foreign assets are dominated by private portfolio investment and the international reserves of the central bank. Portfolio investment from Namibia continues to be attracted by the investment opportunities in the South African capital market compared to a relatively underdeveloped capital market in Namibia.

The ratio of total external debt to GDP remained at about 25 per cent in 2007 and is expected to increase slightly to 26 per cent in 2008 (Figure 3). The ratio of debt service to exports is projected at about 3 per cent for 2007 and 2008 and hence lower than the 4.4 per cent in 2006. This level of debt is within manageable proportions.

Namibia is a lower middle income country; a status which does not facilitate access to concessionary finance. Support from donors has been declining; grants currently account for less than 1 per cent of total revenue and are expected to decline further in the coming years. Organisations that attract a significant amount of donor funding are those working in areas such as the HIV/AIDS pandemic. The decrease in donor aid to Namibia can be explained by the fact that the country has mastered the political transition and is stable. Many donors are reallocating their official development assistance to countries believed to be in greater need. However, the Namibian government is in the final stage of concluding an agreement with the Millennium Challenge Corporation to benefit from the Millennium Challenge Accounts.

Structural Issues

Recent Developments

Up to now, the government has pursued the policy of "willing seller – willing buyer" in order to redistribute land. This policy basically reflects the working of the market principle, but requires that farms have to be offered to the government first. However, because of the slow process of redistributing farm ownership, the government has embarked on expropriation of farms with compensation (likewise, constitutionally provided for), whereby the amount of compensation can finally be settled by an impartial arbitrator. According to the constitution, land reform must be designed to the advantage of the "formerly disadvantaged".

The focus of reform efforts in the state-owned enterprises has been on improving operational efficiency, rather than privatisation. State-owned enterprises contribute about 5 per cent to both GDP and employment. However, many of these enterprises are notorious loss-makers, while it is not always clear what type of public good they provide to justify a continuing subsidy. Mobile Telecommunications Limited (MTC), the mobile phone company operator, has been partly privatised with large-scale private equity participation and more than NAD 1 billion invested.

In order to support small and medium-sized enterprises, the Development Bank of Namibia was given an additional NAD 29 million in the 2007/08 budget to strengthen the Special Development Fund, the main financial vehicle for the support of small and medium enterprises.

A sovereign guarantee in the amount of NAD 350 million was provided to the Agricultural Bank of Namibia to generate NAD 500 million in loans and strengthen its balance sheet. This is expected to facilitate the land reform programme through the Affirmative Action Loan Scheme. The government is currently reviewing this scheme in order to improve the outcomes of the land reform programme in terms of sustainability.

The country has a highly developed financial system. The banking sector is well capitalised and profitable. Non-banking financial institutions also have sound balance sheets. Most banks and non-bank financial institutions have significant equity participation from South African firms, a factor that facilitates access to South African capital markets. The assets of the financial system are about 170 per cent of GDP. There are four commercial banks, about 31 insurance companies, 500 pension funds, the Namibia Stock Exchange, asset management companies, specialised lending institutions, a number of micro-lending institutions, and unit trust management companies.

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The government has encouraged the localisation of the operations of financial institutions in Namibia in various ways. For example, foreign banks and insurance companies are required to set up subsidiaries in Namibia in order to conduct business and must match at least 100 per cent of their liabilities with local assets.

Although the non-banking financial institutions sector is developed and mature, there are concerns that it is under-supervised. The Namibia Financial Supervisory Authority (NAMFISA) is responsible for the regulation and supervision of this sector, but has yet to develop full capacity to analyse and respond to the development in the sector.

The development of infrastructure, especially in the rural areas, is required for economic growth. Accordingly, the Development Fund was significantly increased from NAD 1.8 billion in 2006/07 to NAD 2.1 billion in 2007/08. Budget appropriations are expected to remain at NAD 1.9 billion in 2008/09 and 2009/10. A large part of the funds is allocated to the national rail and road networks.

Namibia has experienced periodic power shortages and this situation threatens to become worse as South Africa's power utility ESKOM is expected to continue reducing, and eventually to end, its export of electricity to Namibia and other Southern African countries because of increased demand at home. In 2007, the government invested an additional NAD 500 million in NamPower in order sufficiently to capitalise the utility for the proposed construction of a gas-fuelled power plant. This is in addition to the NAD 250 million invested in NamPower in 2006. A feasibility study is currently underway to look at the possibility of installing a fourth unit at the Ruacana Hydro-power Station to expand its power generation capacity. To promote energy efficiency and reduce the demand, NamPower has distributed some 800 000 energy saving bulbs since October 2007 to private households across the country. NamPower has announced that it will introduce load shedding in early 2008 in order to cope with peak demand. The electricity shortages can have a negative impact on economic growth and investment, in particular in mining activities.

Namibia has increased the proportion of people with access to safe drinking water and basic sanitation in both rural and urban areas (See *AEO 2006/07*). Access to piped water is available to 75 per cent of the population. The infrastructure programmes currently under way also include a desalination project aiming at supplying a new uranium mine with water.

Namibia has made advances in ensuring environmental sustainability. There is good progress in maintaining biological diversity in protected areas, but only slow progress in conservancies and freehold land. There is currently a rush by companies to mine uranium and it will be important to manage the attendant environmental risks.

Technical and Vocational Skills Development

At present, about 3 000 trainees are enrolled in 10 Vocational Training Centres (VTCs) and the six Community Skills Development Centres (COSDECs), and the number is steadily increasing. Annually, around 1 500 students enter the training facilities while around 250 graduate. However, this falls far short of accommodating the 16 000 annual Grade 10 school leavers who are supposed to benefit from these centres. Moreover, Grade 12 school leavers (some 31 000 per year) also try to apply for Vocational Education and Training (VET). Thus, only a minority of school leavers receive formal VET. The VTCs receive significantly more applications than they can accept. Around 30 per cent of VET students are female. Their fields of study mainly coincide with existing gender stereotypes. The community-owned and rural-based COSDECs can be regarded as specific attempts to provide skills and employment opportunities for disadvantaged groups and to relieve regional disparities. Some VTCs provide training places for physically challenged students.

In the Namibian educational system generally, as well as in VET specifically, student pass rates are on a downward trend and have become fairly low. In 2004 664 VET candidates (old level 4 and new level 3 graduates) were (externally) examined, but only 150 (23 per cent) passed the test. The low pass rates do not seem to be the result of ever-rising pass standards. Several studies have

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concluded that the educational and VET systems fail to provide the necessary skills for several reasons. One is that the trainers often are not really experienced professionals. Between one third and two thirds of the VET trainers (varying across the VTCs) possess only one qualification, which is that they have successfully completed their own training in a VTC. Another reason refers to the bureaucratic over-centralisation which deprives the VTCs of almost any possibility of flexible and independent management and decision making. Moreover, although being highly centralised, the VET system lacks organisational clarity. The employers of skilled craftsmen are called upon to provide practical training to VET students, but do not (yet) contribute financially to the running of the VET system.

The Namibian labour market is characterised by a severe lack of skilled labour and wide-spread unemployment among semi-skilled or unskilled workers. A recent study has projected a continuing substantial deficit in the supply of a large range of professionally qualified workers: IT technicians, professional nurses, financial practitioners, technicians, semi-professionals, engineers, physicians and dentists.

In 2002, the VTCs offered around 20 different trades. Most students enrolled in (in descending order): carpentry/joinery/cabinet making; auto mechanics; bricklaying; plumbing; general electric; secretarial; and welding/fabrication. IT services and entrepreneurial training have recently been taken up by some VTCs. Training in the use of computers is not possible in all VTCs because of a lack of equipment. The range of trades offered by the COSDECs is more limited. They specifically take into account local (mainly rural) resources, possibilities and needs. Several trades are taught at VTCs and COSDECs alike. However, the latter also teach brick-making, bush furniture production, needlework, baking, leather tanning, leather products and solar cooking.

The VTCs mainly aim to enable their students to become employed in the formal labour market, while attention is currently shifting to include self-employment as well. The central idea of the COSDECs, by contrast, is to provide opportunities for self-employment in a local context. Some officially recognised (and publicly sponsored) VTCs are run by enterprises (e.g. diamond mining, auto motive repair) mainly for their own needs.

School-leavers who complete only primary, junior secondary or senior secondary education face a high likelihood of unemployment – the rates are 30, 40 and 20 per cent respectively. These figures drop to nearly zero for graduates of any type of post-secondary education. Unemployment rates are all lower than 1 per cent for holders of an "After Standard 10 Certificate" – e.g. VET, university degree, other post-graduate degree or teacher training.

The reportedly very low unemployment rates for post-secondary graduates stand in stark contrast, however, to the results of tracer studies performed by some VTCs about their former students. Five years after graduation, about 25 per cent of the respondents regard themselves as unemployed. An unemployment rate of 25 per cent is even slightly higher than the nationwide rate of about 22 per cent (on the strict definition of unemployment).

Tracer studies also raise doubts whether the VET meets the needs – in terms of specialisation and quality level – of the future employees and their employers. Although there is no systematic and quantitative evidence, there seem to be indications that there is a considerable mismatch.

Total educational spending is around 9 per cent of GDP and about 27 per cent of total government expenditures. During the past five years the figures have fluctuated but have not shown a clear trend. About 2 per cent of total government educational spending is on vocational training. Expenditures for tertiary education (including VET) showed an upward trend. Besides the government, there are foreign NGOs (including churches) and national private sources which fund VET on an investment or recurrent basis. Some of their vocational undertakings are supported financially by the government.

The annual costs to train a student in a VTC diverge largely. Earlier estimates produced an amount of

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NAD 23 000 and NAD 27 450 for 1995 and 1999 respectively. However, recently issued government figures "gross cost per trainee in a VTC" for 2004/05 amount to only around NAD 8 000. The costs per trainee differ widely across VTCs, up to a ratio of 1:4 between the cheapest and most expensive VTCs. In COSDECs, the costs per trainee reportedly average NAD 4 800.

At the end of the 1990s, public and government awareness of the weaknesses of the educational and VET system grew. The then ministry of higher education, training and employment creation conducted a comprehensive and critical analysis of the VET system in 1999. A presidential commission's report on the whole educational sector followed in 2000. However, the reform initiatives formulated at that time were not implemented. Instead, a systematic educational sector review was undertaken in 2003 with input from the World Bank, resulting in the implementation of the Education and Training Sector Improvement Programme (ETSIP). Momentum for reform has been supported by the formulation of the government's "Vision 2030".

In 2005, the three ministries responsible for VET were merged into one ministry of education followed by the transfer of VET programmes for the agricultural sector from the ministry for agriculture to the ministry of education. In the same year reforms of the curriculum and of the style of teaching began. VET was shortened from four to three years. Moreover, competency-based education and training (CBET) has been introduced step by step. Granting the VTCs more leeway for flexible management is under consideration. Likewise, preparations are under way to implement a levy on employers to help finance the VET system. The organisational set-up of the VET system is to be further streamlined by the creation of a National Training Authority (NTA). However, the relevant legislation is still pending approval by parliament.

ETSIP as a whole is a long-term undertaking. It is divided into three five-year phases. The first implementation phase (2006-11) is supported by direct budget support from the World Bank ("development policy loan") in the amount of USD 15 million (divided into two equal tranches). Other donors (nine foreign governments and 17 Namibian enterprises) are expected to contribute a much larger amount, USD 324 million, of which 85 per cent consists of grants while the rest is in the form of soft loans. The costs of the first year of the first ETSIP phase amount to around USD 50 million. Thus, in principle, financing has been fully secured for the first six years of operation.

The main challenge is fully to implement the continuing reforms of the VET and educational system in order to absorb more school leavers and to improve the quality of learning.

Political Context

Namibia became independent in 1990 peacefully, after decades of a bloody war of liberation against South African apartheid rule. Since then, four parliamentary elections have been held with several competing political parties. The South West African Peoples Organization (SWAPO) won at first a plurality, and later an absolute majority, of seats in parliament.

At the SWAPO congress in November 2007 the founding president of Namibia, Dr. Sam Nujoma, retired from the presidency of the party, having already handed over the national presidency to his elected successor in 2005. That allowed current national President Hifikepunye Pohamba to become the president of SWAPO in an unopposed election. This eliminates the perception of two centres of power and has been welcomed by many as a positive political development. For the first time a woman was elected as secretary general of SWAPO, though the number of women in the political bureau actually decreased. The congress resulted in an infusion of about 30 per cent of a new generation of politicians into the central committee and the political bureau.

A new political party, the Rally for Democracy and Progress (RDP), was formed just weeks before the SWAPO congress by some former members of SWAPO. The new party aims to challenge the near monopoly

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of political power of SWAPO, which currently enjoys a two-thirds majority in parliament. While the number of opposition parties has grown over the years, they occupy fewer seats now than before.

President Hifikepunye Pohamba has made fighting corruption a priority since succeeding Nujoma as president in March 2005 and quickly brought the anti-corruption commission into operation. Namibia has been cited by Transparency International as a country that is producing good results in the fight against corruption. The Transparency International corruption perception index shows that Namibia's score increased from 4.1 in 2006 to 4.5 in 2007, a score that places Namibia among the top five best-governed countries in Africa.

Decentralisation is still in its infancy and fiscal decentralisation is a challenge. The country has not yet seen great results from the process. The education and the health sectors created institutions for decentralisation but decisions are still made at the central government level.

Social Context and Human Resources Development

Namibia has made progress towards meeting most of the Millennium Development Goals (MDGs). It is on track to meet some targets before the scheduled time, such as those relating to gender equality and environmental sustainability. The latest information concerning poverty is based on the National Household Income and Expenditure Survey of 2004. The results indicate that poverty levels have declined since 1994 from 38 per cent to 28 per cent in 2004. Poverty is defined by the food consumption ratio: people who spend more than 60 per cent of their expenditure on food are considered poor while people spending more than 80 per cent on food are considered severely poor. The proportion of severely poor households dropped from 9 per cent to 4 per cent during the same period. If Namibia continues with this progress, the country will halve poverty by the year 2015. Income distribution also improved, reflected in the reduction of the Gini coefficient from 0.7 to 0.6. However, Namibia remains one of the most unequal societies in the world.

In spite of this progress, there are concerns regarding the performance of the health and education sectors. Life expectancy is low because of the high incidence of HIV/AIDS, malaria and tuberculosis. The educational system has expanded rapidly, although its performance has not met expectations. Primary education often fails to provide students with the necessary skills to continue with secondary schooling or successfully to complete secondary education. This has spill-over effects to tertiary education. The government has acknowledged the challenges and embarked on ETSIP with financial support from international co-operation partners. Despite the fact that Namibia was ranked by the World Economic Forum in 2007 among the top seven out of 131 countries in terms of spending on education, educational attainment at primary, secondary and tertiary levels is low.

The government has made specific provisions for additional funding to fight HIV/AIDS, tuberculosis and malaria. An amount of NAD 450 million was allocated in the budget for 2007/08 to extend further the HIV/AIDS treatment programme and ensure that all Namibians in need of anti-retroviral treatment are able to receive it. The HIV/AIDS prevalence rate, measured by the Sentinel Survey, dropped in 2004 from 22 per cent to 19.7 per cent but increased marginally to 19.9 per cent in 2006. The next survey will be conducted during 2008.

The unemployment rate remains high. According to the Labour Force Survey of 2004 (the next survey will be conducted in 2008) about 21.9 per cent of the economically active population are unemployed (on the strict definition of unemployment). According to the broader definition, the unemployment rate is 36.5 per cent. Economic growth has not been sufficient to absorb all new entrants to the labour market. In an effort to improve the entrepreneurship and professional skills of previously (during the apartheid era) disadvantaged people the government pursues the policy of affirmative action and has established the Employment Equity Commission. Companies are required to submit annual

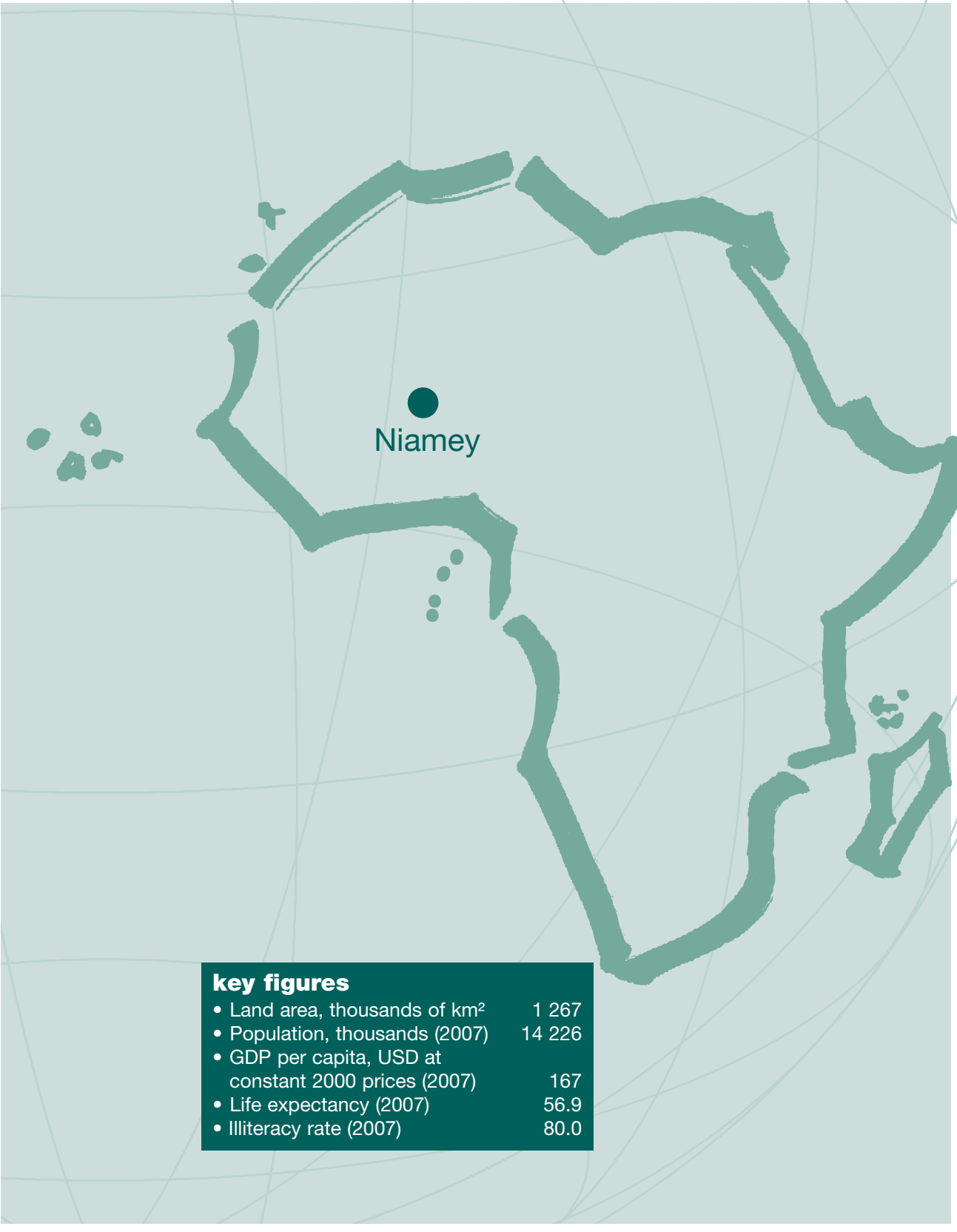
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plans on how to increase the proportion of previously disadvantaged groups of society in management. In addition, the government has started work on a broad-based economic empowerment policy. However, the results of these programmes have not been satisfactory because they have benefited only a few people. The majority of unemployed Namibians are those without post-secondary education. The lack of skilled people combined with a poor work ethic and restrictive labour regulations have been identified by the *Global Competitiveness Report 2007* as the main impediments to competitiveness in Namibia.

A new labour law (Act 13 of 2007) came into force on 31 December 2007. It bans labour hire companies that provide companies with temporary labour, and provides generous leave to employees. Employees who work for five days a week are entitled to 24 working days leave and five days of compassionate leave per year. This makes Namibia one of the countries with the highest number of leave days in Southern Africa. Disputes are to be resolved through district labour courts through a system of reconciliation and arbitration. This is expected to speed up the dispute resolution process which is often lengthy and costly. There are concerns that the increase in the number of leave days may have a negative effect on productivity and competitiveness.

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Niger



key figures

• Land area, thousands of km²	1 267
• Population, thousands (2007)	14 226
• GDP per capita, USD at constant 2000 prices (2007)	167
• Life expectancy (2007)	56.9
• Illiteracy rate (2007)	80.0

Niger


LIBYA
A Tripoli
ALGERIA
Tamanrasset
Arlit
Bilma
MALI
Agadez
Gao
CHAD
Tanout
Tahoua
Birni-
Nkonni
Tillabéri
NIAMEY
Dosso
Maradi
Zinder
Nguimi
Diffa
Lake
Chad
Ouagadougou
BURKINA
FASO
BENIN
Kano
NIGERIA
Cotonou
0
200 km
town > 1 million inhabitants
500 000 - 1 000 000
100 000 - 500 000
< 100 000
major road
secondary road
railway
track
main airport
secondary airport
commercial port
petroleum port
fishing port

Niger

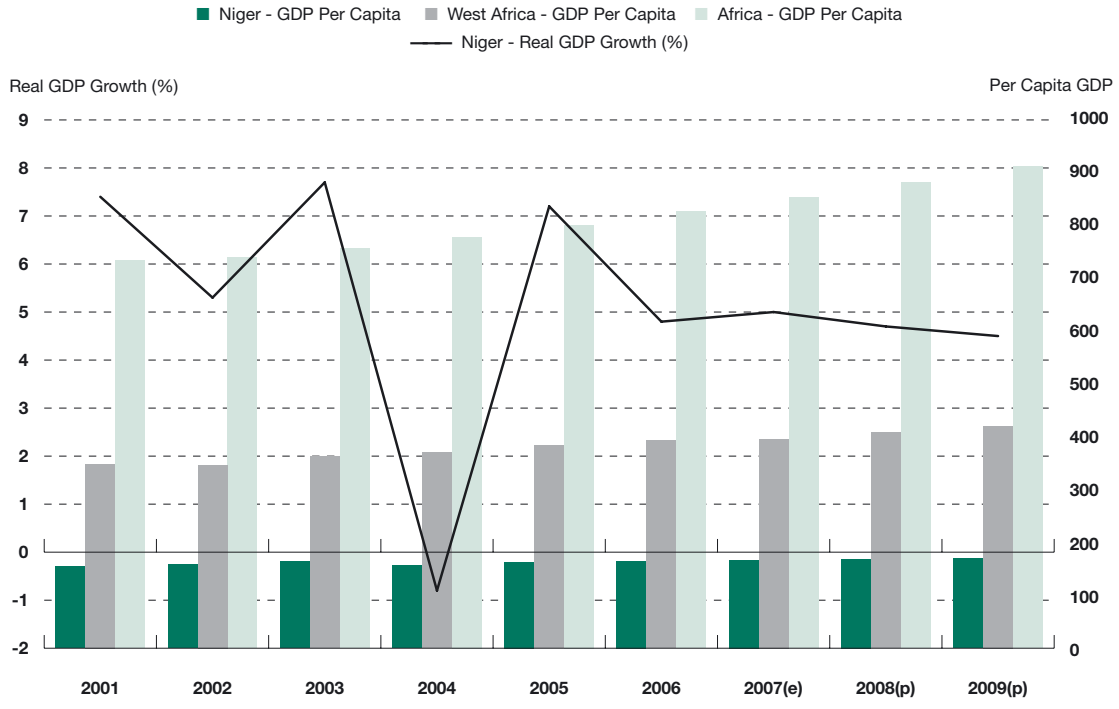
NIGER'S ECONOMY GREW AT AN AVERAGE rate of 3.6 per cent during the last four years, barely above the estimated population growth rate of 3.3 per cent. Despite a recession in 2004, Niger still turned in two years of relatively high growth, with 7.2 per cent in 2005 and 4.8 per cent in 2006. Noteworthy developments in 2007 were a good agricultural growing season, a pick-up in investment, particularly in the mining sector, and the continued implementation of the economic and financial programme supported by the international financial institutions.

Assuming that the forecasts for the growing season prove to be sound, the real growth rate for the economy is estimated at 5 per cent in 2007. In nominal terms, GDP grew by about 8.5 per cent, from XOF 1 859.4 billion (CFA francs BCEAO) in 2006 to XOF 2 018.4 billion in 2007. This should raise GDP per capita by 5.1 per cent, from XOF 142 537 in 2006 to XOF 149 776 in 2007. In real terms, this would amount to an increase of 2.3 per cent in 2007.

New dynamism in agriculture and mining has not overcome the fragility of the economy.

Real GDP growth in 2008 and 2009 should not exceed 5 per cent, despite the recovery in the agricultural and mining sub-sectors. Niger's economy will nevertheless remain very vulnerable to external shocks, particularly from climate conditions.

Figure 1 - **Real GDP Growth and Per Capita GDP**
(USD at constant 2000 prices)



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

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Recent Economic Developments

The primary sector, which accounts for 46.8 per cent of GDP, grew by an estimated 6.9 per cent in 2007 (7.7 per cent in 2006). This was linked to the performance of agriculture, which is estimated to have risen by 9.1 per cent in 2007 (12.4 per cent in 2006). In the agricultural sector, the hypothesis adopted is that of a normal rainy season followed by a relatively good crop year, which could have a positive impact on the sector's performance. The National Meteorology Department's forecasts for the 2007 growing season predicted that rainfall from July to September would be normal compared with the 1961-90 period, if not better. As a result, production of cereals (millet, sorghum, rice and niébé beans), which accounted for 61.6 per cent of farm output in 2007, will increase by 12.2 per cent, as against 13.6 per cent in 2006.

The average GDP share of the livestock sector between 2002 and 2006 was 13.9 per cent. The national herd consists of cattle, goats, camels, sheep, donkeys, horses and fowl. There is significant production potential both quantitatively and qualitatively, particularly for small ruminants. The growth rate for livestock in 2007 is estimated to be the same as in 2006, 3.4 per cent, reflecting expectations of ample rainfall, which should favour normal growth of the grass cover. Livestock products rank third among exports, with about 18.6 per cent of exports during the first half of 2007.

Forestry operations, which have benefited from forestry management plans, recorded growth of 3.4 per cent, the same level as in 2006. Fishing posted real growth of 2.6 per cent in 2007, after having fallen by 21.7 per cent following the reduction in output from Lake Chad.

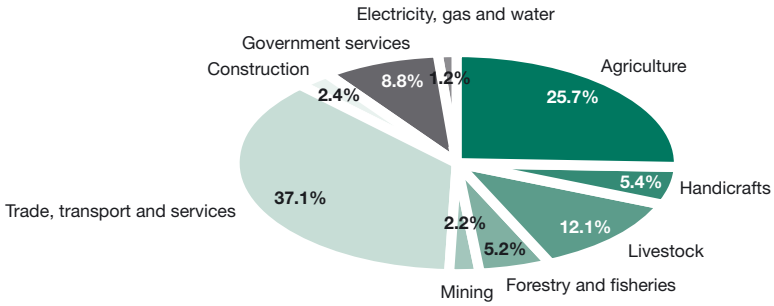
The secondary sector accounted for 13.5 per cent of GDP in 2006. It racked up growth of 5.5 per cent in 2007, based on strong activity in mining, manufacturing, energy production and construction. Niger is one of the world's top five producers of uranium (together with Canada, Australia, Russia and Kazakhstan). The uranium is extracted by two public-private partnerships: Compagnie minière d'Akouta (Cominak, in which Niger holds 31 per cent, the French firm Areva 34 per cent, the Japanese firm Ourd 25 per cent, and the Spanish firm Enusa 10 per cent) and Société minière de l'Aïr (Somair, in which Niger holds 37 per cent and Areva 63 per cent). After renegotiation of the agreement between the Niger government and Areva, the price of a kilogram of uranium rose by 58.7 per cent, from XOF 25 200 in 2006 to XOF 40 000 in 2007. The total value of uranium sales in the second half of 2007 was estimated at XOF 39.2 billion, against only XOF 20.4 billion in the first half of the same year. It should be noted that these terms of purchase are valid only for 2007 (the price of uranium on the world market is XOF 122 000). China's entry on the market with its rapidly growing population of nuclear power plants could lead to higher uranium ore prices.

In a high-growth scenario that projects average annual growth of 5.5 per cent over the 2008-10 period, the drivers will be the mining and agricultural sectors, which will post average growth rates of 7.5 per cent and 6.8 per cent respectively. The mining sector will be boosted by the continuing increase in demand and by higher uranium prices, the start-up and operation of new mines (Imouraren site), the roll-out of the Tahoua phosphate project and the Sakadam coal project, and the discovery and operation of new gold mines. A more cautious growth estimate based on current trends indicates that the GDP growth rate cannot rise higher than 5 per cent in 2008, despite the forecast of favourable rainfall.

The industrial sector remains poorly developed and is concentrated in a few sub-sectors, manufacturing and construction in particular, and especially areas belonging to the modern sector. In 2006, the industrial production index of the Central Bank of the West African States (BCEAO) for Niger rose by 13 per cent, reflecting the recovery in uranium production and dynamic growth in agribusiness. The growth of 35 per cent in retail sales resulted from, first, higher sales of clothing due to strong domestic demand for locally printed fabrics, and, second, the need for oil products. In 2007, the industrial production index was up 13.7 per cent.

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Figure 2 - **GDP by Sector in 2006** (percentage)



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

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The tertiary sector accounted for 37.1 per cent of GDP in 2006 and turned in growth of 4.6 per cent in 2007, compared with a rate of 4.3 per cent in 2006. Its performance in 2007 was attributable to the expected growth in telecommunications (9.5 per cent) and public services (6.5 per cent). The tourist industry in Niger has great potential, but the recurring problems in the north of the country make it difficult to implement a real long-term strategy.

The respective contributions of the primary, secondary and tertiary sectors to growth in 2007 are estimated at 2.7 percentage points, 0.8 point, and 2.2 points.

With respect to demand, household private consumption amounted to 70.7 per cent of GDP in 2007. Final consumption rose by 6.8 per cent due to the increase in current expenditure and capital expenditure. It will account for 87.2 per cent of GDP in 2007 and 87.4 per cent in 2008.

Where investment is concerned, expectations are for positive growth in 2007, following a decline in 2006, due to higher public investment spending and continued investment in the fields of research, energy and communications. Investment is thus estimated to have risen from 21.8 per cent of GDP in 2006 to 22.3 per cent in 2007. This increase reflects a rise in

Table 1 - **Demand Composition**

	Percentage of GDP (current prices)		Percentage changes, volume			Contribution to real GDP growth		
	1999	2006	2007(e)	2008(p)	2009(p)	2007(e)	2008(p)	2009(p)
Gross capital formation	**13.1**	**21.8**	**11.8**	**13.7**	**6.3**	**2.6**	**3.3**	**1.6**
Public	4.4	5.8	25.0	6.0	7.0	1.5	0.4	0.5
Private	8.7	16.1	7.0	17.0	6.0	1.1	2.8	1.1
Consumption	**94.9**	**89.6**	**6.8**	**4.8**	**4.9**	**6.1**	**4.4**	**4.5**
Public	20.2	15.4	14.0	3.3	4.9	2.1	0.5	0.8
Private	74.7	74.1	5.3	5.1	4.9	4.0	3.9	3.7
External demand	**-8.1**	**-11.4**				**-3.8**	**-3.0**	**-1.6**
Exports	16.8	18.7	0.7	1.2	2.2	0.1	0.2	0.4
Imports	-24.8	-30.1	12.5	9.6	5.7	-3.9	-3.2	-2.0
Real GDP growth						**5.0**	**4.7**	**4.5**

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

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gross fixed capital formation by both the private sector (7.0 per cent) and the public sector (25 per cent). The upward trend should continue in 2008 and 2009.

Final consumption, investment, exports and imports made the following contributions to growth, respectively: 6.1 percentage points, 2.6 points, 0.1 point and -3.9 points. The trade deficit came to XOF 140.2 billion in 2007, as against a deficit of XOF 136.1 billion in 2006. This deterioration reflected an increase in imports, which came to XOF 453.4 billion in 2007 (XOF 408.4 billion a year earlier), and growth of XOF 40.9 billion in exports.

Macroeconomic Policy

Fiscal Policy

The first half of 2007 saw the continued implementation of macroeconomic reforms that are vital to stronger growth and poverty reduction. During this period, the basic fiscal deficit, which excludes externally financed investment expenditure, was limited to XOF 11.7 billion, significantly below the projection of XOF 42.6 billion, as revenue exceeded expectations and expenditure execution lagged.

The basic deficit for 2007 is projected to be XOF 74.8 billion, whereas it was initially slated to be XOF 83.2 billion. Given the planned reduction of domestic arrears by XOF 15.1 billion, the fiscal deficit on a "cash" basis should come to XOF 89.9 billion. Bank financing will be higher than expected (XOF 17.2 billion, against the projection of XOF 7.4 billion), due primarily to the reduction in external budget support.

With respect to revenue, collection of the industrial and commercial profits tax and value added tax (VAT) exceeded projections. Nevertheless, tax revenue should still be slightly below budget plans (XOF 222 billion instead of the expected 224 billion), because taxed imports should fall due to the increase in trade with the countries of the Economic Community of West African States (ECOWAS), which benefit from exemptions on gate fees. Despite the loss in revenue from the fees, the revenue on domestic taxation could exceed initial projections, due to the performance of VAT and higher mining royalties. Non-tax revenue will significantly exceed initial projections due to revenue related to mining permits, in particular the grant of a new mining concession (XOF 9.8 billion), and to the exceptional dividends expected from the mining companies.

With respect to expenditure, payment authorisations for goods and services as well as transfers and subsidies all remained well below projections. Nevertheless, current expenditure is expected to be in line with

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

	1999	2004	2005	2006	2007(e)	2008(p)	2009(p)
Total revenue and grants[a]	**13.4**	**17.2**	**18.4**	**60.8**	**21.1**	**20.7**	**19.7**
Tax revenue	8.5	11.0	10.3	11.0	10.8	10.9	11.0
Grants	4.1	5.8	7.6	47.5	8.0	7.4	6.4
Total expenditure and net lending[a]	**18.8**	**20.3**	**20.5**	**19.3**	**21.9**	**22.3**	**22.8**
Current expenditure	13.1	10.8	9.5	9.4	10.6	10.9	11.1
Excluding interest	*11.4*	*10.3*	*8.9*	*9.2*	*10.3*	*10.6*	*10.6*
Wages and salaries	4.3	3.9	3.6	3.7	3.5	3.4	3.3
Interest	1.7	0.5	0.6	0.3	0.3	0.3	0.4
Capital expenditure	5.9	9.4	11.0	9.9	11.3	11.4	11.7
Primary balance	**-3.8**	**-2.5**	**-1.5**	**41.8**	**-0.5**	**-1.3**	**-2.7**
Overall balance	**-5.5**	**-3.1**	**-2.1**	**41.6**	**-0.8**	**-1.7**	**-3.1**

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

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projections, and domestically financed investment (excluding the Priority Investment Fund, or FIP) slightly below projections. In addition, FIP spending, mostly for security, could reach XOF 25 billion, based on disbursements. Overall, expenditure in 2007, excluding externally financed investment, will come to XOF 333.4 billion, compared with the initial projection of XOF 319.4 billion.

As for the mechanism for setting the prices of oil products, the tax differential introduced in April 2007 was reduced in July and eliminated on 1 November 2007.

Monetary Policy

As Niger is a member of the West African Economic and Monetary Union (WAEMU), its monetary policy is handled at the regional level by the BCEAO, whose main missions are to maintain parity between the CFA franc and the euro and to control inflation. The monetary situation at the end of June 2007 in comparison with December 2006 was marked by the strengthening of net external assets, an increase in domestic credit and an expansion of the money supply. On a yearly basis, there was a consolidation of net external assets (27.6 per cent), an 8.1 per cent expansion of the money supply and a 6.2 per cent reduction of domestic credit. This last item stems from the XOF 44.5 billion improvement in the government's net position, which was mitigated by a 23.6 per cent increase in credit to the economy.

With respect to inflation, the general price level rose during the second quarter, after falling 0.3 per cent during the first quarter. The consumer price index rose to 119.9 points in April 2007 and then to 123.2 points in June 2007. Prices remained relatively low in comparison with the second quarter of 2006, when they rose from 120.1 points in April to 127.7 points in June. The average inflation rate over the previous 12 months came to -1.4 per cent in June 2007, well below the community ceiling of 3 per cent set by the WAEMU Commission as part of its monitoring of convergence criteria.

External Position

The trade deficit in 2006 had shrunk to -7.5 per cent of GDP. This improvement reflected 8 per cent growth in exports, while imports remained stable. The most valuable export product was uranium, with exports of XOF 80 billion. The rise in exports was also related to the good performance of agricultural and livestock exports; the data for 2006 show encouraging results for the latter. In 2006, the capital and financial transactions account improved significantly due to the debt cancellations undertaken as part of the Multilateral Debt Relief Initiative (MDRI). The overall balance of payments showed a surplus for the second year in a row (XOF 83.9 billion).

Projections concerning the balance of payments in 2007 envisaged a surplus of XOF 15 billion. The trade balance should come to XOF -188.7 billion, compared with a previous figure of XOF -136.1 billion. According to the provisional trade data, however, the value of Niger's exports in the second quarter of 2007 rose by about 39 per cent over the previous quarter, from XOF 37.4 billion to XOF 57.5 billion, due to strong

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

	1999	2004	2005	2006	2007(e)	2008(p)	2009(p)
Trade balance	-2.2	-5.1	-8.8	-7.5	-5.1	-6.8	-7.0
Exports of goods (f.o.b.)	15.0	14.7	13.7	14.0	16.1	15.2	15.1
Imports of goods (f.o.b.)	17.2	19.8	22.5	21.5	21.2	22.0	22.1
Services	-5.5	-5.8	-5.8	-5.4	-5.8	-5.6	-6.3
Factor income	-1.0	-0.4	-0.3	-0.1	-0.9	-0.9	-0.9
Current transfers	1.9	3.6	5.5	4.3	4.8	4.0	4.0
Current account balance	**-6.9**	**-7.8**	**-9.4**	**-8.7**	**-7.0**	**-9.2**	**-10.3**

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

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growth in the amount of uranium exported. Imports were up moderately during the second quarter of 2007, from XOF 89.8 billion in the first quarter of the year to XOF 121.6 billion, an increase of 35 per cent. This was to a great extent attributable to the massive volume of pharmaceutical products imported during the second quarter. Despite this rise, imports in 2007 should fall slightly below the 2006 level. The trade balance is expected to show a deficit in 2007, though a smaller one than in 2006.

The balance of services will deteriorate in 2007 by XOF 17.1 billion to XOF -117.3 billion, due to the impact of an increase in freight caused by the rise in imports. Notwithstanding the reduction in charges on the public debt, net factor income will come to XOF -3.2 billion in 2007, as against XOF -1.8 billion in 2006, in line with an increase in foreign investment income. Current transfers increased to XOF 111.5 billion due to the impact of private transfers.

Overall, there was a slide of about XOF 38.7 billion in the current account, which came to XOF -197.7 billion in 2007. This means that the current account balance, excluding grants, came to -14.8 per cent of GDP, as against -11 per cent in 2006. The surplus in the capital and financial transactions account came to XOF 212.7 billion, a fall of 30.2 billion from 2006.

In January 2005 the International Monetary Fund (IMF) approved a three-year programme covering the 2005-07 period, which will provide USD 40.4 million under a new Poverty Reduction and Growth Facility (PRGF). At end-July 2007, total disbursements amounted to USD 37.7 million. On 8 June 2007, the IMF Executive Board approved the fourth review of the PRGF programme. For the fifth review supported by the PRGF, Niger has sought completion towards the end of 2007. The World Bank has nine projects under way, which as of March 2007 represented a financial commitment of about USD 285.3 million. Under the

Figure 3 - **Stock of Total External Debt** (percentage of GDP) **and Debt Service** (percentage of exports of goods and services)



Source: IMF.

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9th European Development Fund (EDF) 2000-07, Niger received EUR 211 million, compared with EUR 136 million for the 8th EDF 1995-2000.

Niger's debt burden has been substantially eased by the Heavily Indebted Poor Countries (HIPC) Initiative and the MDRI. In 2006, the application of cancellation provisions provided for under the MDRI cancelled XOF 784.3 billion of Niger's debt, bringing its external debt/GDP ratio down to 13.4 per cent. Negotiations are under way between the country's authorities and its creditors that are not members of the Paris Club (Algeria, Iraq and Libya) to give Niger the benefit of comparable conditions for the cancellation of its bilateral debts. Nevertheless, a recent debt viability analysis of low-income countries shows that, in light of Niger's vulnerability to certain exogenous shocks, in particular climate conditions, the country faces a moderate risk of overindebtedness. Projections indicate that the debt burden will increase over the years, but by 2025 will still be at a level significantly below the benchmarks based on the quality of the country's economic policies. This means that it will be necessary to finance a great deal of new investment through grants. If grants do not come up to the required level, the country should not contract new loans except on highly concessional terms and even then only to finance highly productive projects.

Structural Issues

Recent Developments

In the course of its review of public spending and financial accountability, Niger's government undertook a number of reforms. With respect to managing expenditures, it reorganised the Treasury and separated its normative and accounting functions. It strengthened the control system by reorganising financial controls and redefining their tasks. It prepared a manual of procedures for audits, transformed the Supreme Court's chamber of accounts and budgetary discipline (*Chambre des comptes*) into an independent Audit Office (*Cour des comptes*), which is receiving technical assistance to define its procedures and train its officers. The government has also launched a new department to control public procurement expenditure as part of an effort to strengthen its internal auditing and control systems on public spending.

Nevertheless, significant efforts are still needed to ensure that the control bodies are fully effective. With respect to balancing the Treasury accounts, the entry balances for 1997-2005 transactions have been integrated into the accounts of the general balance. The balances for 2006 were still being drawn up at the time of writing. For transactions prior to 1996, a draft law to discharge the accounts of the operations involved is being prepared. A budget review law for 2006 with the nominal accounts were to be presented to the Audit Office and to the National Assembly before the end of 2007.

The tax and customs departments are also being strengthened. With respect to customs, the fraud prevention unit is strengthening its controls on exempt products and storage warehouses. The units that conduct *ex post* controls on the value of imports and exemptions in the main customs offices are being strengthened as well. In addition, the links between the border offices at Torodi and Gaya and the Niamey office now make it possible to monitor clearance operations much more rigorously. The next step is to network the main border offices with the full-service offices in the interior. Assistance from the European Union was requested to this end. With respect to the general tax office (DGI), priority has been given to reducing the number of non-payers, simplifying the claims procedures, improving tax controls based on more and better-trained officers, improving tax collection and drawing up manuals of procedures.

In the field of agriculture, the authorities have decided to emphasise control of the water supply. This involves building hydraulics works to promote irrigated cultivation, diversifying agricultural production and creating the conditions needed to achieve food security.

With respect to mining, more than a hundred new exploration permits have been issued since the adoption of the new code in August 2006. The National Office for Mining Exploration (Onarem), which is to conduct

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exploration as one of its responsibilities, was replaced by two recently created bodies: the Centre for Geological and Mining Exploration (CRGM), and Sopamin, which oversees Niger's mining assets. The state's holdings in existing uranium companies, which previously were held by Onarem, have been transferred to these new entities. Sopamin is responsible for conducting commercial transactions such as the sale of uranium. Furthermore, with respect to mining taxes, the procedures for settling mining fees will be strengthened, with customs playing a greater role. To allow more accurate assessment of the taxable profits of mining companies, the DGI's internal departments will be consolidated.

A new oil code was adopted in March 2007 and the implementing decrees and standard contracts in May 2007. The code provides for two types of licensing and production-sharing regimes. At the time of writing, no new permits had been issued under the new code.

With respect to improving the business climate, progress has been made in simplifying the administrative procedures and reducing the costs involved in setting up new companies. Since end-2006, the procedures for registering with the social security office and the job-seekers bureau have been unified. The lump-sum business licence tax (*patente synthétique*) has now been deferred, the registration fee has been reduced by 5 percentage points for certain deeds of sale, and the mandatory payment for registration with the chamber of commerce has been eliminated. Despite this, the composite overall economic indicator (*indicateur synthétique conjoncturel global* – ISCG) shows a decline in activity in the business sector. The ISCG was at a level of 14.1 per cent in the first quarter of 2007 but fell to 6.3 per cent in the second quarter, a drop of 55.3 per cent.

With respect to economic governance, in 2006 the government agreed to incorporate all HIPC funds into the budgets of the ministries responsible for the sectors concerned, based on their results in management and budget reform. This was done for the health care and education sectors (which absorbed about 60 per cent of HIPC funds for 2006). The government drew up a list of factors involved in reducing poverty for 2005 and 2006, which was included in the 2006 budget bill. The senior ministries take part in a system of cash flow management to ensure that their most important investments are protected.

In 2005, the slow progress of the privatisation of both Nigélec, Niger's electricity utility, which provides for the transfer of 51 per cent of the capital under a single 25-year concession, and Sonidep, an oil products company, has prompted Niger's authorities to review the privatisation strategy for the two companies, with help from the World Bank. Accelerating the restructuring of Nigélec and Sonidep should give these public enterprises the technical and financial resources needed to develop their activities and to make a greater contribution to growth.

In the financial sector, reform must still deal with the state's withdrawal from the capital of Crédit du Niger (CDN). The process of privatising CDN is well under way, and the public offering is to be presented at the end of 2007. The national postal services and savings institution, the Office national de la Poste et de l'épargne, has been split into two entities: Niger Poste, which is in charge of postal services, and Finaposte, which handles financial services. In order to enable Finaposte to meet capital requirements and obtain a licence from the BCEAO, the government has supplied capital of XOF 1 billion. To give Finaposte a zero opening balance, the state is planning to issue non-negotiable shares to cover the difference between assets and liabilities. It is also planning to set up a deposit in an associated current account in order to give Finaposte stable resources and enable it to meet certain prudential ratios. The method of settling the deposit accounts at the former Caisse nationale d'épargne savings bank will be defined after authorisation has been obtained.

The restructuring of the two leading micro-finance institutions, Taimako and the Mouvement des caisses populaires d'épargne et crédit, should soon be under way. A micro-finance regulatory authority was set up in April 2007, but it does not yet have the material and human resources needed to carry out its mission. In the fight against money laundering, the national unit

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in charge of processing financial information, set up in 2004, has begun operations.

Development of Technical and Vocational Skills

For more than a decade, the technical and vocational education and training (TVET) sector has been the subject of many forums and studies conducted with the support of various partners (International Labour Organisation, World Bank, Coopération française, etc.). These have included the Zinder declaration on education (1982), the general education conference (1992), the Kollo seminar on technical and vocational education (1992), the workshop on restructuring and improving the technical and vocational education system (1997), the seminar on continuing education (2001), the national meetings on continuing vocational education (2001), and the workshop on restructuring the conditions and mechanisms for access to the École normale supérieure, a higher education institution (2003). However, the basic principles that govern and guide the education system are set out in Law 98-12 of June 1998. Article 25 of this law defines three core missions for technical and vocational education: to train personnel capable of using their technical and vocational skills to develop agriculture, livestock, crafts, industry, commerce and the economy; to provide continuing education for those in work; and to prepare young people for working life.

Other legislation concerning TVET includes the law on apprenticeships adopted by decree 96-039 of 29 June 1996, which focuses on the age for admission to an apprenticeship and on the rights and duties of the parties involved, namely the master and the apprentice. There is also the law on crafts work adopted by decree 92-026 of 7 July 1992, which sets out the national policy guidelines for the crafts sector. All of these laws have been incorporated into the ten-year educational development programme, which deals with TVET.

The TVET sector is effective but very heterogeneous, having adapted in various ways. The institutional component of the education system reproduces an imported educational model and offers standardised training in relatively inappropriate fields. Within this configuration, it is relatively effective in terms of training, questionable insofar as integration into the workforce is concerned and in any case costly, inflexible and impossible to roll out in an identical form for everyone needing training. As a result, it is ill-suited to the actual socio-economic conditions of the country.

TVET falls into the remit of numerous ministries: the Ministry of Basic Education I and Literacy; the Ministry of Secondary and Higher Education, Research and Technology; the Ministry of Social Development, Women's Rights and Child Protection; the Ministry of Public Health and the Fight against Endemics; the Ministry of Regional Development and Investment; the Ministry of Sports, Culture and the Francophonie Games; the Ministry of Youth and Youth Employment; the Ministry of Agricultural Development; the Ministry of Hydraulics, the Environment and the Fight against Desertification; the Ministry of Livestock Resources; the Ministry of Transport and Tourism; the Ministry of Mines and Energy; the Ministry of Communications; the Ministry of Economy and Finance; the Ministry of Commerce, Crafts and Private Sector Development; the Primature, etc. With so many ministries in charge, technical and vocational education suffers from a lack of co-ordination, of synergies and of an integrated vision of how the sector can develop to meet the challenges facing it. Large-scale institutional reform will be needed to define and delimit the remit of an independent or autonomous supervisory authority.

Most of the population acquires vocational skills through on-the-job training, almost the sole channel for access to skilled craft trades. This kind of apprenticeship is based on imitation with no theoretical component.

Technical and vocational education and training are provided in 11 public institutions (one technical high school, one vocational training high school, nine vocational and technical training centres) and 41 private establishments. Until recently, opportunities for public training were concentrated in Niamey, but eight regions

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around the country now have at least one public vocational and technical training centre. The public institutions are relatively well endowed in terms of facilities, but they do not always operate at full capacity due to the shortage of resources and the inadequacy of the instruction provided. As for private establishments, their facilities are overused and poorly suited to instruction.

In 2004, the TVET sector took in 2.5 per cent of all secondary pupils, or a total enrolment of 4 608 pupils, more than half of them (2 534) in private establishments. In the public sector, the number of pupils fell considerably, from 3 995 in 1999 to 2 074 in 2004/05. Girls are under-represented in vocational and technical education. The proportion of girls during this same period was estimated at 39 per cent (of these girls, 72 per cent were in private establishments), compared with 44 per cent for boys. Despite a low repetition rate (5 per cent in 2004/05), the quality of instruction in TVET is not the highest. The completion rate in public TVET schools, which was generally above 80 per cent up to the end of 1990, has fallen significantly, leading to more repetitions in the final years.

The cost per pupil rose from XOF 720 295 in 1998 to XOF 1 232 197 in 2002, due in particular to the decline in school enrolment. Technical and vocational training is basically oriented towards the tertiary sector and is based on job descriptions that rarely exist in rural areas. In fact, there is no technical and vocational training aimed at rural workers. This means that skilled labour is scarce and poorly suited to the needs of the country's economy.

Generally speaking, the output of the technical and vocational educational system is sharply undermined by demographic growth (3.3 per cent per year), the population's youthfulness (49.4 per cent under the age of 15), the scarcity of resources, which limits investment opportunities (infrastructure, acquisition of textbooks and equipment), disproportionate costs relative to the state's resources and their inequitable distribution between different levels of schooling, and the imbalance between the training offered and the needs of the job market.

In the absence of an effective system of financing, the implementation of Niger's TVET policy may well fail to hit the desired target. Funding for TVET comes from five identified sources: the government, through budget allocations; local authorities, which can devote a percentage of their budget to vocational training; donors (international institutions and bilateral partners); parents; and non-governmental organisations (NGOs).

In order to promote employment, the government is seeking to develop technical and vocational training that meets the needs of the economy. To this end, it has taken the following actions: refocusing technical and vocational training on skills for the rural sector, the country's engine of growth, and related skills; rehabilitating and co-ordinating the national training system, as well as strengthening higher technical training institutes; strengthening and modernising the capacities of the informal sector for the purpose of creating decent jobs; developing initial vocational training and/or apprenticeship-study programmes; and putting financing for technical and vocational education on a sustainable basis.

The government also wishes to reorient TVET programmes by diversifying provision and adapting it to the needs of the economy. This will require it to ensure that the new technical and vocational centres are up and operating. Seven new centres were set up in 2005 outside the Niamey urban area in regional capitals. The aim is to provide them with facilities and equipment based on specialisation in an activity determined by their socio-economic environment. The government also must continue to set up training centres in community development so as to have one centre per territorial department by 2015. This step is important in order to offer people without schooling basic vocational training so as to enable them to find jobs more easily.

Funding for the national vocational training office also must be ensured so that the decentralised system of vocational training set up under the Nigentech II project is put on a sustainable basis and in order to develop apprenticeship programmes. Other important goals have been identified, such as ensuring the viability of the Niger Centre for Leather Crafts and identifying

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the sectors that might use it so as to offer craftsmen the opportunity to enhance their professionalism. Efforts are also needed to promote girls' access to technical and vocational training, particularly in agriculture and industry, and to develop a system of continuing certification-oriented vocational training for pupils who have dropped out of school, which would also be suitable for upgrading the skills of people who are already working but whose skills no longer correspond to the requirements of today's technologies. It is also necessary to support the growth of the private sector by overhauling existing regulations with respect to opening training establishments and by developing incentives to encourage this. Finally, it is necessary to rationalise the geographical distribution of training centres with a view to implementing a TVET master plan that involves the heads of trade associations.

Political Context

Two key events marked the political scene in Niger in 2007. March saw the reorganisation of the government, which was dominated by a four-party coalition: the National Movement for a Society of Development (MNSD), the Democratic and Social Convention (CDS), the Social Democratic Rally (RSD) and the Rally for Democracy and Progress (RDP). This was followed in June by parliamentary elections, which led to the removal of the government due to its corruption and poor management of public affairs. The new prime minister, a member of the ruling MNSD, formed a government that included eight women, compared with six in the preceding government, despite the opposition of the Niger Party for Democracy and Socialism (PNDS), the main opposition party.

There was also a surge in attacks by Touareg rebels from the banned Niger Movement for Justice (MNJ) against the army in the desert region in the country's north, where the uranium mines are located. Following these armed attacks, Niger's authorities decided to expel the local director-general of Areva, the French nuclear firm, whom they suspected of having relations with the MNJ. This came on the heels of the expulsion of a security expert who worked for Areva on a uranium prospecting site in Imouraren, which was attacked by the MNJ. Some members of Niger's news media criticise Areva for supporting the rebels. Protests took place in Niamey to denounce the French firm and Libya for supporting the Touareg rebellion, "with the aim of stirring up trouble in the north in order to prevent any mining and oil exploration and operations".

The social situation remained tense in 2007. Niger's NGOs have also expressed their discontent and threatened protests to demand the audit of the funds stemming from debt cancellation (the HIPC Initiative). The tense situation led President Mamadou Tandja to extend for three months the "state of alert" which has given added powers to the army and police in the north of the country since August 2007.

Social Context and Human Resources Development

There was progress in education between 2004 and 2006, but Niger is still a long way from universal primary education. The gross enrolment rate in primary school rose to 45.4 per cent in 2004 and 50.6 per cent in 2005. The school completion rate rose from 25.6 per cent to 36.4 per cent in the 2001-05 period, but the results are still below the target of 44 per cent set for 2005 in the 2002 poverty reduction strategy paper. The establishment of a post-primary education programme, which is being prepared, will help to define a strategic framework for ensuring that secondary education and other components of the education system will be able to deal on a sustainable basis with the rising demand from pupils finishing primary school. Following an audit in June 2006 which revealed that funds for programmes financed by donors in the education sector are being poorly managed, the government recently took corrective steps, including the removal of two ministers.

In February 2005 the government adopted a five-year plan (2006-10) to develop the health sector. The programme is being funded by a loan of USD 35 million approved by the International

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Development Agency in January 2006. Recent years have seen some progress: the infant mortality rate in 2007 was 110.8 per thousand (against 123 per thousand in 1998), and the mortality rate for children under five was 188 per thousand, down from 262 per thousand in 1998. If the current trend towards lower mortality rates for children under five continues, the indicator will fall well below Millennium Development Goal 4, which is a rate of 107 in 2015. Local sources also report that the national child vaccination rate rose from 60 per cent in 1998 to 83.5 per cent in 2006. In 2002, the government adopted a strategic anti-HIV/AIDS plan that has been implemented with support from development partners. Eight regional units to co-ordinate the campaign were created, along with 24 sector committees. It has been possible to obtain antiretrovirals in Niger since 2004, but broader access is needed. The HIV/AIDS prevalence rate is low compared with averages in the region. It fell from 0.87 per cent in 2002 to 0.7 per cent in 2006.

For Niger, the only quantitative data available for making a direct assessment of poverty trends are those from the QUIBB (questionnaire using basic indicators of well-being) survey conducted in 2005, which estimates that 62.1 per cent of Niger's population is poor, and the results of the 1993 survey on household budgets and consumption, which put the poverty rate at 63 per cent in 1992.

In the absence of any intermediate data making it possible to analyse poverty trends directly, an indirect evaluation method based on backwards projection of consumer spending was used. Using this method, and assuming constant inequality, the results indicate that the poverty rate remained stable between 1992 and 2005. The higher economic growth observed between 2002 and 2005 merely offset the poor economic performance seen in the 1990s. Nevertheless, with the rise in GDP per capita between 2002 and 2005 (an annual average of 0.4 per cent over the four years), a slight decrease in poverty in Niger can be expected. In this respect, adopting the dual hypothesis of an elasticity of poverty[1] relative to per capita income of -0.93 (average level used by the WAEMU regional economic programme) and constant inequality of income, it is possible to estimate the fall in poverty between 2002 and 2005 at 1.5 percentage points. The poverty rate in 2002 was therefore 63.6 per cent.

The results of the QUIBB survey do, however, provide one qualitative clarification: about 66 per cent of households believe that their living conditions have improved somewhat between 2000 and 2005. At the national level, the main factors behind any change have been, in order of importance: an increase in the number of household economic activities (28 per cent), the availability of a job (16 per cent), the creation of an enterprise or a new activity (15 per cent) and migration (15 per cent).

The official unemployment rate rose to about 16 per cent in 2005. It is higher in urban areas (19.4 per cent) than in the countryside (15.2 per cent). Women, with a rate of 25 per cent, are hit harder than men, who face a rate of 12 per cent. With respect to age, the highest unemployment rate is for those aged 15 to 29 (24 per cent). Those who generally are most vulnerable to unemployment are those with relatively less education. In addition, child labourers represent more than 15 per cent of the working population. This situation is due in part to the poverty that pushes households to hold their children out of school, which results in a less-skilled workforce and engenders a vicious circle of poverty. For instance, 57.6 per cent of children who have no education are economically active.

The rate of underemployment is also very high: 34.6 per cent in 2005, which breaks down to 38.3 per cent for women and 32.9 per cent for men. Underemployment mainly affects the rural population (86.3 per cent), due to the seasonal nature of farm work.

The continuing imbalance between labour supply and demand is attributable to two factors: strong demographic growth and the structural inadequacy of

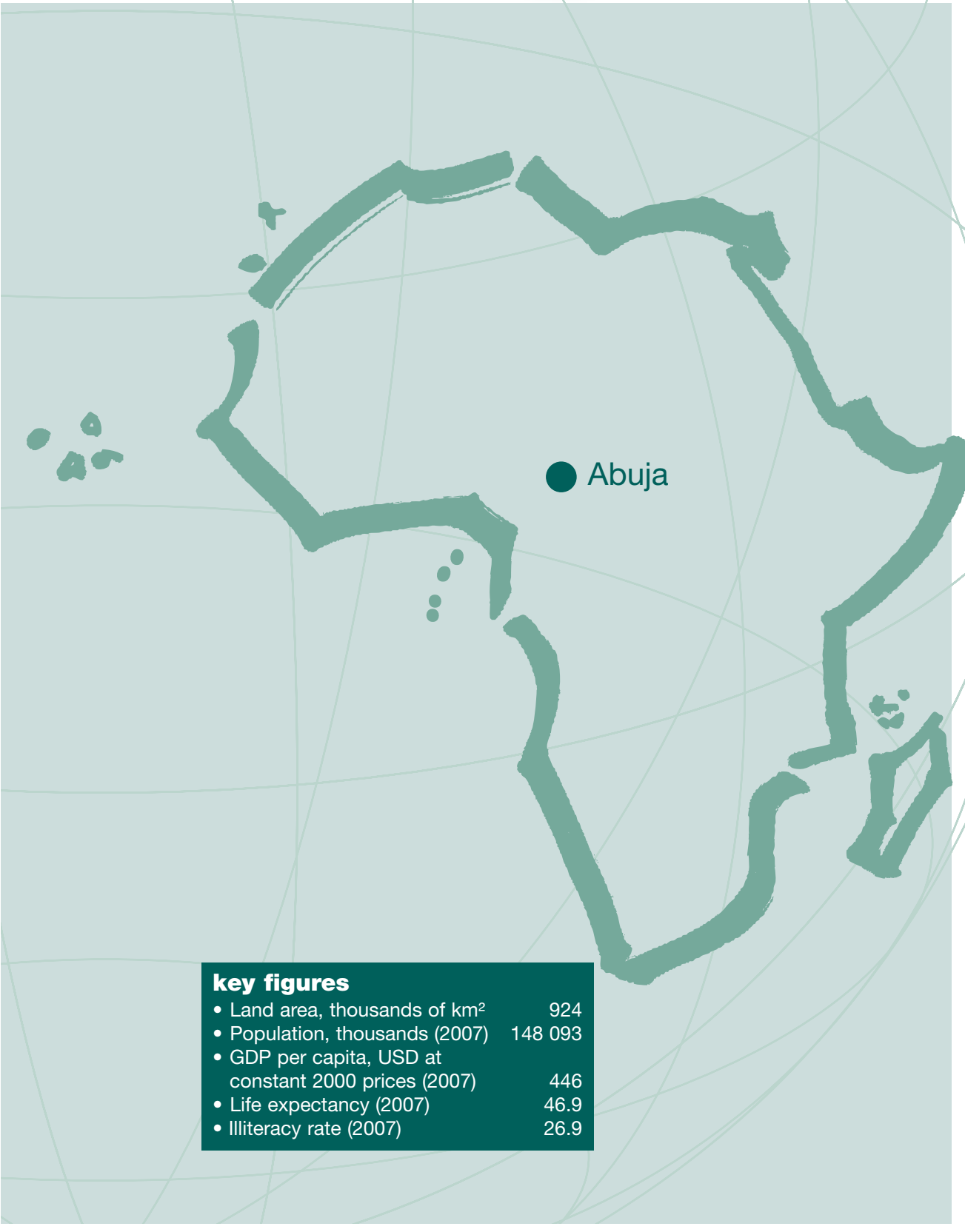
1. The elasticity of poverty measures the impact of a change in GDP per capita on the poverty rate.

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supply. The latter is due, among other things, to obsolete production techniques, particularly in the rural sector, to the embryonic state of the secondary sector and to the disorganisation of the informal sector.

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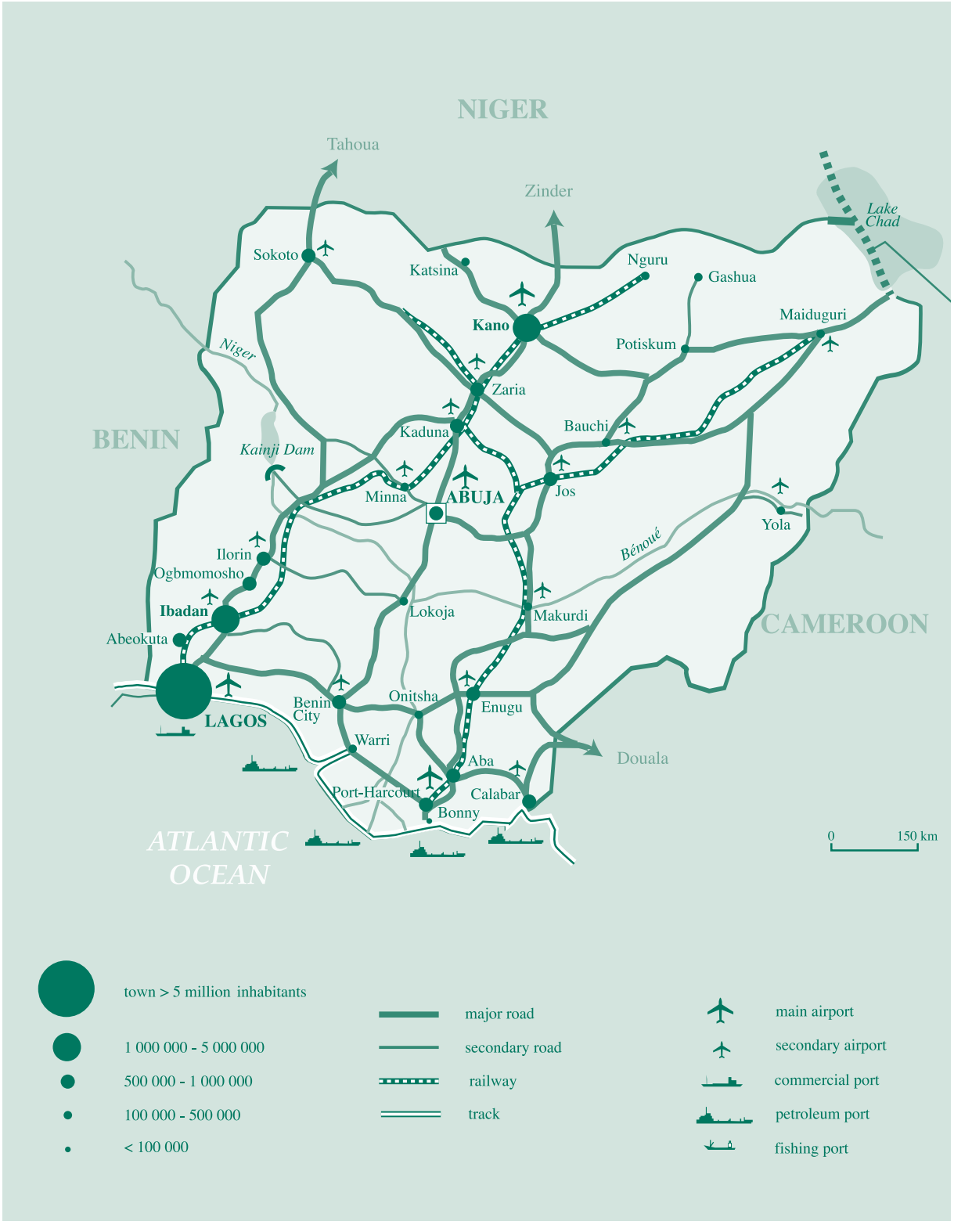
Nigeria



key figures

• Land area, thousands of km²	924
• Population, thousands (2007)	148 093
• GDP per capita, USD at constant 2000 prices (2007)	446
• Life expectancy (2007)	46.9
• Illiteracy rate (2007)	26.9

Nigeria


NIGER
Tahoua
Zinder
Lake Chad
Sokoto
Katsina
Nguru
Gashua
Kano
Maiduguri
Potiskum
Niger
Zaria
BENIN
Kainji Dam
Kaduna
Bauchi
Minna
ABUJA
Jos
Yola
Ilorin
Ogbmomosho
Bénoué
Ibadan
Lokoja
Makurdi
CAMEROON
Abeokuta
LAGOS
Benin City
Onitsha
Enugu
Warri
Aba
Douala
Port-Harcourt
Calabar
Bonny
ATLANTIC OCEAN
0
150 km
town > 5 million inhabitants
1 000 000 - 5 000 000
500 000 - 1 000 000
100 000 - 500 000
< 100 000
major road
secondary road
railway
track
main airport
secondary airport
commercial port
petroleum port
fishing port

Nigeria

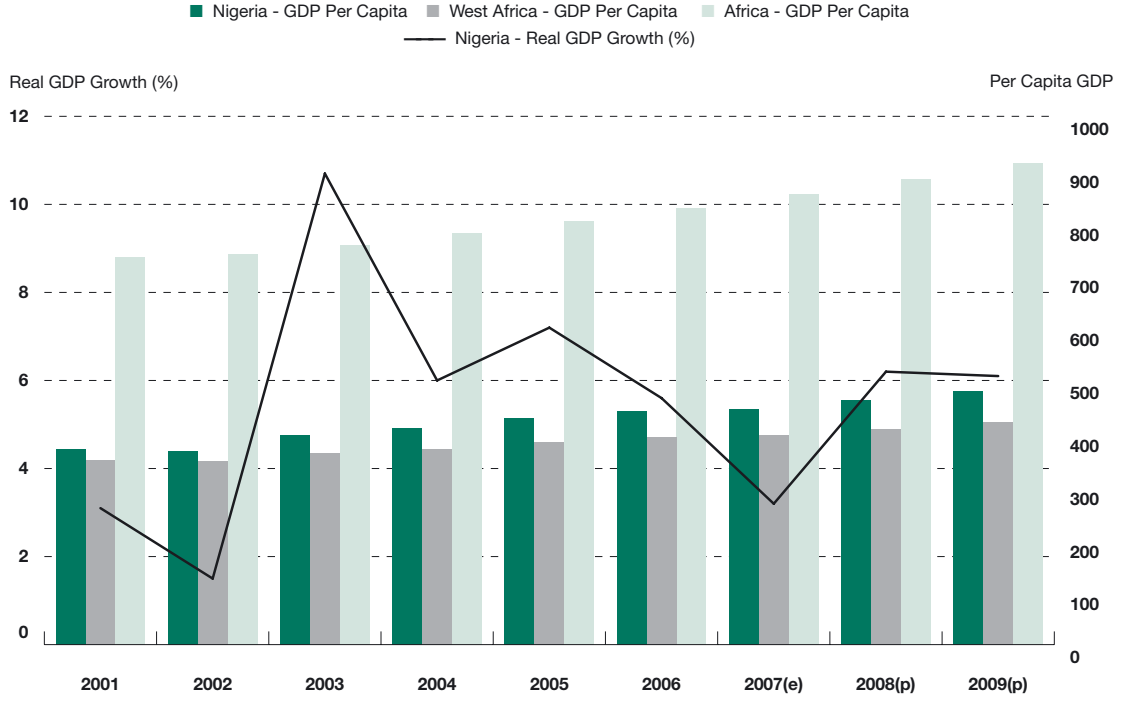
THE YEAR 2007 WAS AN EVENTFUL one in Nigeria, both politically and economically. Growth slowed in the face of continued turmoil in the oil-producing Niger Delta, but medium-term economic prospects are supported by high oil prices and prudent macroeconomic policies. At the political level, the elections were marred by widespread allegations of fraud and intimidation, but the new president has nonetheless assumed office peacefully and appears committed to economic reform.

The National Economic Empowerment and Development Strategy (NEEDS), which is targeted at accelerating economic growth, reducing poverty, and achieving the Millennium Development Goals (MDGs), remains the guiding framework for economic reforms. Oil revenues have been managed carefully, with "excess" revenues saved under the oil price fiscal rule. Nigeria successfully completed a two-year Policy Support Instrument (PSI)[1] with the IMF in mid-October 2007.

High oil prices, reforms and relative political stability open the way for poverty reduction.

Economic performance was mixed in 2007; real GDP growth slowed to an estimated 3.2 per cent and inflation remained in single digits at 6.7 per cent. In

Figure 1 - **Real GDP Growth and Per Capita GDP**
(USD at constant 2000 prices)



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

StatLink http://dx.doi.org/10.1787/316756370031

1. The PSI is an IMF programme intended to help the government maintain prudent macroeconomic policies, strengthen financial institutions, and create a conducive environment for robust private-sector development, involving surveillance but no funding from the IMF.

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addition, progress was registered in the financial sector, debt management, foreign reserves management, exchange rate stability and the fight against corruption. Fiscal prudence was institutionalised through enactment of the National Procurement and the Fiscal Responsibility Acts. Nevertheless, the Nigerian economy is still characterised by dismal infrastructure, widespread insecurity, high levels of poverty, and simmering political and ethnic tensions, notably in the oil-producing areas.

NEEDS is successfully spearheading efforts to address structural and institutional weaknesses of the economy, tackle corruption and overhaul public expenditure management. Following the completion of the first phase (2004-07), an enhanced programme with more ambitious targets is at the final stage of approval, having undergone several reviews. Similarly, the government is continuing to improve governance and transparency, notably through the Nigerian Extractive Industries Transparency Initiative (NEITI) for the oil and gas industry. All these efforts are intended to improve the investment climate.

Recent Economic Developments

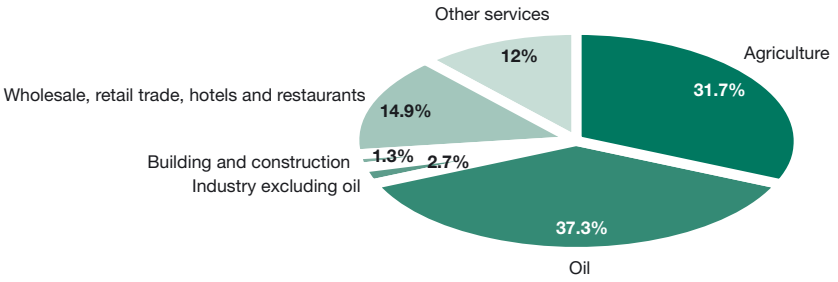
In recent years Nigeria has made significant progress towards sustainable growth and macroeconomic stability, taking advantage of high world prices of oil to undertake bold economic reforms. Real GDP growth averaged 6.5 per cent during the period 2003-07, but has slowed from a high of 10.7 per cent in 2003 to 7.2 per cent in 2005, 5.6 per cent in 2006 and an estimated 3.2 per cent in 2007, largely because of the disruptions in oil production in the Niger Delta. Real oil output contracted by 4.5 per cent in 2006, after very weak growth of 0.5 per cent in 2005. Oil output is estimated to have contracted further by 5.6 per cent in 2007. On the other hand, non-oil sector performance has been very encouraging, with growth of 8.6 per cent in 2005, 9.4 per cent in 2006, and an estimated 9.8 per cent in 2007.

With the relative stability in the Niger Delta following negotiations between the government and local militants, along with increased offshore investments in the oil sector, oil production is projected to respond gradually in the short term. Consequently, real GDP is projected to grow by 6.2 per cent in 2008 and 6.1 per cent in 2009.

The leading non-oil sectors were telecommunications, general commerce, manufacturing and agriculture. Agriculture, constituting 31.7 per cent of GDP, grew by an estimated 7.7 per cent in 2007 compared to 7.4 per cent growth in 2006. Manufacturing grew by 9.9 per cent in 2007, though it constitutes only about 4 per cent of real GDP. The rapid growth of the communication sector continued in 2007 with a growth rate of 32.9 per cent following 28.4 per cent and 34.5 per cent in 2005 and 2006 respectively.

Total investment is estimated to have increased by 15.2 per cent in 2007 with a projection of 12.2 per cent

Figure 2 - **GDP by Sector in 2006** (percentage)



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

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Table 1 - **Demand Composition**

	Percentage of GDP (current prices)		Percentage changes, volume			Contribution to real GDP growth		
	1999	2006	2007(e)	2008(p)	2009(p)	2007(e)	2008(p)	2009(p)
Gross capital formation	**27.7**	**21.8**	**15.2**	**12.2**	**7.2**	**5.0**	**4.5**	**2.8**
Public	7.6	10.2	12.0	10.0	8.0	1.9	1.7	1.4
Private	20.1	11.6	18.0	14.0	6.5	3.2	2.8	1.4
Consumption	**74.8**	**56.1**	**8.9**	**7.3**	**7.0**	**6.2**	**5.4**	**5.2**
Public	13.2	21.8	6.1	6.2	6.2	1.8	1.9	1.9
Private	61.6	34.3	11.0	8.2	7.5	4.4	3.5	3.3
External demand	**-2.5**	**22.0**				**-8.0**	**-3.7**	**-1.9**
Exports	37.1	56.6	-2.5	4.9	6.6	-1.2	2.2	2.9
Imports	-39.5	-34.6	13.6	10.6	8.4	-6.8	-5.9	-4.9
Real GDP growth	**-**	**-**	**-**	**-**	**-**	**3.2**	**6.2**	**6.1**

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

StatLink http://dx.doi.org/10.1787/321330707055

and 7.2 per cent growth in 2008 and 2009 respectively. Private investment and private consumption remain the key drivers of real GDP, contributing 3.2 per cent and 4.4 per cent to real GDP growth in 2007. The weak growth of the oil sector continued to dampen the contribution of the external account to growth.

Macroeconomic Policies

Fiscal Policy

Nigerian fiscal policies continued to adhere to the medium-term expenditure framework (MTEF) with the objectives of maintaining prudent expenditures and due process in public procurement. The strategic process of the 2007-09 medium-term expenditure framework led to greater coherence and consultation in the formulation of the 2007 budget. The consolidated fiscal revenues of the three tiers of government averaged 42.1 per cent of GDP during 2005-07, with oil and gas contributing 82 per cent. Consolidated expenditures represented 33.8 per cent of GDP over the same period, thereby giving rise to a very large average fiscal surplus of 8.2 per cent of GDP. The federal budget, however, recorded an estimated deficit of 1.1 per cent of GDP in 2007, a deficit of 2.7 per cent of GDP in 2006 and a small surplus of 1.1 per cent of GDP in 2005.

The government continued to follow the fiscal rule of saving oil revenues when prices rise above a specified threshold, set at $40 per barrel for 2007, depositing the excess revenues in a special account. The balance in the excess crude oil account at the end of June 2007 stood at $11.66 billion. The authorities are revising the MTEF for the period 2008-10 with the aim of ensuring fiscal balances that are consistent with macroeconomic stability. A tax policy unit was also set up in the Ministry of Finance in 2007 to help strengthen tax policies of the federal government while also leading the discussion of tax issues. The long-awaited Fiscal Responsibility Bill, which aims at fiscal prudence and accountability of public funds at the federal level, was signed into law in early November 2007 by the president.

Oil continued to account for the bulk of total government revenue in 2007, at an estimated 33.1 per cent of GDP, following 36.7 per cent in 2006. With the favourable oil price and the relative calm in the Niger Delta region, oil revenue is projected to increase to 35.8 per cent and 34.5 per cent of GDP in 2008 and 2009 respectively. Interest on the public debt in 2007 is estimated to have declined to 1.2 per cent of GDP from the 2.2 per cent level in 2006 because of the final settlements of the Paris Club and London Club debts.

A larger-than-anticipated carry-over of capital spending from the 2006 capital budget increased

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

	1998	2003	2004	2005	2006(e)	2007(p)	2008(p)
Total Revenue and grants[a]	**29.4**	**43.0**	**43.4**	**43.0**	**39.9**	**42.5**	**41.2**
Tax revenue	7,2	7,4	6,2	6,1	6,5	6,4	6,5
Oil revenue	21,8	34,9	36,8	36,7	33,1	35,8	34,5
Total expenditure and net lending[a]	**32.5**	**33.1**	**32.7**	**34.5**	**34.3**	**32.5**	**32.7**
Current expenditure	14.4	9.8	10.8	11.3	10.9	10.4	10.5
Excluding interest	*6.5*	*7.4*	*7.8*	*9.1*	*9.7*	*9.3*	*9.5*
Wages and salaries	3.9	4.6	4.1	4.5	4.7	4.5	4.5
Interest	7.9	2.4	3.0	2.2	1.2	1.1	1.1
Capital expenditure	11.5	7.5	6.8	7.3	8.2	8.0	8.1
Primary balance	**4.8**	**12.3**	**13.7**	**10.7**	**6.8**	**11.0**	**9.6**
Overall balance	**-3.1**	**9.9**	**10.7**	**8.4**	**5.6**	**9.9**	**8.6**

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

StatLink http://dx.doi.org/10.1787/322135668173

spending significantly in 2007 (by about 1.75 per cent of non-oil GDP). The fiscal authorities also proposed a 2007 supplementary budget which reprioritises and increases spending, while seeking to raise revenues to meet the end-2007 federal government non-oil primary deficit target. An already planned 15 per cent civil service salary increase, which initially applied to government agencies that completed the civil service reform programme, was broadened to all agencies and made retroactive to the beginning of the year. The measures to offset the impact of these salary increases on the budget include freezing of customs waivers and exemptions.

Monetary Policy

The Central Bank of Nigeria (CBN) adopted a new framework for monetary policy implementation, which started in December 2006. The new framework establishes an interest-rate spread of three percentage points above and below a short-term monetary policy rate (MPR) set by the CBN. The upper limit is the repo (repurchase agreement) rate at which the CBN lends to banks. The lower limit represents the interest rate which the central bank pays on overnight deposits by other banks at the CBN. The MPR for 2006 was fixed at 10 per cent, and the lending and deposit rates were 13 per cent and 7 per cent respectively.

The monetary policy goals in 2007 were to ensure price stability and adhere to the PSI targets for monetary aggregates. With inflation declining and the external position strong, the MPR was lowered by 200 basis points from 10 per cent to 8 per cent in June. Also, the interest rate spread for CBN deposit and lending rates around the MPR was reduced from 600 to 500 basis points. Consequently, the CBN deposit and lending facilities stood at 5.5 per cent and 10.5 per cent, down from 7 per cent and 13 per cent respectively. However, the CBN raised the MPR in October and December 2007 to 9.5 per cent, in response to increased inflationary pressures of the last quarter of 2007.

The broad money (M2) supply grew above its target range in 2006 and 2007 with growth rates of 30.6 per cent and 30.9 per cent respectively. However, the rapid growth of M2 has not yet led to higher inflation. Year on year inflation was in single digits throughout 2007 with a low of 6.6 per cent at the end of December compared with 8.5 per cent and 11.6 per cent in 2006 and 2005 respectively. Core inflation also fell in 2007 with a low of 9.2 per cent at the end of December, down substantially from the 17.3 per cent recorded in 2006. Interest rates remained generally stable and positive in real terms throughout the year with the exception of the savings deposit rate which has been consistently negative in real terms.

The naira remained relatively stable until the last quarter of 2007, during which it appreciated, entailing an overall appreciation by 8.7 per cent between the end of December 2006 and December 2007. The

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end period exchange rate was $1=NGN 117.97 (Nigeria naira) in 2007 compared with $1= NGN 130.29 and $1 = NGN 128.27 in 2005 and 2006 respectively.

The efficiency of intermediation in the economy improved with the ratio of currency outside banks (COB) to M2 dropping to 15.2 per cent in 2007 from 20 per cent and 18.8 per cent in 2005 and 2006 respectively. Deposit money banks' credit to the private sector more than doubled from $19.4 billion in 2006 to $41.9 billion in 2007, representing about 30.6 per cent of non-oil GDP.

Other developments in the banking system in 2007 include the redesign and launching of lower note denominations of NGN 5, NGN 10, NGN 20 and NGN 50, as well as three new coin denominations of 50 kobo, NGN 1 and NGN 2 in pursuit of the clean notes policy of the central bank. The clean notes policy aims at stopping the abuse of the local currency notes, such as spraying them on individuals during celebrations and squeezing the notes into the pocket on receipt or when distributing them. The country's mint, the Nigerian Security Printing and Minting (NSPM) plc, was reorganised and restructured to strengthen its capacity to meet the national and sub-regional currency and security printing needs. A significant proportion of the country's currency has until now been printed overseas.

The payment system was also made more sophisticated with the introduction of additional automatic teller machines (ATMs), international payment cards, Internet banking, and electronic payments. The introduction of Central Interbank Funds Transfer System (CIFTS), a Real Time Gross Settlement System (RTGS), during the year was expected to result in enhanced interbank transfers and a more effective and rapid clearing system.

Inflation targeting has been accepted as the principle to guide monetary policy by the government and the CBN. However, the CBN's commitment to the effective implementation of this framework remains to be seen. For instance, the CBN has not specified if targeting refers to core inflation or overall inflation or if the target is a specific level or a range. The central bank also lacks the operational autonomy that is required for effective inflation targeting.

The Nigerian Stock Exchange recorded an impressive performance in 2007. In the first and second quarters of the year, the market recorded aggregate returns of 31 per cent and 55 per cent respectively. For 2007, the all share index rose from 33 163.94 points to close the year at 51 330.46 points, representing a 85.1 per cent rise in share prices, and total market capitalisation of new and existing listed companies ended at NGN 7 818 billion from the end-2006 level of NGN 4 223 billion, also a 54.8 per cent increase.

External Position

Developments in the international oil market continued to influence heavily Nigeria's external position, as the country is both a major exporter of crude oil and an importer of petroleum products. Because of the poor condition of the local refineries, Nigeria continued to import about 90 per cent of its domestically consumed petroleum products. Nevertheless, the country remains a large net exporter of oil, as the world's eighth largest exporter of crude oil. The average price of crude oil increased from $64.3 per barrel in 2006 to an estimated $71.2 per barrel in 2007. These high oil prices have created large merchandise trade surpluses of 28.1 per cent of GDP in 2005, 27.4 per cent in 2006, and an estimated 20.8 per cent in 2007.

Merchandise trade surpluses have outweighed deficits in services, so that Nigeria has recently had substantial current account surpluses averaging 8.6 per cent of GDP over 2005-07; the surplus is projected to remain strong at 9.3 per cent and 10.2 per cent in 2008 and 2009 respectively.

Long-term capital inflows, including foreign direct investment (FDI) and portfolio investments, increased in 2007, boosted by financial reforms and other measures improving the business climate. FDI inflows are estimated to be about $9 billion in 2007.

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

	1999	2004	2005	2006	2007(e)	2008(p)	2009(p)
Trade balance	7.3	24.6	28.1	27.4	20.8	22.8	21.5
Exports of goods (f.o.b.)	34.6	51.6	53.9	54.2	49.8	51.4	49.5
Imports of goods (f.o.b.)	27.3	27.0	25.8	26.8	29.0	28.6	27.9
Services	-9.8	-8.2	-6.8	-5.1	-5.2	-5.4	-5.0
Factor Income	-9.2	-15.1	-15.5	-12.8	-14.1	-10.3	-8.3
Current transfers	3.3	3.9	3.4	2.9	2.7	2.2	2.0
Current account balance	**-8.4**	**5.4**	**9.2**	**12.4**	**4.2**	**9.3**	**10.2**

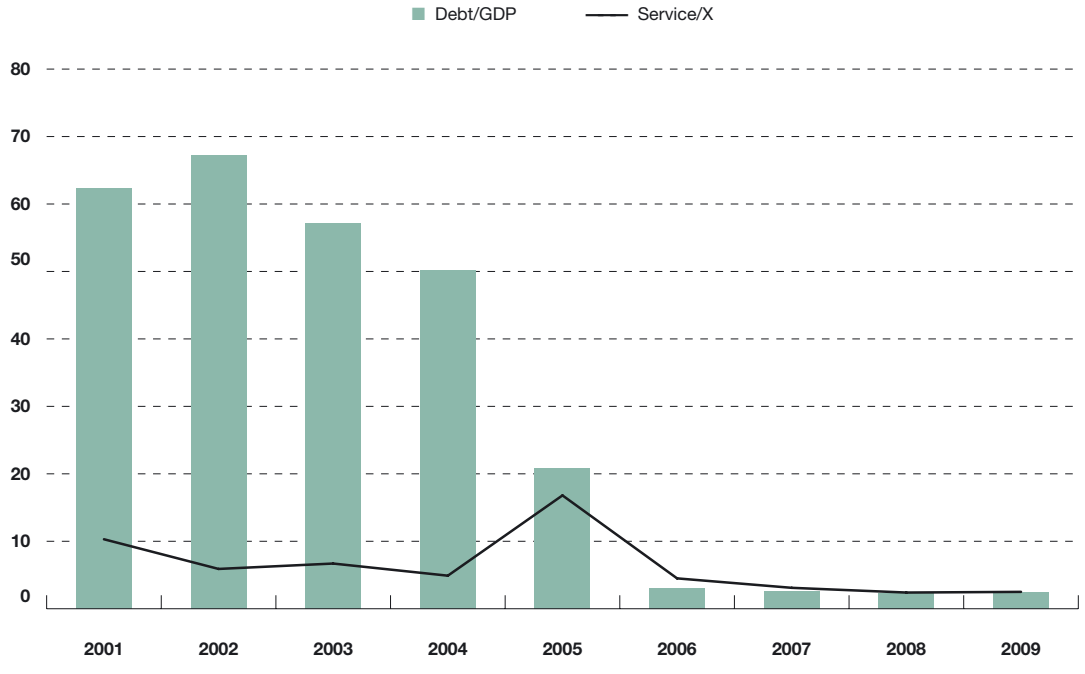
Source: Domestic authorities' data; estimates (e) and projections (p) based on authors' calculations.

StatLink http://dx.doi.org/10.1787/323242775477

Following the settling of all debt from the Paris Club, Nigeria has also eliminated its London Club debt by redeeming Par Bonds (about $1.5 billion) and repurchasing its promissory notes. The stock of Nigeria's external debt consequently plummeted to a mere $3.63 billion (about 3 per cent of GDP) by December 2007. The total external debt service payments amounted to a low $0.78 billion at the end of June 2007, mostly accounted for by promissory notes (61 per cent), multilateral institutions (24.8 per cent) and the London Club (13.1 per cent). The huge drop in external debt and debt-servicing will make more resources available for investment in infrastructure, poverty alleviation and security improvement.

By virtue of its large size, Nigeria is the dominant member of the Economic Community of West African States (ECOWAS) and one of the leading members of the African Union (AU). The country has been playing an active role in pursuing the AU New Partnership for

Figure 3 - **Stock of Total External Debt** (percentage of GDP) **and Debt Service** (percentage of exports of goods and services)



Source: IMF.

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African Development (NEPAD). The level of intra-ECOWAS trade remains very low, accounting for a mere 10 per cent of member countries' total trade. The low level of sub-regional integration reflects the delays in adopting and implementing trade agreements, notably the Trade Liberalisation Scheme (TLS), cumbersome rules of origin, and daunting non-tariff barriers to intra-ECOWAS trade. These include bureaucracy; corruption in customs; slow port operations; poor roads and communication infrastructure between countries; wastage and theft at ports; poor storage conditions; harassment by police and other personnel at innumerable checkpoints; and inter-country payment difficulties.

ECOWAS is one of the regional groups in Africa which is negotiating Economic Partnership Agreements (EPAs) with the European Union (EU). The EPAs involve reciprocal trade liberalisation to replace the non-reciprocal preferential agreements under the Lome and Cotonou conventions. The impetus for negotiating EPAs between the EU and the ACP African, Caribbean and Pacific (ACP) countries arose out a challenge by non-ACP countries at the WTO against the discriminatory nature of the preferences granted to ACP countries under the Lome and Cotonou conventions. There is concern that the EPAs could involve significant costs to African countries, in the form of forgone tariff revenue, reduced intra-regional trade and increased pressure on local industry, that more than outweigh any benefits of greater access to the EU market. Consequently, a final agreement has been postponed.

Nigeria is also eligible for trade preferences under the United States African Growth and Opportunity Act (AGOA). Nonetheless, utilisation of this opportunity remains low, especially with regard to non-petroleum exports.

Nigeria's foreign exchange reserves hit an all time high in December 2007 of about $50 billion, equivalent to about 15 months of imports of goods and services. To manage effectively the investment of these reserves, 14 custodians and asset managers were appointed during the year.

Structural Issues

Recent Developments

The NEEDS structural reform programme, focusing on economic governance and the business climate, continued to have a positive impact. Reforms have occurred in public sector management, trade and domestic market liberalisation, privatisation and the financial system. A survey conducted by the World Bank found increased transparency and fairness in procurement. The World Bank's *Doing Business* indicators show a slight improvement with Nigeria ranking 108th in 2007 compared to 109th in 2006, out of 178 countries. Increased confidence in Nigeria is also reflected in a sovereign rating of BB-, the success of several Nigerian banks in raising capital on international markets, and the oversubscribed public offers of banks on the Nigerian Stock Exchange, in their bid to raise more capital in the aftermath of the consolidation exercise.

Market liberalisation and privatisation of key public enterprises are advancing at an uneven pace. In spite of significant progress towards the end of the previous administration with the sales of the national telephone company, NITEL, and two oil refineries, along with the concessions of the maritime ports, controversies have erupted. The lower and upper houses of parliament have launched investigations into some of the sales. The sale of the Port Harcourt and Kaduna oil refineries in April 2007 was rescinded two months later. The sale helped trigger a four-day general strike in June among the oil workers that nearly paralysed the economy.

Progress in the power sector has been mixed. Nigeria's three refineries have been dysfunctional for decades because of mismanagement, corruption and sabotage. With the appointment of the National Commission on Privatisation, the concession of the Transmission Company of Nigeria is under way. Privatisation of the Abuja Electricity Distribution plc is awaiting a full review of the energy sector. In addition, eight oil service companies were sold ahead of schedule.

Civil service reforms are continuing, with dismissals of 35 600 under-qualified staff. Restructuring of

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parastatals also involved layoffs of 32 240 workers. These staff reductions involved substantial severance payments and retraining programmes for those who lost their jobs. A new higher salary structure was introduced to motivate civil servants and attract higher quality staff.

Twelve core federal ministries were restructured in 2007. These cover the state house, finance, solid minerals, national planning commission, federal capital territory (FCT) administration, health, education, foreign affairs, commerce, science and technology, transport, and internal affairs. The government has also merged a number of ministries.

A new policy framework is nearing completion, which will build on NEEDS by adding several new objectives as outlined in the president's seven-point plan presented in his late May 2007 inaugural address. They include improving electricity supplies, food security, employment, transport, land reform, security and education.

Increased adherence to the new "due process" law – the Public Procurement Act 2007 – has instilled fiscal discipline in government and parastatals' activities. The Public Procurement Bill, initiated by the Obasanjo administration, was passed by the National Assembly and, incidentally, was the first bill signed into law on 4 June 2007 by President Musa Yar'Adua. This law, which spells out strict guidelines and procedures for contract implementation, has been enhanced by the enactment of the Fiscal Responsibility Bill, which the president signed into law in November 2007. As enacted, the National Procurement and Fiscal Responsibility Acts are binding only on the federal government, its ministries, departments and agencies. However, state and local governments are being urged to enact similar laws to foster fiscal prudence and transparent procurement processes.

With the banking sector consolidation completed, there are now 24 banks in Nigeria, following the post-consolidation merger of IBTC Chartered and Stanbic. The soundness of the system has improved markedly. At the end of 2007, the highest capitalised Nigerian bank had more capital than the entire 89 fragile banks that existed before consolidation in June 2004. The total asset base of Nigerian banks grew by about 277 per cent between 2003 and 2007. Eleven banks had over $1 billion in Tier 1 capital by the end of 2007, whereas none was in this category before banking consolidation. One of the Nigerian banks was rated 355th in the world in terms of capital in 2006 with 12 others in the top 1 000, compared to none in 2004. Twelve of the banks are valued at between $1 billion and $8 billion on the Nigerian stock exchange, making the banking sector the dominant sector of the exchange.

The Nigerian authorities, under the lead of the CBN, launched Nigeria's Financial System Strategy 2020 (FSS 2020) with the hosting of an international conference in June 2007. The FSS aims to position Nigeria as a financial hub for Africa by boosting its financial system and strengthening its catalytic role in the growth of the real sector. The emergence of the Africa Finance Corporation (AFC) is another landmark development in Nigeria's financial system in 2007. The AFC is an investment bank that contributes to Africa's development through the financing of infrastructure and other activities.

Technical and Vocational Skills Development

Technical training pre-dates modern education in Nigeria. The apprenticeship system has long trained youths in smithing, weaving, pottery, wood-carving, farming, basketry and a multiplicity of other local handicrafts. The Yaba College of Technology, established in 1932, was Nigeria's earliest formal technical and vocational education and training (TVET) institution at the tertiary level.

There are five types of TVET institutions in Nigeria outside the universities: the pre-vocational and vocational schools at post-primary level; and at the post-secondary level technical colleges, the polytechnics and technical teacher education colleges. Pre-vocational education involves basic vocational skills for primary school pupils. Vocational schools focus mainly on the secondary school age group. The technical colleges, which also focus on the secondary school age group,

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teach elementary level vocational skills. The polytechnics and technical teacher education colleges are the main tertiary TVET institutions with the latter focused on producing instructors for TVET institutions.

Nigeria's TVET system has been ineffective. Lack of funding and low teaching salaries are even more constraining for TVET than for the rest of the educational system. TVET is looked down upon in Nigerian society as a low-status track. Overall, TVET constitutes only about 1 per cent of total educational enrolment with female participation in TVET averaging about a third. Informal TVET in Nigeria is pervasive but poorly documented.

Vocational schools are mostly operated by state governments with little federal government participation. In public institutions, teaching materials are inadequate and the teachers are less competent than their private sector counterparts, although there are substantial variations in quality. Private institutions have much more useful programmes, with trained and experienced staff and high quality equipment. Students in private schools learn practical skills in metalwork, woodwork, electricity, petroleum technology and refining, automobile, carpentry, painting etc. Foreign companies, such as Shell, Leventis and UAC, among others, offer technical training courses. Nigerian enterprises offer little formal vocational training.

TVET programmes are poorly integrated into the economy's demand for skills. For instance, the Industrial Training Fund (ITF) was established to provide TVET trainees with actual work experience in both private and public sector organisations but as a result of poor funding and weak management, the arrangement has virtually collapsed. There is also a mandatory one-year work experience requirement for the higher national diploma in TVET. However, because of the surplus of job seekers and the disorganisation of the economy, most TVET participants are unable to obtain work experience.

One of the goals of NEEDS is the strengthening of vocational and entrepreneurial skills. However, the review of the 2004-07 phase of NEEDS found no progress on skill acquisition. The 2008-11 phase of NEEDS is expected to address this issue with greater financial support and new efforts to create more effective TVET programmes that instil useful skills and to create partnerships with the private sector.

Financing of TVET in Nigeria is a shared responsibility among the private sector, public sector and donor agencies. The private sector financing is mostly for in-house vocational training activities while public sector financing encompasses public recurrent and capital expenditure on TVET by the local, state and federal governments. While information on local and state governments' expenditures on TVET is unavailable, that relating to federal expenditure can be obtained from the National Board for Technical Education (NBTE) and other institutions. The NBTE is the commission responsible for overseeing the polytechnics in the country and curriculum development for vocational education. Available data indicate that 20.9 per cent, 7.1 per cent and 13 per cent of total expenditures on education in 2003, 2004 and 2005 respectively went to the NBTE of which 39.2 per cent, 83.6 per cent and 78.4 per cent of yearly budget appropriations to NBTE in the same years were actually spent.

Donor agencies involved in financing skills development in Nigeria include UNESCO's creation of six regional UNESCO technical and vocational centres (UNEVOC) for the retraining of TVET instructors. The African Development Bank initiated in July 2005 a $42 million five-year TVET project. The project's goal is the upgrading of 10 TVET institutions and restructuring of the present supply-driven TVET into a demand-driven system that responds to the needs of the private sector.

Political Context

The controversial April 2007 elections marked a potential turning point in the political history of Nigeria. The elections were touted as the country's first democratic political transition. A total of 51 political parties participated, with the main contenders being the ruling People's Democratic Party (PDP) and two

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major opposition parties, the All Nigeria People's Party (ANPP) and the Action Congress (AC), with the latter led by the vice-president, who had become disaffected with the incumbent President Olusegun Obasanjo and the PDP. An ally of Obasanjo, Musa Yar'Adua of the PDP, was declared the winner. President Obasanjo's supporters had previously tried unsuccessfully to change the constitution so that he could run for a third term.

According to local and international observers, the elections were marred by severe irregularities, including arbitrary disqualification and arrest of candidates, voter-card fraud, poor logistics and non-transparent results collations. The results of most of the elections, including the presidential election, were contested at various election petition tribunals and courts. In February 2008 an election tribunal upheld president Yar'Adua's victory, dismissing a petition. But six governorship elections were annulled by various state election tribunals. These states are Anambra, Rivers, Kogi, Adamawa, Kebbi and Enugu. Two of the governors in the annulled governorship elections (Anambra and Rivers) were immediately replaced by the appropriate courts; three others have their appeal cases pending; and new elections have been scheduled in Kogi during the first quarter of 2008 following the confirmation of the annulment by the Appeals Court.

The fight against corruption in Nigeria progressed markedly in 2007, through the work of both the Independent Corrupt Practices Commission (ICPC) and the Economic and Financial Crimes Commission (EFCC). The public disclosure of the assets of both the president and his deputy was also an important step. Following the end of the terms of most state governors and their loss of immunity to prosecution, the EFCC targeted a large number of them. Eight of the governors were arrested and prosecuted on charges of corruption and misuse of public funds. On the other hand, the replacement of the head of the anti-corruption agency towards the end of 2007 dampened public confidence in the vaunted "zero tolerance for corruption" posture of the new administration.

The impeachment of the speaker of the lower house of the National Assembly on grounds of corrupt practices and non-compliance with due process in the award of contracts was another source of controversy in 2007. President Yar'Adua's non-interference in the case against the speaker, who incidentally was the first woman to occupy this position in Nigeria, despite strong political pressures in the legislature, shored up his standing as an opponent of corruption.

Social Context and Human Resources Development

Progress on social and human development indicators in Nigeria in 2007 was mixed. The United Nations Development Programme's *Human Development Report 2007/2008*, compiled on the basis of 2005 data, ranked Nigeria as 158th out of 177 countries, below the average for sub-Saharan Africa. Infant mortality (per 1 000 live births) declined to 109.5 in 2007 from 140 in the 1970s. Similarly, the under-five mortality rate (per 1 000 live births) declined from 265 to 187 during the same period. In 2006, the government conducted a core welfare indicator survey which showed that 55.1 per cent of the population had access to medical services, with a much higher access rate found in urban areas (70.9 per cent) than in rural areas (47.8 per cent). The survey also revealed that 67 per cent expressed satisfaction with medical services. Here again, the rate was higher for urban communities (75.1 per cent) than for rural ones (62.7 per cent).

The government has made significant progress towards addressing the HIV/AIDS pandemic. The HIV/AIDS prevalence rate declined to 4.4 per cent in 2006, down from 5.8 per cent in the preceding year. The targets for 2007 are to reduce the prevalence and incidence rates by 50 per cent for both sexual transmission and 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 and control of HIV/AIDS. The National Action Committee on AIDS (NACA) has continued with its strategic focus on treatment as well as prevention through advocacy,

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information and education campaigns.

The Nigerian Federal Ministry of Health reported an outbreak of measles, cholera and cerebrospinal meningitis in the northern region of the country in the last quarter of 2007. The renewed outbreak resulted in about 196 deaths in 2007 out of the 5 957 reported cases. Scores of children were also admitted to hospitals in the riverine communities of the Delta State because of the outbreak of cholera, though no deaths occurred.

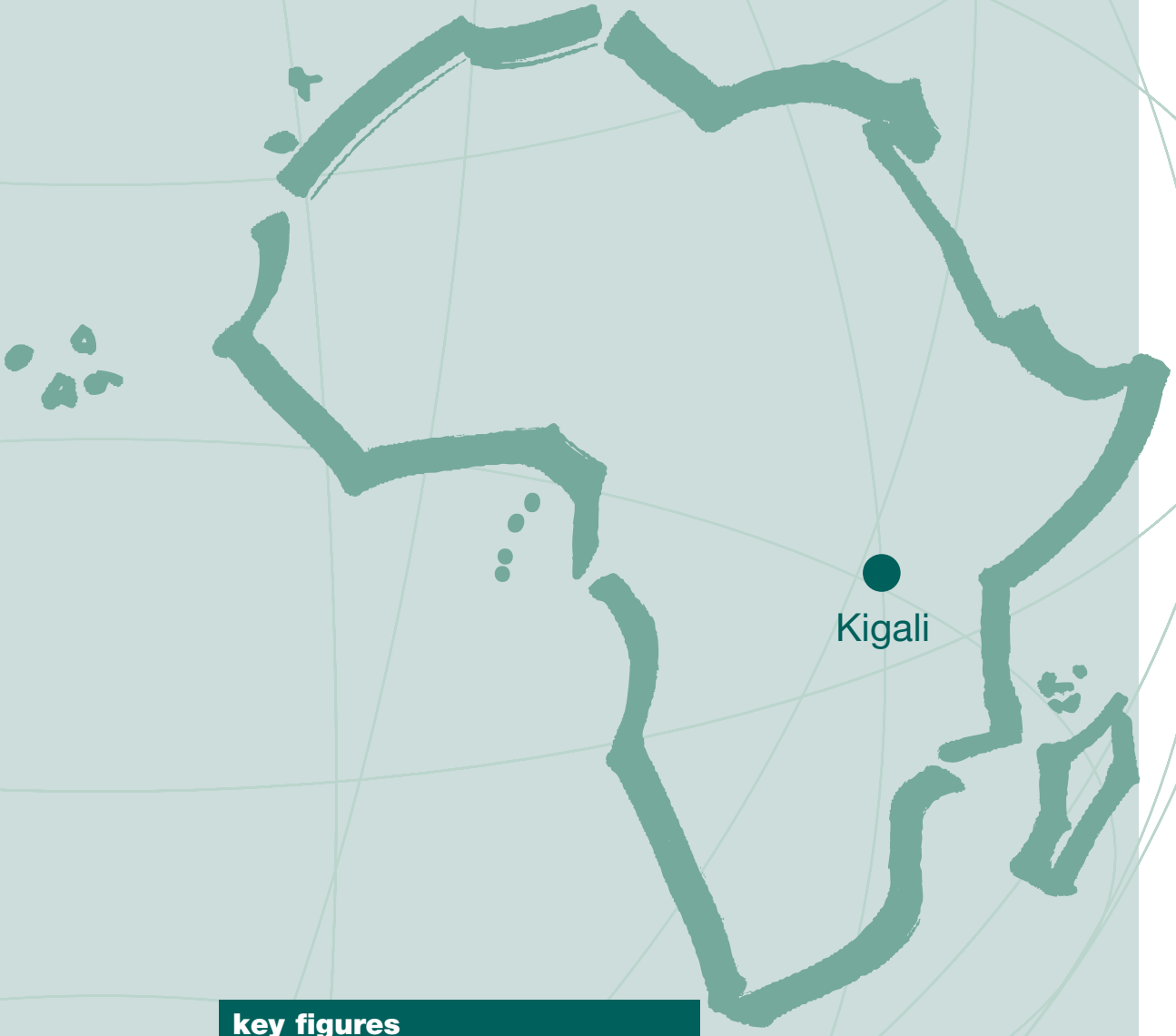
The government has increased spending on education. Universal basic education (UBE), which was introduced in 1999 at the inception of the Obasanjo's administration, was aimed at providing free education for all pupils at the primary and junior secondary school levels. It was also expected to raise the primary school enrolment rates. According to national sources, 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 for both boys and girls, there remains a considerable gender gap at all levels. For instance, the primary-school enrolment rate in 2004 was 132 per cent for boys, as opposed to 107 per cent for girls. The secondary-school enrolment rates were 40 per cent and 32 per cent for boys and girls, respectively.

The 2006 government survey data also revealed a wide disparity between male (74.6 per cent) and female (56.8 per cent) adult literacy rates. Thus, based on current trends, Nigeria may not achieve the gender-related MDG. Nigeria's Gender-related Development Index (GDI), which captures inequalities in achievement between men and women, is 0.443, which ranks Nigeria 82nd out of 136 countries.

Nigeria has made substantial progress in reducing poverty levels. According to a recent survey the proportion of people living below the poverty line declined from 70 per cent in 2000 to 54.4 per cent in 2006 thanks mainly to progress in macroeconomic performance and the gradual implementation of the

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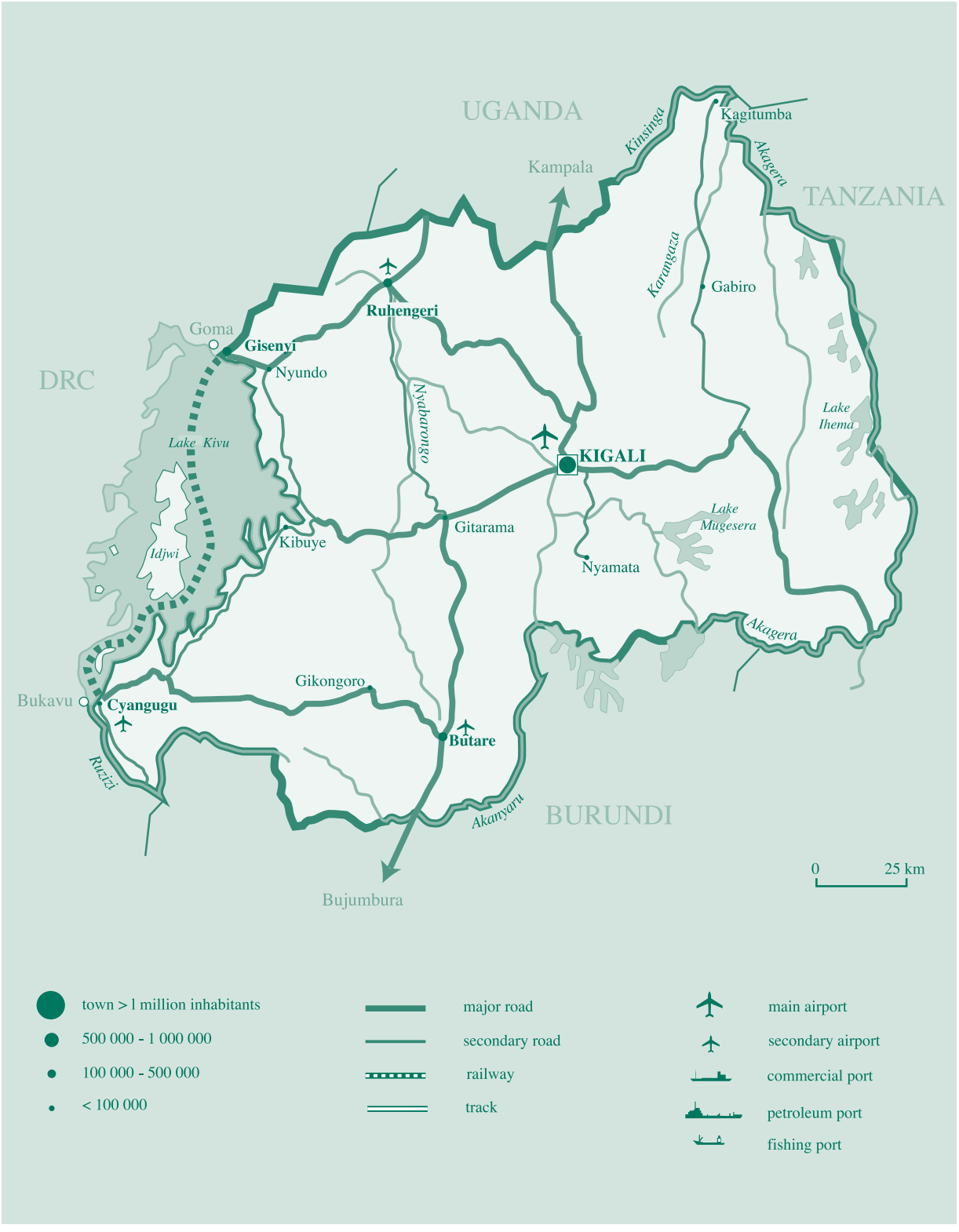
Rwanda



key figures

• Land area, thousands of km²	26
• Population, thousands (2007)	9 725
• GDP per capita, USD at constant 2000 prices (2007)	264
• Life expectancy (2007)	46.2
• Illiteracy rate (2007)	25.3

Rwanda


UGANDA
Kampala
Kagitumba
Kinsinga
Akagera
TANZANIA
Karangazza
Gabiro
Ruhengeri
Goma
Gisenyi
Nyundo
DRC
Nyabarongo
Lake Ihema
Lake Kivu
KIGALI
Lake Mugesera
Gitarama
Kibuye
Idjwi
Nyamata
Akagera
Gikongoro
Bukavu
Cyangugu
Butare
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25 km
town > l million inhabitants
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major road
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main airport
secondary airport
commercial port
petroleum port
fishing port

Rwanda

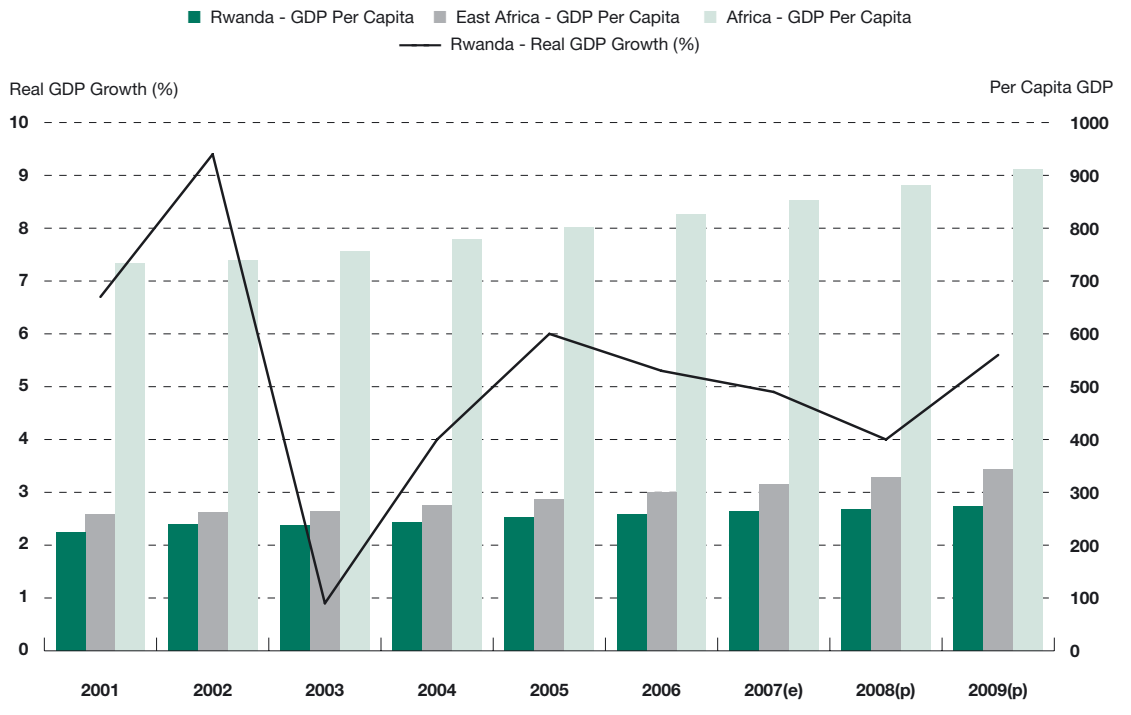
RWANDA HAS MADE CONSIDERABLE PROGRESS in recovering from the 1994 war, exhibiting impressive growth averaging about 8 per cent a year during the period 1996-2005. In 2007, GDP growth is estimated at 4.9 per cent, down from the 5.3 per cent registered in 2006. The slowdown was due to poor growing conditions which caused agricultural output to fall. Growth is expected to slow further to 4 per cent in 2008, but to accelerate to 5.6 per cent in 2009.

Poverty levels are still high and figures indicate that in 2005/06, 56.9 per cent of the population were living below the poverty line, a drop from 60.3 per cent in 2000/01, and 41.3 per cent of the population were living in abject poverty. Rwanda's economy is still heavily aid-dependent, as is reflected in large fiscal and current account deficits. During the period 1994-95, aid flows peaked at around USD 700 million a year, but then averaged around USD 340 million annually since 1997. Currently, external aid continues to finance about half of Rwanda's total budget.

Serious issues of capacity constraint remain, compromising the recovery strategy.

In November 2007, the government launched a second generation poverty reduction strategy, *Rwanda's Economic Development and Poverty Reduction Strategy* (EDPRS) that sets out the country's objectives, priorities and major policies for the next five years (2008-12). The strategy provides a medium-term framework for achieving the country's long-term development goals.

Figure 1 - **Real GDP Growth and Per Capita GDP**
(USD at constant 2000 prices)



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

StatLink http://dx.doi.org/10.1787/316853854017

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The EDPRS breaks with the past in two ways. First, the strategy redefines the country's growth and development priorities to emphasise accelerating growth of GDP and exports to create employment. Second, it aims to consolidate and extend the decentralisation of public spending, accompanied by robust accountability mechanisms. The EDPRS also recognises the key role of the private sector in accelerating growth in order to reduce poverty.

The priorities of the strategy are embodied in three related programmes: *Sustainable Growth for Jobs and Exports, Vision 2020 Umurenge* and *Governance*. The first emphasises a public investment programme aimed at reducing the operational costs of doing business in the country, which is expected to stimulate private investment. *Vision 2020 Umurenge* is a highly decentralised integrated rural development programme designed to accelerate extreme poverty reduction in Rwanda. It is currently being piloted in 30 of the poorest sectors (*imirenge*) of the country.

Recent Economic Developments

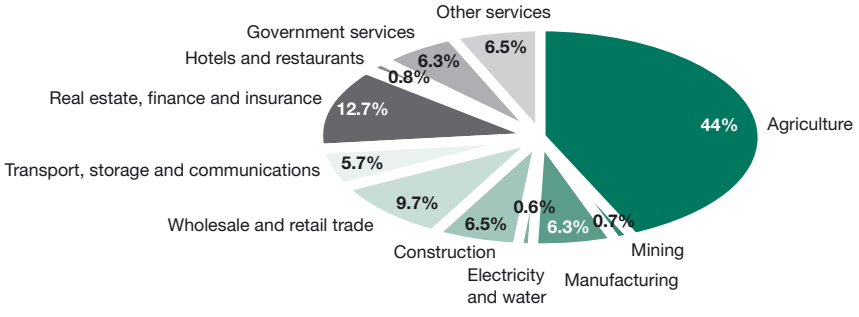
The agricultural sector accounted for 54.6 per cent of total real domestic product in 2006 followed by wholesale and retail trade at 12.1 per cent of GDP. The construction and manufacturing sectors each accounted for about 8 per cent.

In 2007, real GDP growth is estimated at 4.9 per cent, down from the 5.3 per cent recorded in 2006. This slowdown, reflecting a decline in agricultural output by 1.3 per cent in 2007 due to poor growing conditions, is expected to continue into the first half of 2008. However, growth in the manufacturing, construction and other services sectors was robust in 2007. In particular, the food, beverages and tobacco sector is estimated to have experienced growth of about 5.2 per cent in 2007, as a result, in part, of the granting of additional licences for the brewing of alcoholic products.

A further decline in real GDP growth rate to 4 per cent is projected for 2008 because of continued weakness in the agricultural sector. There are prospects for a rebound of agricultural production in the latter part of 2008 and in 2009, buttressed by expected buoyant growth in industry and services with real GDP expected to grow by 5.6 per cent in 2009.

The primary sector is projected to grow by 3.4 per cent in 2008 and 5.7 per cent in 2009 in real terms. Growth in agriculture is expected to be underpinned by a number of reforms in the agricultural sector, designed to increase the levels and intensity of input use and thus to raise productivity, such as the fertiliser subsidisation policy, policies to promote water harvesting and terracing, and provision of extension services. The emphasis in the EDPRS on exports is

Figure 2 - **GDP by Sector in 2006** (percentage)



Source: Authors' estimates based on data from the National Institute of Statistics and the National Bank of Rwanda.

StatLink http://dx.doi.org/10.1787/318085813703

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Table 1 - **Demand Composition**

	Percentage of GDP (current prices)		Percentage changes, volume			Contribution to real GDP growth		
	1999	2006	2007(e)	2008(p)	2009(p)	2007(e)	2008(p)	2009(p)
Gross capital formation	**17.2**	**21.4**	**19.0**	**5.0**	**5.6**	**3.2**	**1.0**	**1.1**
Public	6.3	8.6	17.6	5.0	5.2	1.2	0.4	0.4
Private	10.9	12.8	20.0	5.0	5.9	2.0	0.6	0.7
Consumption	**100.0**	**98.2**	**3.6**	**4.0**	**5.7**	**3.4**	**3.8**	**5.4**
Public	11.0	13.5	3.3	3.1	3.3	0.4	0.3	0.4
Private	89.0	84.7	3.6	4.2	6.1	3.1	3.5	5.1
External demand	**-17.3**	**-19.6**				**-1.8**	**-0.8**	**-1.0**
Exports	5.9	11.9	1.7	4.6	5.1	0.1	0.4	0.4
Imports	-23.2	-31.5	9.0	5.3	6.2	-2.0	-1.2	-1.4
Real GDP growth						**4.9**	**4.0**	**5.6**

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

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expected to lead to agricultural export growth of 15 per cent per annum. More emphasis is to be placed on increasing value added, for example, by exporting more fully washed coffee.

Growth in the construction industry in 2008 and beyond will continue to benefit from increased infrastructure investment; for example an export processing zone, industrial parks and private housing are all currently on the drawing board. Mining is projected to continue to benefit from international demand and higher prices in 2008 and 2009.

Total gross capital formation as a percentage of GDP, which stood at about 21.4 per cent in 2006, is estimated to have increased by 19 per cent in 2007. The exceptionally rapid growth in 2007 reflects a substantial increase in public investment financed by a large infusion of aid inflows in 2006 and 2007. Furthermore, even higher growth in private capital formation was registered in 2007 (20 per cent) and moderate growth is expected to continue in 2008 and 2009. Growth in private consumption is expected to pick up in 2009 but its contribution to GDP growth is expected to be partially offset by an increase in imports. This is a reflection of the increasing demand for imports of capital and intermediate goods and petroleum products.

Macroeconomic Policies

Fiscal Policy

In Rwanda fiscal policy is aimed at strengthening and consolidating macroeconomic stability while providing adequate resources to the productive and social sectors in line with the objectives of the EDPRS.

Moderate growth during the past few years coupled with an improved performance of the Rwanda Revenue Authority brought total domestic revenue to 28.1 per cent of GDP in 2007. Further increases are expected to be derived primarily from PAYE and consumption taxes (VAT and excise duties). The government intends to use this budgetary leeway to finance urgent priority items such as the higher salaries required to replace lower qualified staff with better qualified professionals in schools and in new district hospitals. Additional financing will also be earmarked for road maintenance to replace the shortfall in contingent grants for this purpose, and for imports of fertiliser and purchase of improved seeds for farmers.

Domestic revenues are expected to stabilise as a share of GDP at about their current levels in 2008 and 2009. This is because there is little scope for further improvements in tax collection, and there is likely to

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

	1998	2003	2004	2005	2006(e)	2007(p)	2008(p)
Total Revenue and grants[a]	**15.6**	**25.8**	**29.2**	**27.3**	**28.1**	**28.2**	**26.8**
Tax revenue	9.4	12.8	13.6	14.1	13.9	13.8	13.7
Grants	5.7	11.9	14.1	12.2	13.1	13.3	12.1
Total expenditure and net lending[a]	**19.6**	**26.1**	**28.5**	**27.8**	**28.5**	**29.4**	**28.6**
Current expenditure	13.3	15.9	17.9	18.5	18.2	18.9	18.4
Excluding interest	*12.5*	*14.8*	*17.1*	*17.4*	*17.6*	*18.4*	*17.9*
Wages and salaries	5.3	4.6	4.3	4.5	4.3	4.2	4.1
Interest	0.8	1.1	0.9	1.1	0.6	0.5	0.5
Capital expenditure	6.3	8.5	10.1	8.6	9.6	9.8	9.7
Primary balance	**-3.2**	**0.9**	**1.6**	**0.6**	**0.2**	**-0.7**	**-1.4**
Overall balance	**-4.0**	**-0.2**	**0.7**	**-0.5**	**-0.4**	**-1.2**	**-1.9**

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

StatLink http://dx.doi.org/10.1787/322155180748

be some erosion of import duties because of trade liberalisation and a changing composition of imports. A study on the widening of the tax base is currently under way, and this approach may prove politically more palatable than raising tax rates. The budget for 2008, the first year of the EDPRS, provides for a nominal increase of 18 per cent compared with the 2007 budget. The 2008 budget focuses on improving agriculture (plus 37 per cent), energy and health (plus 29 per cent), infrastructure (plus 20 per cent), education (plus 6 per cent). Taken together overall expenditure, including net lending, is estimated to average about 28.5 per cent of GDP in 2007. Capital expenditure grew from 8.6 per cent of GDP in 2006 to 9.6 per cent in 2007, while a slight decline was registered in current expenditure (from 18.5 per cent of GDP in 2006 to 18.2 per cent in 2007).

Although increases were recorded in revenue and grants in 2007 (28.1 per cent of GDP as against 27.3 per cent in 2006), a more than proportional increase in total expenditure led to an overall deficit of 0.4 per cent of GDP. Taxes as a share of domestic product recorded a slight decline in 2007 (13.9 per cent) when compared with the 14.1 per cent recorded in 2006.

Monetary Policy

The main objective of monetary policy has been to contain headline inflation to the single-digit level and core inflation (excluding food and fuel) to below 5 per cent. However, in 2007, the CPI showed a year-on-year increase of 10.2 per cent while core inflation reached 9.4 per cent at the end of December 2007. This may be explained by increases in health and education fees, as well as increases in petrol prices (occasioned by rising international oil prices), and the pass-through of higher food prices to restaurants. Broad money exceeded indicative limits during most of 2007 by a wide margin, because of an increase in private sector credit intended mainly for investment and higher net foreign assets of both the National Bank of Rwanda (NBR) and commercial banks reflecting significant increases in aid inflows.

Net foreign exchange reserves have risen sharply by about 28 per cent since the end of 2006 and stood at about USD 406 million at the end of 2007. This increase was mainly due to the disbursement to the government by donors of budget support funds of USD 157.9 million. At this level the foreign exchange reserves are estimated to be sufficient to cover about 5.1 months of imports. Further increases in foreign exchange reserves are projected to take place in 2008 and 2009.

As a result of the large donor disbursements and foreign exchange flows through the commercial banks (export receipts and grants to domestic non-governmental organisations, NGOs) the nominal exchange rate has maintained its trend of small

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appreciation during the first half of 2007. At the end of December 2006, the average exchange rate was USD 1=RWF 548.7 (Rwandan francs). By the end of June 2007, the average rate amounted to USD 1=RWF 546, indicating an appreciation of 0.6 per cent.

For most of 2007, the BNR continued its flexible exchange rate policy, intervening mainly to smooth short-term fluctuations.

The BNR has started preparations for a transition from an auction system to an inter-bank based market to enhance exchange rate flexibility and dynamism in the foreign exchange market, and enable both the BNR and commercial banks to develop innovative financial instruments. Accordingly, the BNR issued instructions in June 2007 that will improve the auction procedures, and also abolished Article 10, which allowed the BNR to check whether the foreign exchange purchased at the auction was used in accordance with regulations. In addition BNR has also issued amendments to the foreign exchange regulations that address further regulatory constraints and reduce reporting requirements.

External Position

Coffee remains the most important export product and is also expected to drive future export growth. However, traditional exports, such as coffee and tea, underperformed in 2007 compared with 2006, while minerals benefited from rising international demand and higher prices.

Exports from the mining industry are predicted to rise, benefiting from near term high prices and demand which are then projected to stabilise over the medium term. Exports of hides and skins are also projected to increase. The price per kilogramme will rise as raw exports decline and processed exports increase. Horticulture is a key area of export diversification; the export of flowers is estimated to rise 26 per cent per annum on average over the next two years.

The tourism sector has grown steadily to become the second source of export earnings (behind coffee but ahead of tea and mining).

Exports as a percentage of GDP declined slightly from the 5.7 per cent recorded in 2006 to 5.3 per cent

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

	1998	2003	2004	2005	2006(e)	2007(p)	2008(p)
Trade balance	-9.8	-9.7	-11.6	-11.9	-12.5	-13.5	-13.2
Exports of goods (f.o.b.)	3.2	5.3	5.8	5.7	5.3	5.4	5.4
Imports of goods (f.o.b.)	13.1	15.0	17.4	17.6	17.8	18.8	18.5
Services	-7.5	-8.5	-8.8	-8.0	-8.0	-7.9	-7.4
Factor Income	-0.6	-1.9	-1.2	-0.8	-0.4	-0.4	-0.4
Current transfers	11.4	17.1	18.4	12.9	15.5	14.9	14.5
Current account balance	**-6.5**	**-3.0**	**-3.1**	**-7.7**	**-5.3**	**-6.8**	**-6.4**

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

StatLink http://dx.doi.org/10.1787/323308230361

in 2007. The trade deficit, therefore, continued to widen as imports as a percentage of GDP were reported to have grown to 17.8 per cent over the same period. Major contributors to the increase in imports were capital and intermediate goods for development purposes.

However, the current account deficit is estimated to have fallen from 7.7 per cent of GDP in 2006 to 5.3 per cent of GDP in 2007 because of a large increase in official transfers. The deficit is expected to average about 6.6 per cent of GDP in 2008 and 2009.

Rwanda attained the completion point of the HIPC initiative in April 2005, thereafter becoming eligible for the implementation of the Multilateral Debt Relief Initiative (MDRI) regarding multilateral debt cancellation. As a result of this, the debt stock of Rwanda which stood at USD 1.5 billion at the end of

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2005 declined to USD 362.8 million at the end of 2006, representing 14.6 per cent of GDP. This is, however, estimated to increase slightly to USD 416.4 million (14.7 per cent of GDP) in 2007. As of April 2007, total debt relief obtained under the MDRI assistance package was SDR 52.74 million (Special Drawing Rights) of which MDRI accounted for SDR 20.19 and HIPC for SDR 32.55. Similarly, as at April 2007, there were 12 ongoing International Development Agency (IDA) programme operations with a commitment value of about USD 347 million, and an undisbursed balance of about USD 162 million.

Government policy is to engage only in prudent borrowing so as to maintain debt sustainability. This excludes borrowing to finance public deficits on recurrent expenditures and revenues. A limit has been set on project loans at an average of about USD 38 million per year. A large part of the annual amount represents draw-down of existing commitments. Based on these assumptions, external debt payments have been projected at annual rates of RWF 5.2 billion and RWF 2.2 billion for principal and interest respectively during the medium term, representing on average about 1.5 per cent of exports of goods and services.

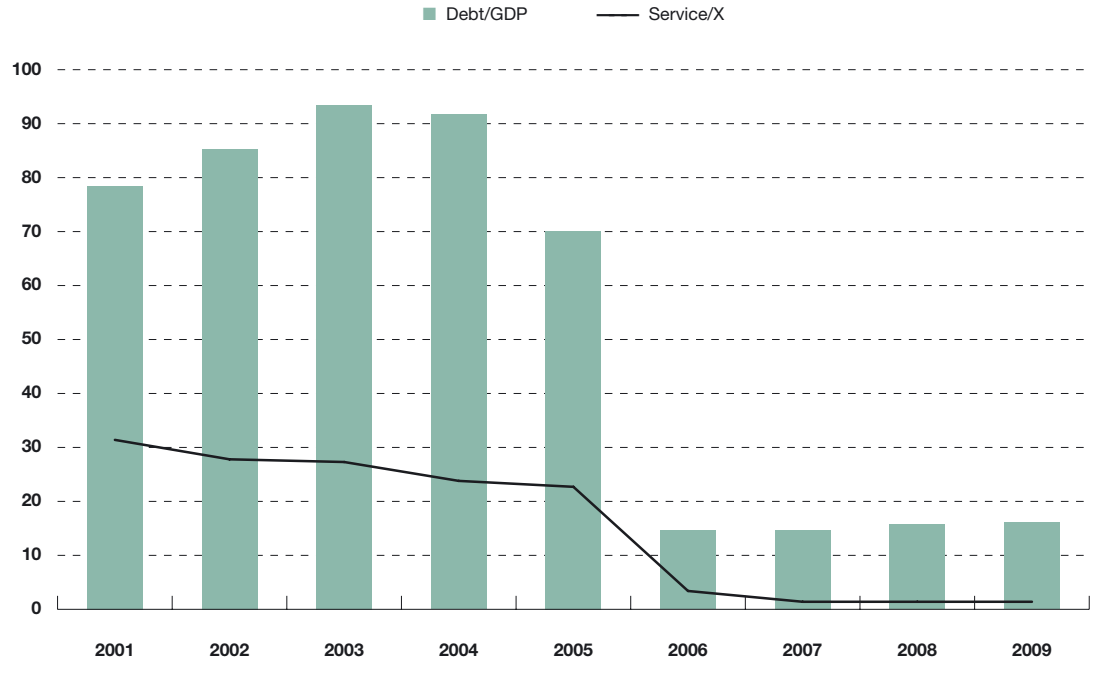
Rwanda is currently exploring the possibility of joining the East African Community (EAC) Customs Union Protocol by June 2009. Initial efforts are being focused on trade policy harmonisation with a particular emphasis on developing a list of sensitive products (including those where higher tariffs could adversely affect the poor). This implies that the interim Eastern African Economic Partnership Arrangement (EPA) with the European Union and any successor agreement would also apply to Rwanda.

Structural Issues

Recent Developments

Rwanda is engaged in an ambitious implementation of its privatisation and trade policy. During the 10 years

Figure 3 - **Stock of Total External Debt** (percentage of GDP) **and Debt Service** (percentage of exports of goods and services)



Source: IMF.

StatLink http://dx.doi.org/10.1787/320211748144

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to the end of December 2006, 70 of a total of 104 public enterprises had been privatised, four had been removed from the list and 14 remained to be privatised. In addition, the management of two other companies had been contracted out. Several enterprises have also been liquidated. Most of the privatised enterprises were small, with only a few exceeding USD 1 million in sale price. The privatisation of the telecommunication company Rwandatel was the largest to take place. Rwandatel was bought by Terracom Sarl, a US company, for USD 20 million. The enterprises which were at an advanced stage of privatisation in 2006 included three rice factories (Rwamagana, Gikonko and Bugarama), which were sold to three co-operatives. The buyers have entered into a joint venture with an Australian economic operator who will invest USD 1.5 million to rehabilitate and modernise the Rwamagana and Gikonko rice factories. In addition, the two tea plantations and factories of Rubaya and Nyabihu, in the West Province, and the Hotel Regina of Gisenyi as well as the Guest House Urumuli Lodge of Byumba in the hotel and tourism sector have been sold. Other sales were of the cement factory of Rwanda (CIMERWA), the Gatumba mine concession, some small and medium-sized enterprises (SMEs), two banks, the state-owned mining company REDEMI, and the state's 30 per cent stake in Bralirwa, a brewery which is one of the largest businesses in the country.

Furthermore, the Rwanda Private Sector Federation (RPSF) is playing an important role in nurturing the private sector, mainly through the Centre for the Support of Small and Medium-sized Enterprises (CAPMER) which provides business development services. In addition, a large number of new micro-finance institutions (MFI) were licensed to serve the poor who hitherto have had no access to the services of the normal banks.

According to the World Bank's *Doing Business* index for Africa, Rwanda has a relatively good business climate in comparison with its East African neighbours and is in first place in the index for business creation. Business procedures in Rwanda are quick and efficient, although the cost is significantly higher than elsewhere. Registering property in Rwanda is also easy. The small number of procedures required allows for faster processing at relatively modest cost. But Rwanda is ranked as less business-friendly in terms of employment practices, coming second to Tanzania for employment rigidity and for redundancy costs. The enforcement of contracts in Rwanda is still difficult. A three-year project started in May 2007 in partnership with the private sector and with funding from the Investment Climate Facility for Africa (ICF) to address some of the legal and regulatory constraints facing businesses, in particular commercial dispute resolution, and business and land registration reform.

In December 2005, a Multi-Sector Capacity Building Programme (MSCBP) established a framework to guide all capacity building initiatives in the country, one of the most important of which is the Public Sector Capacity Building Project (PSCBP). The overall co-ordination of the PSCBP is the responsibility of the national Human Resources and Institutional Capacity Development Agency (HIDA) which became operational in April 2005. A major reform of public sector management is also under way, entailing an extensive decentralisation of responsibilities. It has now become mandatory to produce complete progress reports as part of financial reporting by budgetary agencies (line ministries, provinces and autonomous agencies). In this regard, the agencies are required to produce the following monthly: *i)* bank reconciliation statements; *ii)* budget execution reports; and *iii)* statements of revenue and expenditure. But disbursements from the Common Fund, one of the main sources of financing to the districts, still remain below expectations, something that continues to hamper efficient administration in rural districts.

In the financial sector there have been several developments in supervision and regulation since 2005 aimed at improving efficiency. Following agreement on the Financial Sector Assessment Programme (FSAP) with the World Bank and the International Monetary Fund (IMF), the central bank is taking steps to strengthen banking supervision. Amendments to the banking law were submitted to parliament in September 2006 with the objective of bringing the legal framework for banking supervision into line with international best practices.

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Transformation of the *Union des Banques Populaires du Rwanda* (UBPR) – a large microfinance network – into a commercial bank is under way. By being able to offer bill payment services the new bank is expected substantially to increase access to banking services in rural areas. Similarly, to facilitate the development of a capital market and provide adequate regulation for market participants, the National Bank of Rwanda is planning, among other things, to: *i)* reissue a portion of existing treasury bills as bonds and securitise part of the long term debt owed by the government to the Social Security Fund of Rwanda (CSR), the "*Caisse Sociale du Rwanda*" to create a yield curve and avenues for longer-term investments for institutional investors such as the pension funds; *ii)* develop legal regulatory and operational guidelines; *iii)* establish a Capital Markets Advisory Council to oversee the debt and equity markets; and *iv)* prepare a consolidated regulatory and supervisory framework for non-bank financial institutions (NBFIs).

For purposes of national resource management, the land law entitled "*Organic Law No. 08/2005 of 14/07/2005*" was approved in 2005. Among other things, the law exempts agricultural land from taxation in order to leave more resources in the hands of farmers for investment. Progress has also been made in land planning and management through better mapping and the creation of a land use database. This measure has reduced the time required to register changes in land titles. In the area of the environment, the environment organic law ("*loi organique sur la protection et la gestion de l'environnement")* has been adopted by parliament and the law establishing the Rwandan Environment Management Authority (#16/2006 of 03/04/06) has been in force since April 2006.

The problem of intermittent interruptions in the supply of electricity has been temporarily stabilised by providing rental generators. As at the end of 2007, a heavy fuel oil generator is expected to replace some of these expensive rental power generators. Electrogaz's management is being strengthened and its financial situation is expected to improve in the medium term. A structured tariff has been introduced, and further adjustments will be made when cheaper power sources become available. The Lake Kivu methane gas pilot project is expected to become operational in the course of 2008, although the expansion of the project may be delayed by a legal dispute with other shareholders. Feasibility studies and discussions on financing options for various hydro dams continue, including on a regional basis. More than 30 micro-dam projects are under way, and the government is also designing the long distance transmission and local distribution networks to increase access.

Technical and Vocational Skills Development

Technical and vocational education and training (TVET) in Rwanda have been delivered by different providers at various qualification levels. Technical education is offered at upper secondary school level, both by public schools under the ministry in charge of education and by private schools and those belonging to faith-based organisations. In 2006, junior secondary schools with technical courses accommodated only 37 388 students compared with 83 330 students at the upper secondary level. In addition, vocational training schools (VTS) had the capacity to accommodate only 7 366 trainees.

In 2006, the 31 combined public and private technical schools had an enrolment of 7 786 students of which girls accounted for 17 per cent in 12 disciplines. Professional education with an enrolment of 22 708 students was offered in 79 schools providing accountancy and 26 schools for office management. There were 4 324 students enrolled in 19 agricultural schools. In nursing schools 2 570 students were enrolled. In total 37 388 students were enrolled in these courses, which represents 45 per cent of all upper secondary school students. Of these students 51 per cent were female. The total TVET enrolment is skewed by large numbers in the fields of accountancy and secretarial/administration, which represent 54 per cent of the whole TVET enrolment and as many as 68 per cent of all female students are enrolled in these two business options.

Initial vocational training is offered to primary school leavers. In 2006, there were 54 initial vocational

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training schools (VTS), 32 of which were private. Enrolment in all 20 optional/trades in VTS is around 7 366 of which 45 per cent are women.

It is not known how many Rwandans actually have access to relevant initial and continuing TVET including formal, non-formal and informal TVET. It is certain that demand exceeds by far the current supply and that the majority of the young population is not reached by TVET. According to the July 2006 final report on self-evaluation for the Poverty Reduction Strategy Paper (PRSP) I, about 170 000 young people start working life each year without sufficient qualifications.

About 58 per cent of teachers in the existing 31 technical schools have A1 and above and are formally qualified for their tasks to train the middle-level workforce. However their performance is often inadequate because their practical technical competencies, pedagogical preparation and motivation are underdeveloped. In initial vocational training, the shortage of qualified teachers and instructors also represents a severe constraint to the quality improvement. All staff have relatively low formal qualifications (A3, A2) without any special preparation for their teaching function.

The low reputation of TVET teachers is aggravated by low salaries. Similarly qualified employees in enterprises receive salaries three to four times higher. Under-funding is a structural problem in the TVET sector. Before 2006 there were very few resources allocated to TVET and there was no specific budget classification for it. Even now the budget allocation is still very low. Even when augmented by fees ranging from RWF 25 000 to 80 000 per quarter and occasional income generated by commercial activities within schools, resources are not adequate to ensure high quality TVET. Deficiencies in equipment and teaching materials are common. Most of the private technical secondary schools tend to offer business and commercial courses, because computers are the only equipment needed. But focusing primarily on these programmes does not match the needs of the labour market. Most programmes of the Youth Training Centres (YTC) also suffer from poor facilities and shortage of training materials. Training fees ranging between RWF 7 000 and 15 000 per quarter hardly alleviate the problem.

Results from two studies conducted in 2006 show that only 52 per cent of 25 interviewed enterprises were satisfied by the graduates' performance. All entrepreneurs emphasised the need for graduates to have more practical skills. Of the employers 54 per cent expressed a preference for on-the-job training for their workers. Enterprises also expressed a wish to be involved in curriculum developments.

In response to the evaluation of PRSP 1 in 2007 the government decided to initiate a major reform of TVET. It decided to establish the Rwanda Workforce Development Authority (RWoDA), which will provide a strategic response to the skills development challenges facing the country across all sectors of the economy. The national task force charged with the mandate to set up RWoDA was appointed by the cabinet in May 2007. The activities carried out and services rendered by RWoDA are to be decentralised to the provincial level. In this respect, five regional Work Force Development Centres are to be established.

The Rwanda TVET Policy was finalised in November 2007; with the following having being identified as major expected outcomes: *i)* a change in the poor image of TVET as a second class option; *ii)* the making of initial and continuing TVET more profitable by adding courses to promote the priority sectors and meet demand, creating production units and new forms of consultation and developing partnership between TVET institutions and enterprises; *iii)* an increase in the quality and capacity of TVET institutions by strengthening the existing institutions to meet minimum quality standards and creating new institutions and courses which meet demand; and *iv)* a contribution to economic and social development, thus improving the lives of Rwandans.

To contribute to the national science, technology and innovation policy and to better respond to the needs of the labour market, a key TVET policy objective is to have around 100 training schools well distributed in all districts by 2010, and to have 12 technical schools.

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A very important mechanism for raising quality standards will be the introduction of national occupational standards as well as an appropriate examination and certification system, when RWoDA eventually becomes operational in 2008.

Continuing vocational training as designed in the new TVET policy will be organised in such a way that every person in the formal and informal labour market can enter specific training modules tailored to their needs. The existing resource constraints will be addressed through a combination of cost savings, by increasing efficiency in TVET, such as co-operative schemes, stimulating private investment in TVET and raising other financial resources through income-generating activities.

Private TVET institutions contribute considerably to skills development through in-company training, apprenticeships and forms of co-operative programmes and vocational training delivered by NGOs, faith-based organisations and private commercial training institutions. They will be strengthened through: implementing accreditation in an appropriate manner; facilitating access to land and buildings; harmonising the planning of public TVET with the non-public activities; maintaining continuing consultation processes with representatives from the non-public TVET providers in order to formulate sector and district specific development schemes for TVET; making labour market information, occupational standards and other relevant information available to the private sector; and ensuring that private providers of TVET have access to curriculum guides and teaching materials.

The major interest of parents and learners is the guarantee of finding a job or acquiring the capacity to create self-employment upon completion of training. Enterprises are interested in having access to manpower that meets their needs. It is also in the government's interest to amortise its investment in human resources under the form of taxes paid by enterprise and employees. For this reason, in addition to their financial contribution parents will be expected to be involved in the implementation of training programmes and play an active role in the TVET school management boards that are to be established as provided for in the new design of TVET planning and programming under the TVET policy of 2007. An inter-ministerial committee, the Workforce Development Council, will determine the appropriate structure for these management boards, and the Workforce Development Authority will oversee their functioning in order to reach a new level of TVET responsiveness and quality. Responsibilities for various aspects of TVET in the relevant ministries have been clarified and streamlined.

While the Rwanda Workforce Authority (RWoDA) is being established, the department of technical education and training in the Ministry of Education is to be strengthened to address urgent issues in technical education. In the long term, the government will also establish the Technical Education and Training Authority in Rwanda (TETAR) for technical education and training (all fields of industrial training, agro-veterinary, business studies, etc).The two TVET authorities, when operational, will have shared responsibilities. Among their more important tasks will be to establish three instruments critical for future TVET development: *i)* a national TVET qualifications framework (NTQF) that will ensure mobility and skills development at all levels and include classifications for all economic sectors; *ii)* national occupational standards that will describe the competence a person has to reach in order to be considered as "qualified" at a given level in a given field; and *iii)* a national examination and certification framework.

The private sector, as the main beneficiary of TVET and recognising its own responsibility for delivering a qualified workforce, is to participate individually and/or through its representatives (Private Sector Federation, chambers, professional associations) in the programming, planning, executing, evaluating and financing of TVET. Changing recruitment policies in favour of qualified graduates is a challenge to be faced in order to improve productivity and competitiveness. The private sector will play an active role in the development of TVET and will not only be associated with it, as was the case previously.

At the local level, the district is responsible for co-ordinating the implementation of the vocational training

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policy. The district is to decide on the establishment and location of vocational training schools; supervise recruitment of staff; co-ordinate partnership activities; promote access of people with disadvantaged backgrounds to continuing training combined with employment promotion programmes; and ensure the link between vocational training and the district development plan. If vocational training is in line with the district and sector development, this enhances employment possibilities for graduates and will ensure that vocational training impacts on economic productivity and competitiveness.

Political Context

One of the major indications of Rwanda's determination to pursue good governance has been its commitment to the African Peer Review Mechanism (APRM). Rwanda completed the peer review process at the Fifth Summit of the APR Forum in Banjul, the Gambia, in June 2006.

In order to bring service delivery and democratic processes closer to the grass roots, the government introduced and implemented a new territorial and administrative policy in 2005. Under the policy, the number of provinces was reduced from 11 to five, the number of districts from 106 to 30, and the number of service sectors from 1545 to 450. Coupled with progress on governance and decentralisation, these changes facilitated the successful conduct of local and municipal elections in February 2006.

To advance the process of healing and reconciliation, the government supported a move in parliament to abolish the death penalty. A bill to that effect which was passed in January 2007 is expected to save the lives of more than 600 people convicted for genocide. At the regional level, the efforts by the government of the Democratic Republic of Congo against the anti-Rwandan government militia based there have somewhat reduced the tension between the two countries. Diplomatic and economic relations with Uganda are also now being strengthened and relations with Burundi have been improving.

Other achievements include: a national summit organised by the National Unity and Reconciliation Commission (NURC) in May 2004, to bring 1 000 Rwandans together to review progress in reconciliation and debate the way forward; elaboration by the NURC of a new action plan in July 2004; the training of more than 720 community volunteers around the country to help NURC promote reconciliation at local level; and, in June 2006, the release for country-wide consultations of a draft National Policy on Unity and Reconciliation.

In spite of its record on governance, the Rwandan government's international standing and its support from Western countries have waned because of concerns about political liberty at home and the government's controversial involvement in the east of the DRC. These concerns were also echoed in the 2005 report of the African Peer Review Panel of Eminent Persons (APR Panel) on Rwanda, which was gentler on the government than previous documents have been. However, the APRM still called for the political scene to be more open to competing ideas.

Social Context and Human Resources Development

Rwanda continued to make progress on poverty reduction and on gender equality. The current EDPRS has gone a long way in mainstreaming gender issues into the growth and development processes in Rwanda by including gender issues in all sectors of the strategy.

In December 2006 the National Institute of Statistics (NIS), with the support of the DFID-funded project, published a Preliminary Poverty Update Report giving the main results of the second household survey, the *Enquête intégrale sur les conditions de vie des ménages de Rwanda* (EICV: Integral survey of households' living conditions in Rwanda) of 2005/07 and comparing the findings with the results of the earlier survey conducted in 2000/01. The December 2006 report revealed that, over the period between the surveys, household consumption grew at 3 per cent per annum per adult, while poverty fell from 60.4 per cent in 2000/01 to

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56.9 per cent in 2005/06, a reduction of 3.5 percentage points. There were important regional dimensions to this: the poverty headcount fell substantially in Eastern Province, fell by smaller amounts in Northern Province and the City of Kigali, and actually rose slightly in Southern Province. Calculations show that 68 per cent of the total reduction in poverty was accounted for by the poverty reduction in Eastern Province. An important part of the story was an increase in inequality as measured by the Gini coefficient. The level of inequality was already high in 2000/01, with a Gini coefficient of 0.47, and rose to 0.51 in 2005/06. The high initial level of inequality, and the fact that inequality worsened over this period, were important factors making the consumption growth less effective in terms of poverty reduction – in more technical terms, lowering the growth elasticity of poverty reduction. Inequalities rose in Southern and Western provinces in particular. Even though the consumption growth rate was positive in Southern Province, poverty also rose. With sustained efforts by the government, latest reports from the UN on the Millennium Indicators show that Rwanda is on course towards achieving the Millennium Development Goals targets on universal primary education, gender parity, reduction in child mortality and environmental sustainability.

Notable improvements have also been made in health, education and housing. In the health sector, the frequency of medical consultations has increased, since almost half the population is now covered by health insurance, the vast majority by mutual insurance arrangements. The health insurance scheme mitigated the occurrence and adverse effect of catastrophic health expenditure that is now associated with health sector reforms in most developing countries. Similarly, the use of pre-natal services has increased significantly and differences in utilisation between poorer and less poor households have narrowed. But the 2005/06 integral survey on households' living conditions (EICV2) revealed that only two-thirds of households have access to safe drinking water.

Significant progress has been made in education. According to national sources, enrolment in primary schools has increased substantially, from 74 to 86 per cent over the period 2000/01 to 2006/07. Both the urban and rural populations have witnessed an increase in enrolment rates. However, many children in primary schools are above the official primary school age range, because of late entry and delays in their schooling. A small fraction of children completes primary education and goes on to secondary education. The secondary school net enrolment rate has shown only a small increase over the period, from 7 per cent to 10 per cent. In the rural areas, only 8 per cent of children aged 13 to 18 years are in secondary education. Household expenditure on primary school students has remained roughly constant after adjustment for inflation at an average RWF 1 845 per student per year. Uniforms are the largest single element of educational expenditure. The cost of secondary schooling is much higher, with households spending an average of around RWF 68 000 each year on secondary school students. Wealthier households spend much more than poorer households on secondary schooling. According to the Fast Track Initiative Assessment of September 2006, unemployment among Rwandans with only some primary education is as high as 61 per cent compared to the sub-Saharan average of 29 per cent.

In housing, the survey revealed that the number of dwellings increased by 280 000 during the period 2000/01-2005/06. The increase has been roughly proportionate between the different zones, comprising the City of Kigali and other urban and rural areas. However, the number of dwellings in other urban areas has increased at a slightly faster rate.

The prevalence rate of HIV-positive people among adults aged 15 to 49 in Rwanda is now 3.1 per cent. The prevalence rate is higher among women (3.6 per cent) than men (2.3 per cent). The prevalence is considerably higher in urban areas (7.3 per cent) than in rural areas (2.2 per cent).

About 200 000 HIV-positive Rwandans needed antiretroviral (ARV) drugs last year, according to the Treatment and Research Aids Centre (TRAC). Of these, around 50 000 HIV-positive patients needed urgent treatment, although only 3 200 or 1.6 per cent

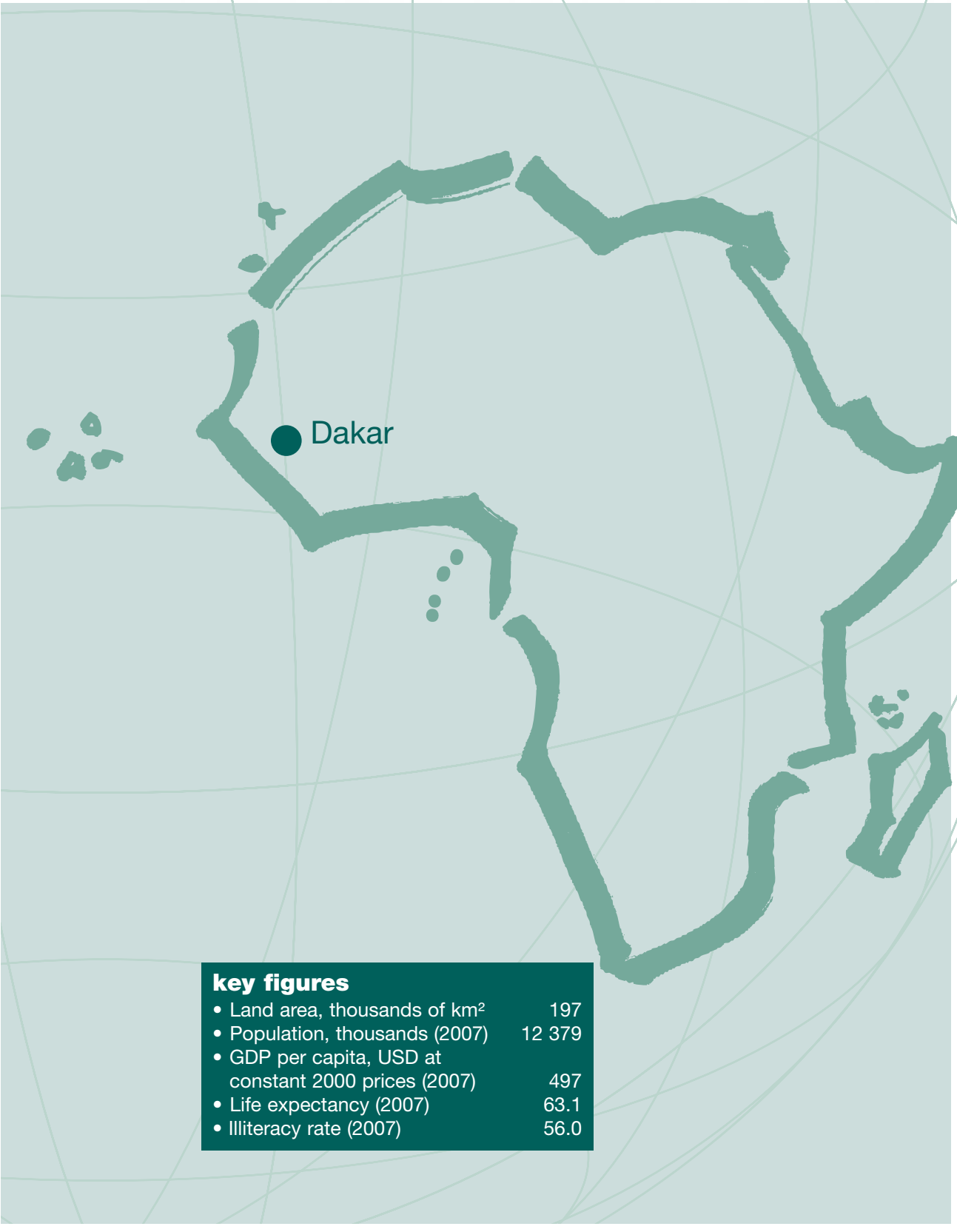
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of those in need were able to get access to ARV drugs. The government is urging Rwandans to undergo voluntary HIV testing since it has plentiful supplies of ARV drugs. Health centres are used by TRAC to detect HIV early within the population. The population can communicate with TRAC through hotlines. The centre is concerned, however, that many parents do not take their children for HIV testing. It runs 256 health centres nationwide which provide ARVs and 234 other health centres involved in the prevention of mother-to-child HIV transmission. TRAC is faced with a shortage of personnel to administer HIV medication in various health centres. It also has a problem ensuring that vulnerable HIV-positive people get adequate food.

Labour-market reform is also high on the government's agenda. It has been engaged in labour market reforms since 2003 in an attempt to achieve two main objectives. One is to tackle the inherent skills deficiency in the labour force and the other is to ensure Rwanda's integration into the East African Community (EAC) by bringing its skills level up to that of other community members. As a first step in the reform process, the government has drawn up an employment policy. This has been accompanied by the establishment of a national labour council, comprising stakeholders from the ministries, women's organisations, trade associations, NGOs and others, who meet regularly to discuss and make recommendations on issues relating to trade unions and the labour market in general. In addition to the policy, the government is revising the existing labour code to provide a conducive legal and regulatory environment for private investors. It is giving priority to labour and employment policy, strategic planning and an accompanying action plan, women's employment, the labour code, skills auditing, and vocational training centres. Some of the reforms in these areas have been completed but others are still in progress.

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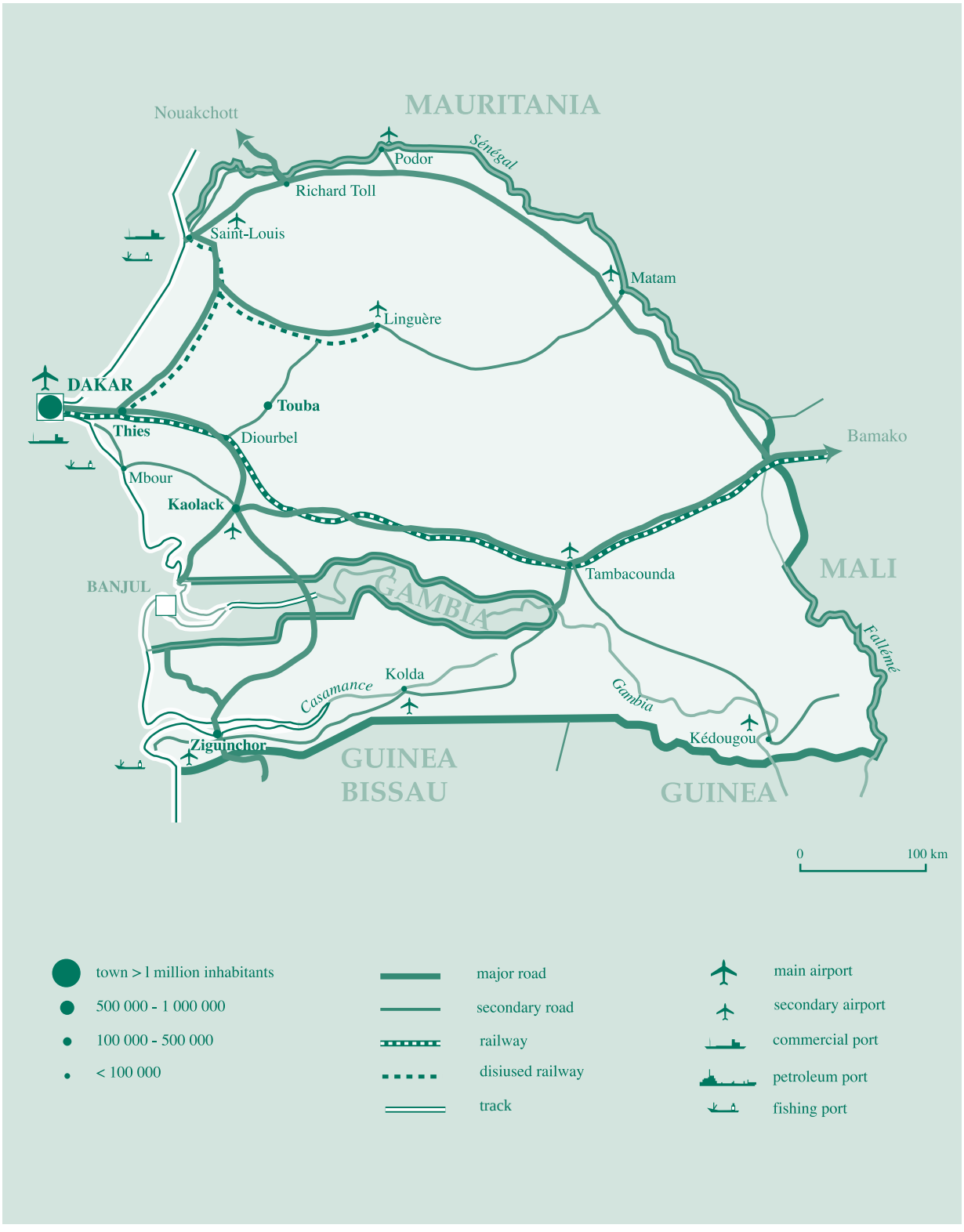
Senegal



key figures

• Land area, thousands of km²	197
• Population, thousands (2007)	12 379
• GDP per capita, USD at constant 2000 prices (2007)	497
• Life expectancy (2007)	63.1
• Illiteracy rate (2007)	56.0

Senegal


MAURITANIA
Nouakchott
Sénégal
Podor
Richard Toll
Saint-Louis
Matam
Linguère
DAKAR
Touba
Thies
Diourbel
Bamako
Mbour
Kaolack
Tambacounda
MALI
BANJUL
GAMBIA
Falémé
Casamance
Kolda
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Kédougou
Ziguinchor
GUINEA BISSAU
GUINEA
0
100 km
town > 1 million inhabitants
500 000 - 1 000 000
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major road
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commercial port
petroleum port
fishing port

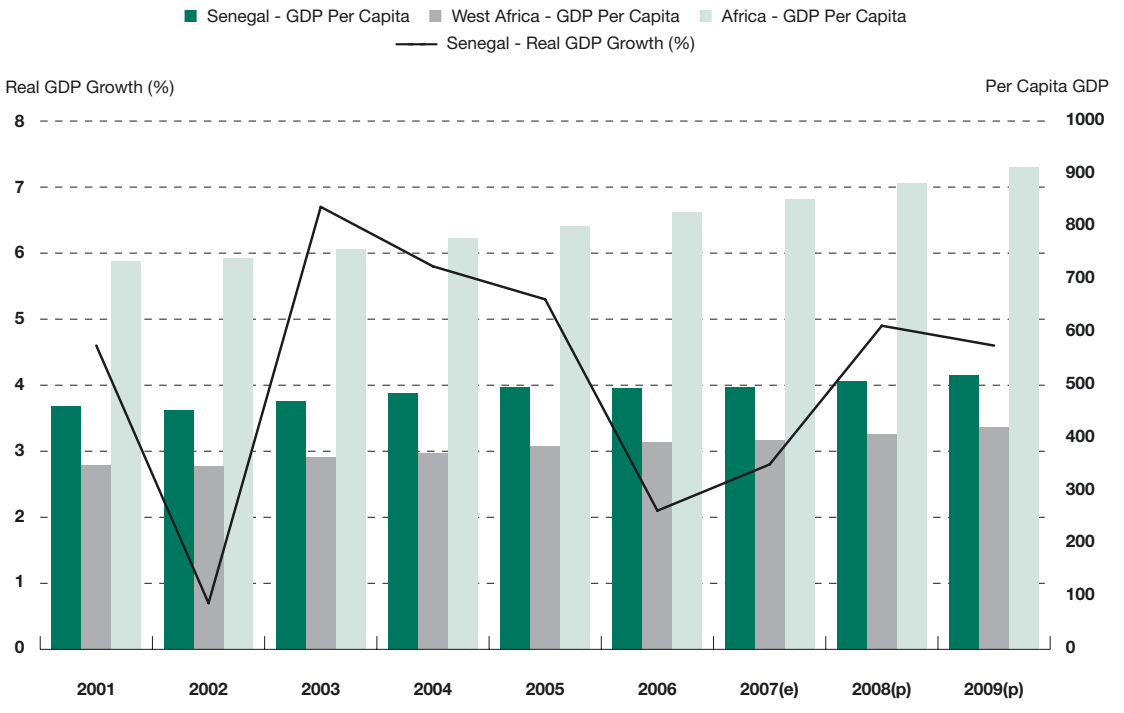
Senegal

SENEGAL'S GDP GREW AT A RATE of 2.1 per cent in 2006 and 2.8 per cent in 2007, well below previous forecasts. This was due to a number of factors. First, the crisis experienced by Industries chimiques du Sénégal (ICS), the country's largest phosphates producer, was still unresolved. Second, higher levels of prices for oil products have continued or even worsened, affecting state subsidies, price levels and the budget deficit. In addition there was poor rainfall and a weak system for marketing groundnuts. As a result of the combination of these factors, most of the country's traditional export sectors (fish products, phosphates, groundnuts) experienced stagnation or are in serious economic difficulties, with Senegal losing substantial market share compared with all its competitors.

The government must reconcile popular demands with reining in the fiscal deficit.

The main challenges facing the nation in the coming years are thus to revive growth and improve the business climate in spite of deteriorating social stability internally and an unfavourable international situation.

Figure 1 - **Real GDP Growth and Per Capita GDP**
(USD at constant 2000 prices)



Source: Data from the Department of Economic Studies and Forecasts (DPEE); authors' calculations for the estimates (e) and projections (p).

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Recent economic developments

The growth rate for GDP fell to 2.1 per cent in 2006 and to 2.8 per cent in 2007, as against 5.3 per cent in 2005 and an average of 4.4 per cent over the 1996-2006 period.

The primary sector experienced significant falls in growth, with a rate of -2.9 per cent in 2006 and 0.3 per cent in 2007, compared with 11.1 per cent in 2005. These trends reflect a slowdown in farming and fishing in 2006 and 2007.

Agriculture is dominated by food crops (cereals) and industrial crops (groundnuts and cotton). It was hit hard by the consequences of poor rainfall in 2006, which were aggravated by the difficulties caused by the structural problems facing the sector: a lack of fertile soil, low levels of fertiliser and an inadequate network for marketing the crops, particularly groundnuts. Millet and sorghum remain the chief types of cereal produced (an average of 60 per cent of output in recent years), despite growth in the production and consumption of rice and maize.

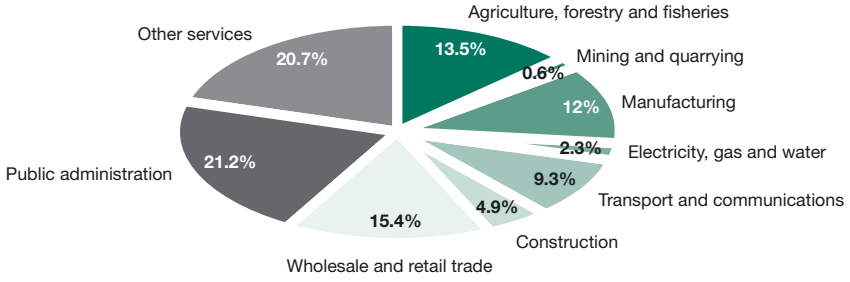
Groundnuts have been the main cash crop since independence. They are intended to generate income for the small farmers and foreign exchange for the government. Nevertheless, in spite of all the efforts undertaken to develop this sector, production is still low and has fallen continuously since the 1980s. Production and yields fell dramatically in 2005, but recovered to a certain extent in 2006. Given the expectation of poor harvests and the threat from the black market, the marketing campaign started much earlier in 2007 than in previous years.

The secondary sector saw production increase by 6.3 per cent in 2007, up from a fall of 1.7 per cent in 2006 and a slight rise (0.3 per cent) in 2005. The impact of the energy crisis and the difficulties facing ICS continued to hold back the sector's performance. The construction industry has been booming, with 10.8 per cent growth in 2005, 15 per cent in 2006 and 10.7 per cent in 2007. Two factors are behind this: a dynamic real-estate sector, which has become a structural feature in Senegal, and the construction of numerous bridges, roads and highways, in particular in Dakar. The edible fats sub-sector of the secondary sector also done well.

The situation of ICS deserves special attention. In 2005, this company accounted for 3 per cent of GDP, 10 per cent of exports and 7 per cent of total bank credits. The company had to cease operations temporarily in 2006, and is currently operating at only a third of its 2005 capacity. There are a variety of reasons for this disappointing performance: higher costs, management problems, disputes with customers, and the rise in the exchange rate in 2004/05. The state, together with its partners, developed a recapitalisation plan, but it has yet to be finalised.

Growth in GDP has been driven by the tertiary sector, which is largely dominated by informal and government activities, with growth of 3.5 per cent and

Figure 2 - **GDP by Sector in 2006** (percentage)



Source: Authors' estimates based on data from the Department of Economic Studies and Forecasts (DPEE).

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6.7 per cent respectively in 2006 and 6.5 per cent and 3.1 per cent in 2007. The substantial increase in the number of civil servants, which was the result of a deliberate hiring policy, and the increase in the salaries of state employees are the most likely explanations for the growth in the public administration sector.

Transport, post and telecommunications (about 9.1 per cent of GDP) play a major role in the services sector. This has been helped by the strong growth of the Société nationale des télécommunications (Sonatel), but even more so by the vitality of informal activities, which are predominant in transport, catering and other services.

The chief consequence of the lower growth rate seen in 2006 has been a fall in the domestic savings rate. Consumption progressed at a rate of 1.7 per cent in 2007 and should experience real growth of 4.9 per cent in 2008 and 3.7 per cent in 2009. The growth rate in public consumption was 3.2 per cent in 2007, and it is estimated at 3.5 per cent in both 2008 and 2009. The growth rate for private consumption was 1.4 per cent in 2007, with projections of 5.1 per cent in 2008 and 3.7 per cent in 2009. As for exports, their contribution stabilised at 2 per cent in 2007, which reflected the aforementioned difficulties in the sector.

There are possibilities for an economic recovery in 2008 and 2009, particularly given the construction of the Blaise-Diagne international airport, which should start during 2008. The project costs about $500 million and will be covered by loans taken out by the airport. An airport tax that has already been collected should suffice to pay the debt on the construction work. Another project that should see the light of day in 2008 is the creation of the Dakar special economic zone, which will be developed by an investor from Dubai. These two major investments should significantly increase the country's production capacity and revive growth.

Table 1 - **Demand Composition**

	Percentage of GDP (current prices)		Percentage changes, volume			Contribution to real GDP growth		
	1999	2006	2007(e)	2008(p)	2009(p)	2007(e)	2008(p)	2009(p)
Gross capital formation	**17.9**	**25.2**	**8.9**	**6.8**	**7.8**	**2.0**	**1.6**	**1.9**
Public	6.0	5.8	12.0	6.0	7.0	0.6	0.3	0.4
Private	11.9	19.3	8.0	7.0	8.0	1.4	1.3	1.5
Consumption	**89.1**	**92.4**	**1.7**	**4.9**	**3.7**	**1.5**	**4.3**	**3.2**
Public	13.3	15.1	3.2	3.5	3.5	0.4	0.4	0.4
Private	75.8	77.3	1.4	5.1	3.7	1.1	3.8	2.8
External sector	**-7.0**	**-17.6**				**-0.7**	**-1.0**	**-0.5**
Exports	28.1	24.0	2.0	2.7	3.0	0.5	0.6	0.7
Imports	-35.1	-41.5	3.4	4.7	3.5	-1.2	-1.7	-1.2
Real GDP growth rate						**2.8**	**4.9**	**4.6**

Source: Data from the Department of Economic Studies and Forecasts (DPEE), 2008.

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Macroeconomic Policy

Senegal is a founding member of the West African Economic and Monetary Union (WAEMU), which was created following the devaluation of the CFA franc in 1994. Its monetary policy is thus set at the union level and is one of the fields covered by the transfer of sovereignty, in particular to the Central Bank of the West African States (CBWAS) and the WAEMU Commission.

Fiscal policy

The state of public finances poses a paradox: actual budgetary realisations have exceeded projections, which contrasts with an overall deficit that has been growing

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

	1999	2004	2005	2006	2007(e)	2008(p)	2009(p)
Total revenues and grants[a]	**17.9**	**20.4**	**20.9**	**21.6**	**21.9**	**21.5**	**21.5**
Tax revenue	15.5	17.4	18.6	19.2	18.7	19.0	18.9
Grants	1.9	2.1	1.7	1.5	2.3	1.7	1.8
Total expenditure and net lending	**19.3**	**23.1**	**24.1**	**27.7**	**27.3**	**27.8**	**27.4**
Current expenditure	11.1	13.1	13.8	17.3	16.7	16.8	16.5
Excluding interest	*9.7*	*12.0*	*12.9*	*16.4*	*16.0*	*16.1*	*15.8*
Wages and salaries	5.3	5.1	5.6	6.0	5.7	5.7	5.6
Interest	1.3	1.1	0.9	0.9	0.7	0.7	0.6
Capital expenditure	7.7	9.7	10.0	9.9	10.5	10.8	11.0
Primary balance	**0.0**	**-1.5**	**-2.3**	**-5.3**	**-4.8**	**-5.6**	**-5.2**
Overall balance	-1.3	-2.6	-3.2	-6.1	-5.5	-6.3	-5.9

a. Only major items are reported.
Source: Data from the Central Bank of West African States (CBWAS) and the Poverty Reduction Strategy Paper (PRSP II, 2007); authors' calculations for the estimates (e) and projections (p).

StatLink http://dx.doi.org/10.1787/322178762525

continuously, as a result of extrabudgetary spending that has hit record levels in the last two years. For instance, in 2006 the difference between total primary expenditure and the primary expenditure initially forecast in the budget represented 6 per cent of primary expenditure (excluding external financing), compared with only 1.3 per cent in 2004. State fiscal policy is also characterised by a multiplicity of agencies, the numbers of which rose from 24 in 2006 to 33 in 2007. The operating and investment credits for these agencies, which are public subsidies from the central state budget, rose from XAF 82.9 billion (CFA francs) in 2006 to XAF 131.9 billion in 2007.

Tax revenue and grants rose by 8.4 per cent in 2006. This growth was due more to tax revenue than to grants, which in fact declined by 2.9 per cent between 2005 and 2006. Moreover, in 2006 they represented only 7.1 per cent of total state fiscal resources. The overall budget deficit, excluding grants, rose from 3.2 per cent of GDP in 2005 to 6.1 per cent in 2006 and to 5.5 per cent in 2007. The higher deficit is due principally to an increase in subsidies and transfers, in particular to the energy sector, for which subsidies reached a level of 2 per cent of GDP. In 2006, transfers and subsidies rose by 86.1 per cent, which came on the heels of a 19.9 per cent hike in 2005. This was on top of rises in expenditures on wages and salaries and on investment. The large-scale programme to renovate and extend Dakar's road network requires massive investment, which is being met both by the state's internal resources and international donors, particularly Arab funds.

With a deficit of 6.1 per cent of GDP in 2006 and 5.5 per cent in 2006, the key criterion of the basic fiscal balance set under the WAEMU convergence pact, that it must be positive, was not met. This was, together with the current trade deficit, the only criterion that was not met in 2006 out of those set as part of the convergence pact.

The WAEMU data do not mention the problem of the accumulation of payment arrears on expenditures. However, the IMF estimates these to be 5 per cent of the expenditures authorised for 2006. The precise amount of the arrears is, however, difficult to ascertain, given the lack of any normal budgetary procedures making it possible to obtain reliable, complete data. According to IMF estimates, total payment arrears were to have reached XAF 2.3 billion by the end of 2006. Furthermore, the size of the budgetary float reached 1.25 per cent of GDP, double the previous recorded high.

The revenue collected was greater than budget projections between 2004 and 2006, which lends the budget acertain credibility. Moreover, expenditures were made in accordance with the Poverty Reduction Strategy Paper (PRSP) guidelines and other public

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policies. Budget support has been provided by a limited number of donors, and the amounts involved represent only 15 per cent of donor commitments and 5 per cent of disbursements. Annual rolling budget projections are drawn up within the plans for mid-term expenditure, even if only seven ministries have produced a plan for sector expenditures over this time frame.

Monetary Policy

The euro continued its rise against the dollar in 2007. This increased the value of the CFA franc against the US currency and by comparable proportions against the currencies of competitors that are linked to the dollar. Nevertheless, due to a relatively favourable inflation differential, this currency appreciation did not really affect the effective exchange rate in recent years. This situation could change rapidly if prices continue to rise.

The inflation rate in 2006 as measured by the 2006 WAEMU harmonised index of prices was 1.9 per cent, and the estimates for 2007 put it at 5.9 per cent. It would then substantially exceed the WAEMU convergence criteria, which set an inflation rate ceiling of 3 per cent. It should be noted that the price of electricity rose by 6 per cent in 2007, and that the state plans to make significant reductions in the amount of its subsidies to certain oil products, which could tend to push up the general level of prices.

The country's foreign reserves stabilised in 2006 at 3.7 months of imports, compared with 3.9 months for the WAEMU countries and 5.9 months for sub-Saharan Africa. Non-performing credits reached a level of 16.8 per cent in 2006 and 16.7 per cent of credits in 2007, compared with 11.9 per cent in 2005. This situation is related to the difficulties facing the Société nationale d'électricité (Sénélec) and ICS, which are combined with the high concentration of bank credits. The state intends to ask the banks to increase their provisions in the event that the financial problems of ICS and Sénélec persist. The recent difficulties that the country has experienced with its large enterprises, in a context marked by high oil prices, do not seem to have had any particular impact on its foreign reserves. The net foreign assets of the central bank have been rising constantly, from about XAF 659.6 billion in 2005 to about XAF 779.5 billion in 2006.

External Position

The current account deficit came to 9.5 per cent of GDP in 2006, which was almost double the ceiling of 5 per cent of GDP that was adopted in the WAEMU convergence pact.

The current account deficit has been financed to a great extent by aid and debt cancellations. The country has effectively remained relatively dependent on official development assistance (ODA), with aid flows of about 10 per cent of GDP in 2006 (against 8.7 per cent in 2005). Aid remains highly concentrated, with 70 per cent coming from the five largest donors. In 2006, the largest donors, based on disbursements, were the World Bank, through its subsidiary the International Development Association (IDA); France; Germany; the European Union; the African Development Bank

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

	1999	2004	2005	2006	2007(e)	2008(p)	2009(p)
Trade Balance	-6.3	-12.3	-15.1	-17.6	-16.2	-17.8	-17.5
Exports of goods (f.o.b.)	20.4	18.8	18.2	17.0	16.5	16.0	15.5
Imports of goods (f.o.b.)	26.7	31.1	33.4	34.6	32.7	33.8	33.0
Services	-0.3	-0.3	-0.4	-0.4	-0.3	-0.2	0.0
Factor income	-2.3	-1.6	-1.0	-1.2	-1.5	-1.5	-1.5
Current transfers	3.1	7.9	8.7	9.7	9.7	9.1	8.9
Current account balance	**-5.8**	**-6.4**	**-7.8**	**-9.5**	**-8.3**	**-10.5**	**-10.1**

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

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group (AfDB); and the United States. The flow of aid from so-called emergent donors, in particular India, China and the Arab countries, remained well behind.

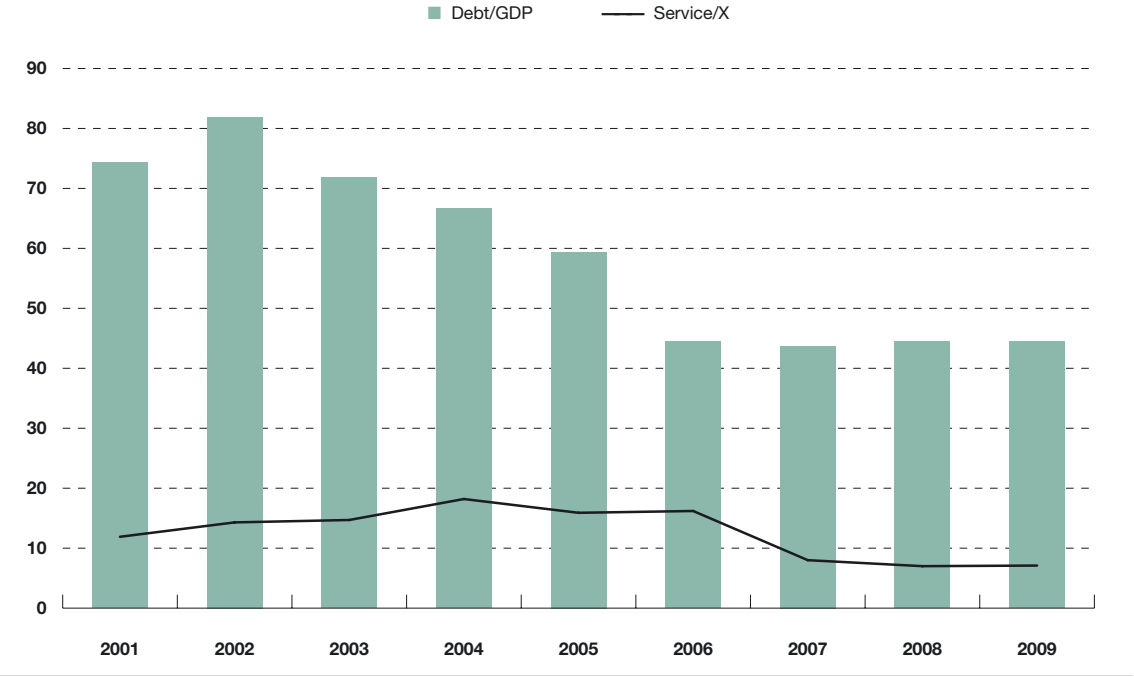
Senegal's debt was brought to a more sustainable level, thanks to the resources of the Heavily Indebted Poor Countries (HIPC) initiative. The country was eligible for the enhanced HIPC initiative, and reached completion point in 2004, with a reduction of its total multilateral debt of XAF 1 069.7 billion, of which XAF 841.1 billion was from the IDA and XAF 163.9 billion from the AfDB.

Judging by the size of aid flows that the country has received in recent years, Senegal has had stable relations with its development partners. The 2007 meeting of the Consultative Group for Senegal in Paris concluded with a commitment from the partners to provide the country with greater financial support than the government had hoped to obtain. Nevertheless, most of the commitments depend on greater prudence and transparency in the management of public finances.

Furthermore, the government has reached decisions on sensitive issues with its partners. It has, for instance, given preference to the project for a special economic zone in Dakar, for which a Dubai investor is the agency, over the Diamniadio platform project proposed under the Millennium Challenge Account, a US government fund. The Dubai project involves the development of infrastructure, to be paid mainly by foreign direct investment (FDI), on a site provided by the state, with the land to be leased to private companies. Work should begin in 2008 and last five years. Companies working in the zone will receive significant benefits relating to customs and tax: VAT and the tax on businesses. Instead they will pay a simple tax on turnover.

The competitive position of Senegal deteriorated seriously in 2006 because of the appreciation of the euro, higher oil prices, and turmoil in the hydrocarbons and electricity sector and in ICS, all of which are taking place in a business environment that has not seen much improvement. Total exports were down by 9.6 per cent.

Figure 3 - **Stock of Total External Debt** (percentage of GDP) **and Debt Service** (percentage of exports of goods and services)



Source: IMF.

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A certain number of steps have been taken recently to improve the business environment and attract FDI. For example, in 2007 the administrative time required to set up a business was cut from 51 days to 48 hours. In addition, the decision to reduce the rate of tax on businesses from 35 per cent to 25 per cent took effect in 2006. Nevertheless, these measures have had only a limited impact. Senegal received only 0.73 per cent of total FDI flows into West Africa in 2006 (against 0.11 per cent in 2005).

Structural Issues

Recent Developments

In 2006, the announced privatisations of the large enterprises in the parastatal sector, in particular of Sonacos (which became Suneor) took place, with the notable exception of Sénélec, which has remained under the state's tutelage.

The authorities declared that their aim was to improve Sénélec's financial situation in order to make it more attractive before again seeking to privatise it. This will not be very easy, given the high cost of oil and the ensuing energy crisis. Despite the boom in demand for electricity, production by Sénélec was down slightly in 2006. This decline further undermined its financial viability, which was already very precarious. Thedifficulties led to an unprecedented deterioration in service quality.

There were 7 959 power outages in 2006, against 2 540 in 2005. This resulted in major difficulties for businesses and households. Fuel oil supplies from Sénélec's traditional suppliers were seriously disrupted. The suppliers had demanded a drastic cut in payment times. There were also several commercial disputes between the national electricity company and GTI, the private US operator that supplies it with a large portion of its nominal power. Sénélec is in the process of diversifying its supply sources in order to reduce its dependence on oil. The combined impact of Sénélec's projects should lead to a 600 MW increase in its productive capacity by 2012.

The subsidies did not prevent a rise in electricity and butane gas prices, which in 2006 were up respectively by 15 per cent and 50 per cent. The government has had to allow an additional 6 per cent rise in electricity rates since November 2007. The other focal points of the reform mainly concern the restructuring and recapitalisation of the sector, the formulation of new, more appropriate rates, cost control and the greater involvement of the private sector.

The Société africaine de raffinage (SAR) also experienced numerous cash flow problems and even had to shut down its refining operations at one point.

The programme of road works is continuing in order to improve the circulation of traffic in Dakar. This should eventually make travel around the region much easier. At the same time, the state of certain roads in the interior, which are still crucial for the flow of people and goods, has deteriorated a great deal because of weaknesses in the maintenance system. This poses a critical problem for producers in the country's interior who need access to markets.

There was little improvement in the business climate in 2006 and 2007, as can be seen in international rankings. For instance, Senegal was ranked 100th out of 131 countries by the Global Economic Forum. A closer look gives an even bleaker picture, as the country's ranking is lower when other indicators are taken into account. It ranks 119th in terms of labour market efficiency, 111th in terms of the sophistication of the financial market, and 113th in terms of health and basic education. On the other hand, it ranks 58th with respect to macroeconomic stability. This solid score is a reflection of the stabilisation of the macroeconomic climate that is being achieved in the members of the WAEMU since this instrument of economic and monetary integration was established. In respect of the Doing Business ranking by the World Bank, Senegal came only 162nd out of 178 countries.

In 2007, the state adopted a law setting out a strategy for accelerated growth. The goal is to revive economic growth and competitiveness by removing any obstacles in the business environment and by

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emphasising five sets of measures intended to have a positive impact on growth. The state is also committed to set up a new labour code that should make it possible to renew fixed-term employment contracts indefinitely.. Finally, it will remove the protection accorded to Suneor by eliminating the 25 per cent surtax on imports of vegetable oil and the indicative value tax for the import price of palm oil.

The government requested and obtained from the IMF the creation of a three-year Policy Support Instrument (PSI). The PSI emphasises the restoration of prudence in budgetary management in order to ensure macroeconomic stability. Similarly, the authorities wish to improve fiscal governance and transparency so as to make the public sector more efficient, restore its credibility and ensure the continuation of foreign aid. They are also encouraging private-sector activities, based on a transformation in the business climate and the pursuit of the reforms covering the fragile enterprises in the public sector. Finally, they wish to increase the contribution of the financial sector to the economy and reduce the general vulnerability of all sectors.

Under the PSI, the state has also agreed not to provide any guarantee or financial aid to the company in charge of building the Blaise-Diagne international airport, with a few properly noted exceptions. It will publish the elements of the contract concerning the airport on the website of the ministry of finance and in the annex to the 2008 budget bill.

As for the agricultural sector, 2006 was marked by the stagnation of the maize promotion programme. It had been one of the pillars of the government farm programme in 2004, based on an increase in the annual production of maize to 1 million tonnes. A publicity campaign was carried out in the countryside in order to encourage farmers to expand the amount of land devoted to this crop. This was a success. The government also distributed seed on credit and subsidised the fertiliser used on maize. Nevertheless, the programme did not have a lasting impact. It had limitations that were closely linked to a lack of distribution of inputs, delays in the publicity campaign, and the low prices paid to growers, which were set by the state at XAF 100 per kilogramme.

As for groundnuts, the end of the programme to revive this sector and the first steps in the privatisation of Sonacos date from 2003. The groundnuts trade association, the Comité national interprofessionnel de l'arachide, is still responsible for determining the price paid to growers. It must take into account the tax imposed on vegetable oils since 2006, as well as the rise in local oil prices in 2007.

The price paid to groundnuts producers is still set at XAF 150 per kilogramme, including XAF 15 in state subsidy, as against XAF 40 in 2006. Nevertheless, higher rates are found on the black market, which means that there is no guarantee that Suneor will hit its collection targets in 2008. In addition to these difficulties linked to economic conditions, groundnut production is a very unstable activity. Since the disappearance of Sonagraines, there have been numerous problems with the collection of the harvest. A substantial volume of vouchers have been issued for harvests purchased from the farmers, but they have often remained unpaid. Furthermore, the state has repeatedly tried to break free of the single-crop system of groundnuts, especially by encouraging cultivation of maize and manioc, but without great success.

The financial system is continuing to suffer from the low level of investment credits, in particular for small and medium-sized enterprises (SMEs). Lack of access to bank loans is still a major constraint for financing SMEs. Bank credit remains concentrated in a limited number of large corporations, most of which are in trouble. The ratio of consolidated loans to capital for the five largest bank customers rose from 103.7 per cent in 2006 to 108.8 per cent in 2007. In 2005, this percentage was 179.9. This decline reflects the state's efforts to reimburse part of the Sénélec debt.

Development of Technical and Vocational Skills

With Senegal's annual demographic growth rate of 2.8 per cent, some 100 000 new job seekers arrive on the labour market every year, more than half of whom have never attended school. Only about 3 per cent have a diploma in technical education and

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vocational training (TVET). The unemployment rate among young people is about 38 per cent, with an average time required to find a job of four years. This situation is exerting considerable pressure on the labour market and constitutes a major risk to the country's social and political stability.

The national office for vocational training was set up in 1986 as a public establishment with an industrial and commercial orientation. It works with training centres to provide short-term training in various economic sectors, and is focussed in particular on craftsmen and associations and, to a lesser extent, individuals. Initial and continuing training are offered free of charge, with an annual operating budget of about XAF 500 million, which is financed in part (5 per cent) by the tax on vocational training. Between 1992 and 2005, more than 42 000 people (4 440 people every year) received skills training and/or refresher courses in the fishing, livestock and agriculture sectors or in fields often related to the informal sector such as family and social economics, crafts, literacy, the processing of local cereals or fruit and vegetables, etc.

The ministry of education is responsible for the technical and vocational training sector. This places it in an uncomfortable situation, in that the donors favour basic education and literacy programmes, which are more in accord with their strategies to fight poverty.

Nevertheless, raising the level of the population's qualifications is still a political and strategic issue. The first national gathering devoted to technical and vocational training took place from 31 March to 2 April 2001. It helped to establish an ongoing dialogue between all those involved in the sector and to seek the consensus needed to develop new approaches. In February 2002, the government adopted a policy document on the technical and vocational education sector that reflected a genuine break with the past. It emphasises the need to take account of economic competitiveness and growth and to reorient technical and vocational training towards the needs of the labour market. It also spoke of the need to reform apprenticeships, to integrate continuing education, and to assist trainees to find jobs, as well as the need for changes in training techniques and methods. The office of junior minister in charge of technical education and vocational training was created to oversee policy.

Plans call for the quadrupling of enrolment in vocational training by 2010, raising it from 5 000 to 20 000, and for the rate fof young people completing the training and going on to find jobs to rise to 70 per cent. This will lead to adjustments in the state operating budget. Policy in this area is focused on key economic sectors such as agribusiness, fishing, tourism, construction, logistics services, information and communications technology, and the textile and clothing sector, for which specific demands for qualifications have been expressed by the relevant trade associations.

The budget allocated to technical training has varied erratically over the last 15 years. It rose from XAF 3.1 billion in 1992 to 11.9 billion in 2005, after having fallen to XAF XAF 1.6 billion in 2000. However, the share of technical education and vocational training in the total education budget has never exceeded 4.5 per cent, with a low of 1.6 per cent in 2000.

Development partners such as the *Agence française de développement* (AFD) provide support to the sub-sector. For instance, the AFD set up a EUR 12.75 million project for vocational training. This involves building a public-private partnership based on the development, establishment and management of sector centres to provide initial and continuing vocational training in three professional branches in order to make them more competitive: the agrifoods business, transport and logistics (in the Port Community), and construction. The project also involves institutional support and overall technical assistance.

The 10-year education and training programme (PDEF) drawn up by the government with strong support from donors entered phase two in December 2004. Its priority is now vocational training, together with basic education. The programme is consistent with the overall poverty reduction strategy and with the development strategy for the private sector.

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Box 1. **Specific training needs to support growth: the case of the construction sector**

In Senegal, the construction sector unquestionably plays a predominant role in the growth process. The planned start of work on the Blaise-Diagne international airport, on the Dakar special economic zone, and on the construction of the Dakar-Diamniadio toll motorway, as well as the major projects under the aegis of the head of state, will all contribute to stronger growth in the coming years. Construction is also, however, a sector where the lack of skills is cruelly felt. For this reason the Senegalese authorities have, with the support of the AFD, examined the possibility of setting up a centre for training in construction skills as part of the programme to enhance the competitiveness of Senegal's businesses.

There is a need for more and better training, both at the initial and continuing level, to meet the needs of this growing sector. Only a single higher education institute, the *Ecole supérieure polytechnique*, trains high-level engineers in this field. Technical high schools and intermediate-level training centres also offer training programmes. However, the technical high schools do not provide specific and continuing education in construction skills.

In Senegal, construction is dominated by a system of subcontractors (*tâcherons*). These are individuals who, while often not possessing many skills, have a great deal of experience in the field. The formal enterprises that win tenders for construction contracts subcontract a great deal of the work to these informal workers. The subcontractor sets up his team, which includes workers with a variety of skills (framework construction, formwork, pouring, tiling, etc.), who are often paid by the job or by the day, and are very often trained on the job. In this system, only the security personnel and foremen are paid by the month. This situation ensures great flexibility with job contracts. The intense competition between the subcontractors helps to keep production costs very low and to pass on a good proportion of the profit margin to the tendering companies. However, this system goes in hand with a lack of skills training for the key workers, and often leads to work of indifferent quality, to put it mildly.

The needs identified in terms of jobs to support the expansion of the sector and guarantee the quality of the work mainly concern the construction foremen. They are essential actors in the organisation of the work, and must simultaneously play the role of works co-ordinator, monitor and controller. These positions are generally held by workers and others familiar with the work who do not have any previous background qualifications for such responsibilities. However, the way institutional training is currently set up still does not provide for taking charge of this type of position properly.

The construction sector also lacks skilled workers, particularly with respect to roads and transport, who nonetheless play a crucial role on these projects. These jobs are mainly held by workers who lack the necessary qualifications, but who have been trained while working informally. The same holds for the team leaders in charge of masonry, plumbing, tiling, etc. There is also a need for skills for certain highly specialised positions, such as surveyors, topographers, hydraulics specialists, etc.

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Box 2. **Specific training needs to support growth: the case of Dakar's port operations**

The port plays an extremely important role in the economic life of Senegal. It involves a variety of activities which include the transport and warehousing of conventional goods and containers, transit, consignment, the repair and maintenance of engines, port operations, etc. These activities require at least a certain level of security, quality and technology in order to facilitate the country's international trade.

The training system in Senegal is not adequate to meet the level of skills required by the activities at the port. It must therefore draw on personnel trained either abroad or on the job. The needs are many and varied, ranging from the design and production of logistics systems to expertise in shipping procedures and related services (warehousing, transit, packaging, etc.), including expertise in product quality management tools (in particular with respect to the hygiene standards in force in the developed countries) and equipment maintenance. The Port Community business association, having noted the lack of a training system suited to deal with these various needs, joined forces with the trade association of French shippers, the *Fédération des enterprises de transport et de logistique*, to submit to the government an assessment of the port's training needs. With the support of the AFD, Senegal is currently considering the feasibility of an institutional arrangement that would be able to deal with these needs.

Political Context

The country held a presidential election in March 2007, which was followed in June and August by elections for the legislature and senate. Abdoulaye Wade, the incumbent president and the candidate of the *Parti Démocratique Sénégalais* (PDS), the party in power, won the presidential election with more than 56 per cent of the vote in the first round. In the opinion of the observers who monitored the poll, the election took place in calm conditions and with an acceptable level of transparency, despite a few problems related to material. Despite this, the opposition disputed the results and demanded extensive discussions with the government, for the purpose in particular of ensuring greater clarity in future polls. The government was willing to engage in discussion on the express condition that the opposition acknowledged beforehand that the presidential election had been conducted properly, and thus that the head of state was legitimately elected. As the two parties were unable to arrive at a consensus, positions hardened, and the opposition, united in the *Front Siggil Sénégal*, chose to boycott the legislative elections in June 2007. The elections were thus won handily by the PDS, which obtained 131 of the 150 seats in the National Assembly. Turnout was about 38 per cent, compared with 70 per cent in the presidential vote.

The year 2007 also saw the creation of the senate. The senators are either elected by indirect universal suffrage by the different socio-professional categories in the country (35 per cent of the members) or appointed by the president of the republic (65 per cent of the members). The senatorial elections were also boycotted by the opposition, which resulted in a decisive victory for the party in power, which won 34 of the 35 seats. The only seat to escape it was that for the Bignona region in the south. Finally, there was another institutional change in 2007: the council of the republic for economic and social affairs, which is the country's third-leading institution after the presidency of the republic and the national assembly, was dissolved. Its responsibilities were transferred to the senate and to the economic and social council, which returned to the institutional scene after having been dissolved in 2000.

A tense calm has reigned in Casamance for two years. There were no armed confrontations between the military and the rebels during this period, but Chérif Samsdine Néma Aidara, the chief of mission for the

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president of the republic and a key player during negotiations with the rebels, was assassinated at the end of December 2007. The assailants were not identified, and the investigation is continuing. It is noteworthy that, during this same period, the president of the regional council of Ziguinchor, Oumar Lamine Badji, was also murdered.

Social Context and Human Resources Development

Emigration remains a contentious issue, with large numbers of young people embarking on makeshift craft and braving the sea in their efforts to enter Europe clandestinely. Nevertheless there has been observable progress on the diplomatic scene, which led Spain to grant hundreds of young Senegalese visas and work contracts. But demand was much greater than the number of visas granted, and the massive outflows did not cease in 2007; indeed, far from it. A large number of Senegalese are still dying at sea in the hope of finding a better life in Europe.

In the field of literacy, the results of the ESPS poverty monitoring survey in Senegal showed that progress has been made. The literacy rate of adults (15 years and older) rose from 37.8 per cent in 2001/02 to 41.9 per cent in 2005/06. These figures, however, conceal enormous urban-rural disparities. In 2005/06, the rate in Dakar was 63.5 per cent (59 per cent in 2001/02) and 54.8 per cent in the other cities (49 per cent in 2001/02), compared with only 26.4 per cent in the countryside (17.5 per cent in 2001/02).

The 10-year education and training programme is still emphasising broader access to different levels of education, while taking increasing account of the issue of quality. According to the local authorities, the gross enrolment rate (GER) in elementary education fell slightly from 82.5 per cent in 2005 to 81.8 per cent in 2006. Again, these data do not reflect the significant gaps between the regions and between different levels of schooling. At the middle and secondary education levels, the GER was, respectively, 31.3 per cent and 15.5 per cent. The authorities have had to deal with the issue of school drop-outs, of whom there are many, particularly in the countryside and among girls. The educational programme in Dakar's suburbs, called *Projet éducation,* which the state launched with French support, continued in 2007. It has resulted in the construction of a number of schools, particularly at the primary level, in the capital's disadvantaged suburbs. A total of 320 classrooms are due to be built and equipped there.

The state health-care policy is still based on the national health and social development programme, which covers the period 1998 to 2007 and gives emphasis to primary health care. A certain number of sector programmes take into account specific public health issues, such as both the national anti-HIV/AIDS programme and the national anti-malaria programme. With respect to HIV/AIDS, the goal is to maintain the level of incidence near the current level of about 1 per cent. Cholera is still a troubling public health issue, with a new alert in August 2007 that resulted in 1 274 identified cases, with four deaths.

The results of the ESPS poverty survey showed that 17 per cent of those questioned believed that they had been ill in 2005/06. Of these, 45.9 per cent had malaria, 4.4 per cent diarrhoea, and 3.4 per cent dental problems. The public health problems afflicting people also affect their productivity. Out of 100 people who declared themselves ill, more than two-thirds had to take time off work. Access to health care is another source of inequality between people in the city and those in the countryside. At the national level, 38.7 per cent of households are within a 30-minute walk of health facilities. However, an analysis of this figure reveals that the respective figures were 56 per cent in the countryside and 16.9 per cent in the cities, which have better health services.

The fertility rate remained high in 2007 according to estimates, with an average of five children per woman.

In 2007 the impact of higher oil prices on gas, fuel, transport, etc. had a greater impact on the incomes of urban households than on those of rural households. Even so, poverty rates remained higher in rural areas

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than in Dakar or the other cities, as was emphasised by various surveys of household living conditions.

A recent survey of perceptions of household poverty conducted by the national demography and statistics agency showed that people felt much less poor in 2005/06 than in 2001/02. For instance, in 2005/06, 56 per cent of household heads surveyed believed that their community was rather poor or very poor, whereas 74 per cent of them believed this in 2001/02. Likewise, 52.2 per cent of households considered themselves poor in 2005/06, whereas the figure in 2001/02 was 65.1 per cent. The survey also showed that the difficulties that Senegal is currently experiencing have not undermined the morale of the Senegalese. Only 22.1 per cent of them expected poverty to increase in the coming years, while 44.8 per cent of them believed that it would fall. Despite these views, the work of the surveyors revealed that there are still significant levels of poverty in Senegal.

In 2006, one praiseworthy initiative was taken to help with the health of the elderly: the "*sésame*" plan. This gives people over the age of 60 free access to health care. Before the implementation of this programme, only those in a retirement scheme enjoyed medical coverage. However, it is estimated that only 200 000 Senegalese out of a population of 12 million are entitled to the benefits of a formal retirement scheme. In practice, the great majority of the elderly were active in the informal sector, with no coverage from the social welfare system.

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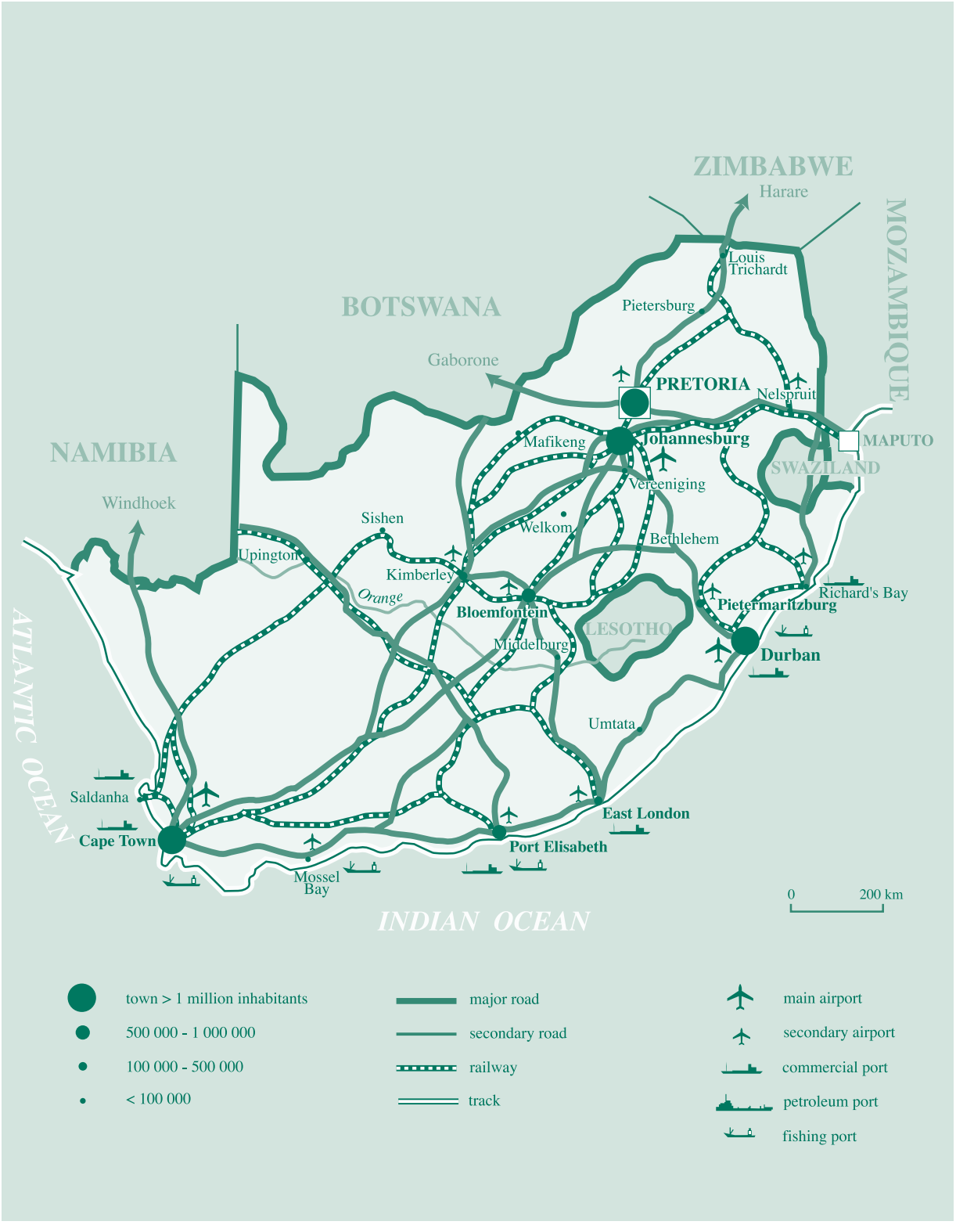
South Africa



key figures

• Land area, thousands of km²	1 221
• Population, thousands (2007)	48 577
• GDP per capita, USD at constant 2000 prices (2007)	3 657
• Life expectancy (2007)	49.3
• Illiteracy rate (2007)	12.2

South Africa



South Africa

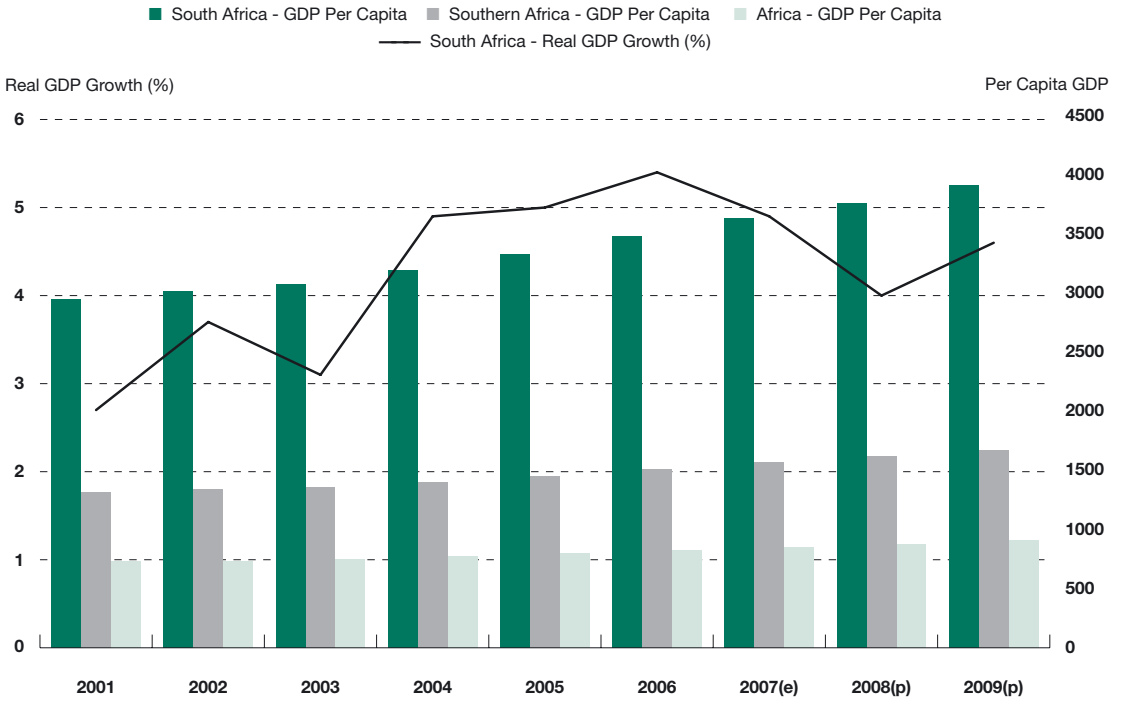
After private consumption fuelled by easy credit resulted in a 5.4 per cent increase in real GDP in 2006, growth in 2007 is estimated at 4.9 per cent following slower consumption due to monetary tightening. Economic activity is expected to slow further to 4 per cent in 2008 as a result of the continued deceleration of private consumption and energy shortages. In 2009, growth is expected to remain strong although investment will replace consumption as its principle driver. Inflation, which rose sharply in 2007 to 6.5 per cent due to oil and food price increases, is expected to increase further to almost 7 per cent in 2008 before edging back into the target band of 3 to 6 per cent in 2009.

Macroeconomic policies remained prudent, with a budget surplus of 0.8 per cent of GDP in 2007/08 and a credible monetary policy. Growing revenues have permitted a strong expansion in public expenditure, especially investment in infrastructure and social services. Preparations for the FIFA 2010 World Cup are boosting construction, while private investment is rising in manufacturing and mining. This shift from consumption to investment puts growth on a more sustainable basis, and is easing capacity constraints. However, the resulting increase in imports of capital goods, along with the recent appreciation of the Rand, is putting pressure on the current account.

Growth is threatened by a more challenging international environment and by energy shortages.

South Africa exhibits a high structural current account deficit (higher than in most other emerging

Figure 1 - **Real GDP Growth and Per Capita GDP**
(USD at constant 2000 prices)



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

StatLink http://dx.doi.org/10.1787/315856830161

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countries) and this is financed mainly by potentially volatile portfolio inflows. Concerns about vulnerability to changes in the global environment, which seemed to have eased in 2007, emerged once again towards the end of the year. Despite progress on the macroeconomic front, South Africa remains confronted with enormous structural and social challenges. Infrastructure and human capital have suffered from 20 years of under-investment and lack of competition. In addition, unemployment, lack of skills, and poverty remain dire problems.

The Accelerated and Shared Growth Initiative for South Africa (AsgiSA) launched in 2004 aims at halving unemployment and poverty by 2014. However, despite substantial funding, weak capacity and lack of co-ordination among the various responsible ministries and agencies have limited the results. Social discontent contributed to the defeat of President Mbeki by his former deputy Jacob Zuma in elections for the ANC party leadership in December 2007. As ruling party leader Zuma is now the front-runner for the presidential elections due in 2009.

Recent Economic Developments

In 2007, although the economy continued to grow solidly at 4.9 per cent this was not balanced. Construction and services, including real estate, finance and business services expanded strongly, while the export-oriented sectors grew more slowly. After an 8 per cent fall in agricultural output in 2006/07, prospects for 2007/08 improved slightly thanks to good and timely rains. Beginning in late 2006, rising prices spurred planting and led to an expansion of cultivated areas, particularly in horticulture, but with the exception of wheat. Although minor as a share of GDP, the agricultural sector is important in terms of employment. It is one of the priority sectors of the AsgiSA strategy, in particular the promotion of biofuel production. A new Land Use Management Bill, designed to simplify the regulatory framework for land use, was finalised in 2007 and it is expected to make investment in agriculture more attractive.

The mining sector, the main source of exports, has not been able to take full advantage from the strong rise in international metal prices since 2001. Investment in the sector, which had risen by a real 7.8 per cent per annum in the period 1994 to 2003, slumped in 2004 and 2005 due to the strongly appreciating exchange rate, infrastructural constraints (rail) and the application of new mining laws. Nevertheless, mining investment staged a strong recovery, increasing by 42.8 per cent in 2006 and 20.9 per cent in 2007. However, higher levels of investment have not yet translated into increased production, and mining output actually declined by 0.3 per cent in 2007. A number of issues, including stoppages related to improving safety in the industry, had a negative impact on production. While gold and diamond output continues to decrease, platinum, iron ore and coal are on a moderately rising upward trend, both in terms of production and exports. The industry was hardly hit by sever power cuts which occurred in early 2008. Lower electricity supply might jeopardise investment, export growth and employment in the sector.

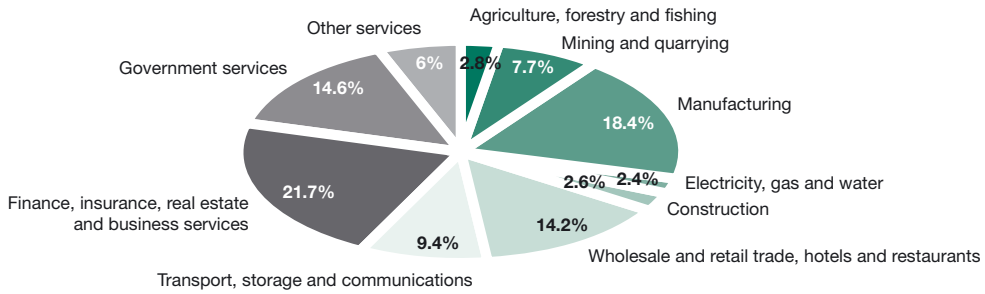
The construction sector is booming because of infrastructure projects. These projects include new soccer stadiums for the 2010 World Cup and the Gautrain rapid rail line. On the other hand, residential building has slowed with the rise in mortgage rates and shortages in skilled labour and material.

Robust demand, accompanied by insufficient investment in new manufacturing production capacity, has resulted in the manufacturing sector operating at the highest levels of production capacity in more than three decades. Capacity constraints are being experienced in the cement and wood industries, as well as in iron and steel manufacturing, petroleum refinement and electricity generation. This presents investment opportunities for local enterprises and private investment is expected to rise by an annual average rate of 11 per cent from 2007 to 2010, spurred also by more generous investment depreciation allowances.

Manufacturing is one of the priority sectors of the National Industrial Policy Framework (NIPF), which aims at fostering and diversifying exports, in particular

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Figure 2 - **GDP by Sector in 2006** (percentage)



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

StatLink http://dx.doi.org/10.1787/317181762732

for the automotive sector. However, exports continue to be hampered by relatively poor productivity growth in the tradables sector, which since 2001 has not been reflected in the trend decline in the real effective exchange rate as would be expected. Manufacturing output in 2007 increased by 4.1 per cent over 2006. Higher production was reported by several sub-sectors, with just the automotive sector posting a decline. The automotive sector's difficulties are also linked to uncertainty surrounding the 2007 review of the Motor Industry Development Plan. The lack of clarity over the continuation and duration of incentives has discouraged investors from embarking on long-term investments. Lower consumer confidence and prolonged strikes also adversely affected the industry with sales recovering only in the very last part of 2007.

During the 2004-06 period, economic growth was driven by buoyant household spending stimulated by increased disposable income. In 2007, there were signs of rebalancing, with private consumption slowing as a result of higher interest rates, rising consumer indebtedness, and the implementation of a new National Credit Act that reduced the ease of obtaining credit. Investment is expected to grow by almost 11 per cent on average from 2007 to 2009, underpinned by preparations for the 2010 World Cup and large infrastructure projects. In 2007, public investment was

Table 1 - **Demand Composition**

	Percentage of GDP (current prices)		Percentage changes, volume			Contribution to real GDP growth		
	1999	2006	2007(e)	2008(p)	2009(p)	2007(e)	2008(p)	2009(p)
Gross capital formation	**15.8**	**21.3**	**10.5**	**9.7**	**10.8**	**2.3**	**2.3**	**2.6**
Public	4.7	4.9	19.0	15.0	16.0	1.0	0.9	1.0
Private	11.1	16.4	8.0	8.0	9.0	1.4	1.4	1.6
Consumption	**81.6**	**82.0**	**5.0**	**3.4**	**4.8**	**4.2**	**2.8**	**4.0**
Public	18.4	19.5	8.4	5.0	4.9	1.5	0.9	0.9
Private	63.2	62.5	4.1	2.9	4.8	2.7	1.8	3.1
External demand	**2.6**	**-3.3**				**-1.6**	**-1.0**	**-1.7**
Exports	25.3	29.6	1.2	1.9	2.0	0.3	0.5	0.6
Imports	-22.7	-32.9	5.5	4.4	6.5	-1.9	-1.5	-2.3
Real GDP growth						**4.9**	**4.0**	**4.9**

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

StatLink http://dx.doi.org/10.1787/320640563064

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led by the investments of Eskom and Transnet, which increased by over 30 per cent. Private investment, which represents more than 70 per cent of total capital investment, was also dynamic, especially in services, mining, construction and manufacturing. The external sector continued to be a drag on what otherwise would have been an overall good performance. Imports are buoyed by very dynamic domestic consumption along with supply constraints, while exports, especially gold, lag.

A first evaluation of AsgiSA was produced in 2006. The strategy aims at developing the non-commodity tradable sector in order to create jobs and reduce dependence on minerals. This is also crucial to sustaining ambitious public investment without exacerbating the current account deficit. While the target of average GDP growth above 4.5 per cent for 2004-09 will most probably be achieved, the 6 per cent growth objective for 2010-14 appears more challenging. The obstacles identified by AsgiSA include: currency volatility; the cost efficiency and capacity of the national infrastructure network, including energy production and distribution; skills shortages; a weak business environment and low competitiveness; a weak regulatory framework and difficult environment for SMEs; and, weak public administration.

Macroeconomic Policies

Fiscal Policy

Rising national income coupled with prudent fiscal policy resulted in a further improvement in the fiscal balance, with a deficit below 1 per cent of GDP since 2005/06 and slightly decreased debt to GDP ratio from 30.5 per cent at the end of March 2007 to 29.4 per cent at the end of September 2007. The country continues to enjoy a positive credit standing: Moody's revised the outlook for South Africa's foreign-currency denominated debt from stable to positive in the second quarter of 2007, and Standard & Poor's kept the country's sovereign credit rating unchanged at BBB+. Reflecting the turmoil in financial markets, the country risk premium on South African government bonds nevertheless widened from 197 basis points in January 2007 to 288 basis points in November.

The National Treasury's Medium Term Budget Policy Statement (MTBPS) released in 2007 confirmed the priorities for macroeconomic policy set in 2004: boosting economic growth and employment, and providing poor and marginalized communities with the capabilities and physical infrastructure to participate in the formal economy.

The 2007/08 budget surplus was 0.8 per cent of GDP, up from a 0.3 per cent surplus in 2006/07. The surplus will be maintained at around 0.7 per cent of GDP over the next three years. Continued fiscal surpluses would mitigate pressures on the current account, inflation, and interest rates, thereby providing a stable backdrop for addressing structural constraints to growth. However, the structural balance, i.e., the conventional balance adjusted for cyclical factors, continues to show a deficit of -0.6 per cent of GDP.

The strong economic performance coupled with improved management of public finance resulted in a sharp increase in revenue collection, in particular from personal income taxes. Total revenue increased to 28.6 per cent of GDP, up from 27.6 per cent in 2006/07. Fiscal reforms have broadened the tax base, allowing reductions in corporate taxes. The tax system is also being simplified in order to encourage compliance.

Expenditure increased in the 2007/08 national budget from 27.3 per cent of GDP to 27.8 per cent, with a real increase of more than 10 per cent in non-interest expenditure and a reduction of debt servicing costs. The greatest share of the current expenditure increase was allocated to the public wage bill (16 per cent of the increase). The budget priorities outlined in the MTBPS strongly emphasise the delivery of and access to public services, entailing an increase in investment in both human and fixed capital and a strengthening of the capacities of national, provincial and local governments.

Despite an overall budget execution of 93 per cent in 2006/07, execution is still erratic at local and provincial levels, especially for capital investment, with huge underspending as well as overspending. In order

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

	1999/2000	2004/05	2005/06	2006/07	2007/08(e)	2008/09(p)	2009/10(p)
Total revenue and grants	**24.8**	**25.1**	**26.3**	**27.6**	**28.6**	**28.7**	**28.4**
Tax revenue	24.2	24.6	25.8	26.9	28.0	28.1	27.8
Total expenditure and net lending	**26.9**	**26.6**	**26.7**	**27.3**	**27.8**	**28.0**	**28.0**
Current expenditure	26.3	26.6	27.8	28.5	28.0	28.1	28.0
Excluding interest	*22.0*	*23.1*	*24.5*	*25.5*	*25.4*	*25.8*	*25.9*
Wages and salaries	10.4	9.4	9.8	9.7	9.8	10.0	10.0
Interest	4.4	3.5	3.3	3.0	2.6	2.3	2.1
Capital expenditure	1.5	1.2	1.7	1.8	2.0	2.1	2.3
Primary balance	**2.2**	**2.1**	**2.9**	**3.3**	**3.4**	**3.0**	**2.6**
Overall balance	**-2.1**	**-1.5**	**-0.3**	**0.3**	**0.8**	**0.6**	**0.5**

Source: South African National Treasury data; estimates (e) and projections (p) based on authors' calculations.

StatLink http://dx.doi.org/10.1787/321485342210

to improve the efficiency of public expenditure, a monitoring and evaluation system will be introduced in 2008, requiring national departments to report on their budget in a transparent manner.

Tax revenue is expected to increase by 12.1 per cent in 2008/09, bringing overall revenue to almost 29 per cent of GDP. With increased corporate investment allowances and more sluggish consumption, this is expected to contract in subsequent years. In 2007, the New Mineral and Petroleum Royalty Bill was introduced and will come into effect in 2009, bringing new revenue from the extractive industry.

Public finances are expected to continue to benefit from sound expenditure management, falling interest on the public debt, efficiency gains in revenue collection and a broadening tax base. Public expenditure is expected to grow by 12.7 per cent in value in 2008/09 whereas in real terms it will slow to a still substantial 6.1 per cent a year over the 2008/09 to 2010/11 period, with spending increasing on infrastructure, social grants and public sector wages. Increasingly, spending is being devolved to local administrative bodies (municipalities and provinces). In 2007, 12.4 million people benefited from social assistance grants, with the grant programme's share of GDP rising from 2.9 per cent in 2003 to 3.2 per cent in 2007. The strong fiscal situation has allowed the government to start planning a comprehensive social security system that will be introduced by 2010.

Monetary Policy

The inflation outlook deteriorated sharply in 2007 due to a combination of negative factors, including the surge in world oil prices and the rise in international as well as domestic food prices. The rise of above 6 per cent of administrated prices was an additional factor, together with a wage bill greater than productivity growth. The weaker rand as well as buoyant demand and capacity constraints have further broadened inflationary pressures, indicating the need for more balanced growth. The outlook is not positive, since food and oil prices are expected to remain high and energy prices are expected to continue to rise. The CPIX, the target inflation measure, which excludes mortgage costs, breached the 6 per cent upper limit of the inflation target band for the first time in almost four years in April 2007. After reaching 6.5 per cent in 2007, the CPIX is expected to remain above the upper bound of the central bank's target at least for the first half of 2008. It is expected to average 7 per cent for the year, before falling back to around 5 per cent in 2009.

The challenge for the authorities will be to sustain growth and investment while controlling inflation. In order to avoid a hard landing for the economy, household spending must not drop sharply. This poses a challenge given record high household indebtedness of 77 per cent of disposable income in 2007 and rising consumer lending interest rates, particularly for mortgages. In order to lower inflation, monetary policy

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became restrictive in mid-2006 and was further tightened in 2007, with the repurchase (repo) rate increasing from 7 to 11 per cent by the end of the year and other money-market interest rates also rising.

Although on a decelerating curve, private sector credits remained strong in 2007 and lending is not expected to slow significantly, despite the increase in both nominal and real interest rates. The growth of credit contracted to 24.5 per cent in October, down from 27.7 per cent in June. Most of this decrease is related to household loans, which still constitute the biggest share of private sector debt. The impact of the implementation of the new National Credit Act introducing stricter prudential rules was also limited. Rapid growth of the broad money supply (M3) reflects an increase in risk aversion towards security markets as well as higher interest rates on bank deposits.

The rand has been quite volatile and remains vulnerable due to the large South African current account deficit. Despite the support provided by a strong accumulation of reserves and a more solid macroeconomic framework, the rand deteriorated by around 20 per cent on the US dollar and euro between November 2007 and February 2008. This indicates that South Africa has experienced a greater deterioration in investor confidence than most similar economies.

External Position

South Africa joined the negotiating body of the Southern Africa Development Community (SADC) Economic Partnership Agreement (EPA) with the EU as a full negotiating partner in February 2007. This was facilitated by the recognition that South African access to the EU market would remain distinct from that of the rest of the SADC group owing to the country's status as a more developed economy. South Africa's trade with Europe is currently governed by a bilateral trade, development and co-operation agreement. In negotiating the EPA, South Africa strongly resisted the inclusion of the so-called "new generation" issues, such as services trade, investment, competition policy, and government procurement in the agreement. By the interim deadline of mid-December, all members of the SADC group except South Africa and Angola had signed the interim EPA. South Africa's stance, however principled, represents a substantial threat to regional unity and integration in the region.

The South African and therefore the Southern African Customs Union's (SACU) tariff structure remains complex. In 2004 there were 100 most-favoured nation (MFN) tariff bands and 6 697 tariff lines. Two further, equally complicated tariff schedules also existed for the free trade agreements with the European Union and the SADC. Finally, the MFN schedule is subject to a bewildering variety of drawbacks and rebates, adding further complications. Under the aegis of the new NIPF, a review of the tariff structure is underway. This exercise is focused on reducing tariffs on upstream inputs into sectors identified as strategically important. Such a strategy will increase effective rates of protection for final goods, but may exacerbate the complexity of the system. Textiles, leather, footwear, clothing, motor vehicles, vehicle parts and accessories, and food processing are already highly protected. About half of South Africa's imports enter duty free, and the unweighted average applied tariff (excluding rebates) was only 8.2 per cent in 2004. However, over 20 per cent of tariff lines are classified as tariff peaks (exceeding 15 per cent), and 9 per cent are more than three times the average applied rate.

The trade liberalisation programme pursued by South Africa since 1994 has resulted in a much more open economy. Total exports and imports of goods and services amounted to 31 per cent and 35 per cent of GDP in 2007, respectively. Between 1994 and 2002, import penetration and export orientation ratios rose in all 28 sectors of the standard industrial classification; in ten of these export orientation more than doubled. On the other hand, South Africa has not experienced a long hoped for export-led growth boom driven by labour-intensive manufacturing, nor has it succeeded in attracting high levels of foreign direct investment (FDI).

Exports have suffered from the relatively slow growth of productivity in the tradable goods sector. The trade deficit has also increased since 2004 because of rising

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

	1999	2004	2005	2006	2007(e)	2008(p)	2009(p)
Trade balance	3.0	-0.1	-0.4	-2.4	-2.7	-3.6	-4.4
Exports of goods (f.o.b.)	21.4	22.3	22.9	25.0	25.7	25.3	23.9
Imports of goods (f.o.b.)	18.4	22.3	23.3	27.4	28.4	28.9	28.3
Services	-0.4	-0.3	-0.4	-0.9	-1.2	-1.1	-1.1
Factor income	-2.4	-2.0	-2.0	-2.1	-1.7	-1.6	-1.3
Current transfers	-0.7	-0.8	-1.2	-1.1	-1.2	-1.3	-1.3
Current account balance	**-0.5**	**-3.2**	**-4.0**	**-6.5**	**-6.9**	**-7.6**	**-8.0**

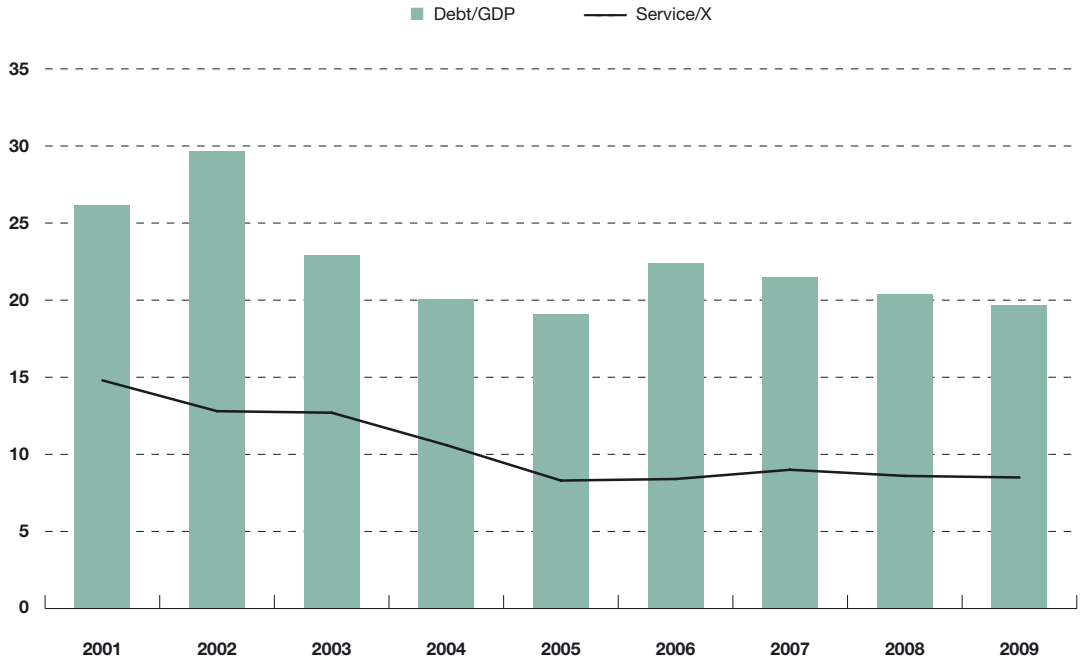
Source: South African Reserve Bank data; estimates (e) and projections (p) based on authors' calculations.

StatLink http://dx.doi.org/10.1787/322308811026

demand for imports, fuelled by high consumer spending and fixed capital investment, while exports have lagged. Rising oil prices have further driven up the import bill. However, export values improved in 2007 and are expected to stabilise further in 2008, thanks to high gold and platinum prices and a weaker rand. Mining products, such as platinum, iron and coal, have benefited from high demand from Asian countries. Exports of some manufactured goods, notably automobiles, chemicals and mining machinery have also increased. Given the rapidly rising imports, the trade deficit is nevertheless expected to continue to widen.

The current account balance has progressively deteriorated since 2003, reflecting the movements in the trade balance. In 2006 the deficit reached 6.5 per cent of GDP, and widened further in 2007 to an estimated 6.9 per cent of GDP. The services and net factor income balances were also both negative. In the medium term, the current account deficit is not expected

Figure 3 - **Stock of Total External Debt** (percentage of GDP) **and Debt Service** (percentage of exports of goods and services)



Source: IMF.

StatLink http://dx.doi.org/10.1787/318266007410

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to recover and it is forecast to reach 8 per cent of GDP in 2009. This is attributable to both low domestic saving and lack of export competitiveness. Capital inflows financed a record 37 per cent of gross investment in the third quarter of 2007.

Foreign capital has been forthcoming to finance this deficit, due to the strong domestic performance and high commodity prices stimulating the global demand for South African bonds and equities. In fact, capital inflows have more than offset the current account deficit so the overall balance of payments remains in surplus. Portfolio capital inflows can be volatile, however, as witnessed by their sharp decrease in the last part of 2007, and thus FDI is preferable. FDI inflows increased in 2007 and the net FDI balance is positive. The government hopes to attract more FDI into industrial development zones. The huge investments needed for the 2010 FIFA World Cup and upgrading of infrastructure will entail an upsurge in FDI between 2008 and 2011.

The surplus in the balance of payments enabled a rise in international reserves to USD 33.6 billion at the end of January 2008, more than double the country's foreign-currency denominated external debt maturing within one year.

South Africa's total outstanding foreign debt increased from USD 59.4 billion at the end 2006 to USD 66.2 billion at the end of the second quarter of 2007. The ratio of rand-denominated debt to total debt increased slightly in 2007, passing from 39.7 per cent to 40.2 per cent.

Structural Issues

Recent Developments

Since 1994 government reforms have focused on macroeconomic stabilisation and trade liberalisation. South Africa now needs to address its deeper structural constraints in order to increase potential growth and reduce unemployment and poverty. These constraints include: *i)* inadequate infrastructure resulting from 20 years of under-investment; *ii)* lack of competition in key sectors; *iii)* social and economic distortions inherited from the Apartheid regime; and *iv)* the very low skill levels of much of the labour force. These obstacles partly explain the lack of competitiveness of labour intensive export manufacturing and the disappointingly low level of FDI. High crime levels remain another important negative factor. South Africa's ranking in World Economic Forum's Global Competitiveness Report, although still one of the highest in Africa, slipped to 44th out of 131 countries in 2007, from 36th in 2006 due to a deterioration in the national business environment. In recent years increased public spending, both from government and State Owned Enterprises (SOEs), has been allocated to infrastructure development. Investment in infrastructure rose 24.6 per cent in real terms in the first half of the year, up from 19.4 per cent a year previous.

Transport infrastructure improvement is a particular priority. The links between the production sites and ports are particularly important. In 2006, only 9 per cent of the 745 million tonnes of freight transported in the country was carried by rail, with 88 per cent transported by roads at higher cost. The development of rail shipping for primary products would almost halve the transport bill. Following harsh criticism, the transport SOE Transnet has been undergoing deep restructuring since 2006, with the aim of integrating the port, rail and pipeline systems. Thanks to the sale of non-core assets, in 2007 the company posted a surplus of ZAR 1.9 billion (South African rand), up from a deficit of ZAR 1.6 billion in 2006. Overall, Transnet plans to invest ZAR 78 billion over the next five years to modernise its freight–related infrastructure.

Transnet is also focused on improving passenger transport, particular in preparation for the 2010 World Cup. An integrated national transport agenda was adopted, aiming at the efficient and safe transport of spectators. The main projects are the expansion and upgrade of airports and the connections between airports, stadium and towns. Work has started for the multi-billion rand Gautrain fast rail link from Johannesburg to Pretoria as well as on projects in Cape Town and Durban.

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The capacity, efficiency and safety of the ports in the country also must be improved, and new generation vessels must be accommodated. Ocean freight accounts for 60 per cent of export costs and 66 per cent of import costs. Container volume growth in the ports has been about 12 per cent a year over the last five years and this rapid growth is expected to continue over the medium term. Several projects to raise port capacity and improve operations are at hand.

The energy SOE Eskom produces 96 per cent of the electricity generated in South Africa and owns and operates the national transmission grid. In 2007, rising demand, coupled with lack of investment in generation and an obsolete distribution infrastructure led to increased power cuts over the course of the year. Independent power producers (IPPs) are expected to provide approximately 1 000 MW of new generation capacity by the beginning of 2009. Eskom will purchase electricity from the IPPs through long-term contracts. Further significant increases in generation will not result in additional production until 2012, however, so the government hopes to cover the deficit by increasing imports and curtailing demand for power.

The NIPF incorporates the ambitious trade and industrial reforms favoured by the Department of Trade and Industry. Capital goods, automobiles, chemicals and timber are designated as four priority clusters. The budget for 2008/09 supports the Plan through an additional ZAR 2.3 billion investment over the next three years and tax incentives of ZAR 5 billion for industrial investment and employment creation. The NIPF intends to improve international competitiveness by reducing input costs through an activist industrial policy. This position gave rise to heated controversy with the treasury, which favours continued trade liberalisation and is sceptical of industrial targeting.

Additional reservations about the NIPF concern the choice of prioritised sectors, their true potential and the nature of the structural constraints underlying their difficulties, including lack of competition and labour market rigidities. Some argue that addressing these constraints would be more effective than introducing distortions through costly incentives and trade barriers, and government capacity constraints are likely to prevent effective implementation.

Lack of competition in key sectors, including transport, steel and chemicals, is another factor contributing to high input costs. The legal framework remains weak and uncompetitive behaviour cannot be easily identified and sanctioned. A new Competition Law is expected to be implemented in 2009, and progress towards this is being made. The Competition Commission is monitoring the building materials and construction sectors to identify any anticompetitive practices that might be driving up the costs of the public sector's infrastructure investment programme.

Liberalisation of telecommunications in particular has been long delayed. Telkom, in which government holds a 39 per cent direct stake and a further 17 per cent through the Public Investment Corp, still has a monopoly of fixed telecommunications, while just two operators exist with their own networks[1]. Consequently, the telecommunication costs are extremely high, preventing the development of potentially dynamic service activities, such as call centres. However, the 2005 Electronic Communications Act establishes a new regulatory and policy environment that will result in a radical liberalisation of the telecom sector in the next few years. The prospective opening is already leading to incipient competition for Telkom, which has lost several big contracts in recent months and is experienced declining profits. In early 2008, Internet providers were scheduled to be granted licences to construct their own networks by the Independent Communications Authority of South Africa (Icasa).

The Black Economic Empowerment (BEE) policy was created after the end of the Apartheid regime to redress the inequities in economic opportunities. The first phase of BEE required all firms in South Africa to grant a share of ownership to black South Africans (the

1. Two further service providers operate in the country without owning networks: Virgin Mobile and Cell-one.

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extent of this share varies by sector). While this phase certainly contributed to the creation of a black middle class (the so called Black Diamonds), it remains very small, and concerns were raised about the selection criteria of beneficiaries. In order to create a larger number of beneficiaries from the BEE, a new broad-based initiative was defined in 2003 and is currently being implemented. This new initiative puts greater emphasis on affirmative action and corporate social responsibility. Codes of good practices common to all sectors were formulated in 2007, providing for precise criteria and methods to measure corporate compliance efforts. Compliance with the code will be a condition for accessing public procurement contracts. A balanced scorecard measures progress in achieving the seven objectives of BEE policies[2]. Each scorecard needs to be certified by an accredited agency. Although necessary, this new policy appears costly, complicated and difficult to comply with to the private sector, especially for small and medium-sized enterprises (SMEs) with no assistance towards compliance being offered by the government. SMEs are obliged to comply with four criteria out of seven, while micro enterprises are exonerated.

The banking system in South Africa is sound, although highly concentrated, with four large banks dominating the sector. At the time of writing, against a backdrop of higher interest rates, the principle risk for the sector remained increasing household debt, particularly related to mortgage advances. However, despite the increase in borrowing costs since June 2006, non-performing loans increased only marginally over the first three quarters of 2007, rising from 2 per cent in December 2006 to 2.2 per cent in September 2007. A new National Credit Act was introduced in 2007, introducing stricter prudential rules in compliance with Basel II regulations. The Act also entailed a rise in interest rate ceilings. However, the contraction in credit to the private sector was smaller than expected and was attributable more to the general tightening of monetary policy than to the introduction of the new Act.

Technical and Vocational Skills Development

Despite the focus on skills development since 2001 with the launch of the first National Skills Development Strategy (NSDS), the most recent Labour Force Survey recorded only a slight decrease in unemployment between 2001 and 2006: from 29.5 per cent to 25.6 per cent, respectively[3]. Over the same period, skills shortages remained widespread across all sectors of the economy.

The Department of Labour (DoL) has identified and quantified scarce and critical skills across all economic sectors, both formal and informal. Overall, South Africa has a major shortage of engineers and scientists, financial personnel and project managers, and skilled technical employees such as artisans and IT technicians. In 2007 there was a shortage of around 300 000 skilled workers while Sector Education Training Authorities (SETAs) could only train 7 000 new workers a year.

The education system has yet to recover from the legacy of Apartheid. In particular, the poor quality of maths and science taught at schools is responsible for a chronic shortage of students in polytechnic and scientific universities. In addition, the 50 Further Education and Training (FET) colleges educate less than 5 per cent of the secondary school population; until recently they were highly criticised for their inability to respond to labour market needs with only about a third of their students finding jobs.

In the short run, a more flexible immigration policy could address the shortage of high-skilled workers, while the unskilled could be supported by the social grants system and public works programmes. In the longer term, however, raising skills is crucial for the development of an equitable and efficient labour market.

The current institutional framework for skills development is shaped by the 1998 National

2. BEE is measured according to seven criteria: ownership, management, employment equity, skills development, preferential procurement, enterprise development and socio-economic development.

3. Unemployment reaches 40 per cent if discouraged workers are included.

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Development Act which established the SETAs: 23 sectoral training funds administered by a board comprised of employers' and employees' representatives. Originally intended to promote on-the-job skill development in the formal sector, the SETAs are now responsible for promoting skills within various economic sectors and for facilitating the implementation of a National Qualification Framework (NQF). The informal sector on the other hand, is serviced by a National Skill Fund (NSF) also established by the National Development Act.

Overall the DoL, SETAs and the NSF have operated in a fragmented and unco-ordinated manner, leading to administrative inefficiency, poor responsiveness to labour market requirements and uneven quality controls.

According to a review carried out by the DoL and the German Technical Assistance (GTZ) in 2007, one of the main challenges facing the SETAs is their expanded role in relation to different target groups. Crucially, this significant increase in responsibilities has not been accompanied by a commensurate increase in institutional capacity. Moreover, quality in many of the SETA programmes is poor leading to high dropout rates. This poor quality is largely the result of pressure on SETAs, employers, government departments and Further Education and Training colleges (FETs) to increase the number of positions open to learners.

The planning process carried out by SETAs is also constrained and often imprecise. SETAs do not have sufficient data pertaining to the skills demanded in their sector, nor is there data about the training available.

A variety of changes have been introduced in the skill development system since the launch of the second phase of the NSDS for the 2005-10 period (NSDS II). The strategy emphasises a demand-driven training model, thus signalling a move away from provider-driven training in which large numbers of the unemployed received training without assurances that it was aligned to an identified need in the labour market. Instead, the concept of "learnerships" has been introduced, adding a workplace-based learning component to classroom instruction.

An important further element of the NSDS II was the introduction of a 1 per cent levy on all corporate payrolls of ZAR 500 000 or more, to provide dedicated funding for skills development both in the workplace and in the broader labour market. As much as 80 per cent of the levy is given to SETAs to be allocated to contributing firms in the form of mandatory grants or discretionary funds. The remaining 20 per cent goes to the NSF to support basic adult education, and to help disadvantaged individuals and the unemployed acquire skills.

The SETA system of grants is perceived to be cumbersome and inefficient. Recent audit reports revealed that a significant proportion of the funds earmarked for training employees was unspent. This negatively impacted the SETAs, raising concerns about mismanagement and corruption.

According to the DoL and GTZ reviews, the allocation of resources within the levy grant system – whereby most of the revenue raised is returned to employers to train their existing workers is not necessarily compatible with the government's goal of assisting the unemployed and underemployed. Whether the 20 per cent that remains with the NSF after SETAs are funded is sufficient for pursuing the developmental agenda remains a subject of debate.

In addition, there are concerns that the NSF is not meeting the needs of the informal sector. Field interviews suggest that both the unemployed and individuals engaged in informal activity lack information about the NSF funding process. These deficiencies are also a consequence of the exclusion of the informal sector and unemployed from the policy elaboration process.

In response to a persistent skills shortage, the government made education and skills development a major pillar of AsgiSA, introducing several measures intended to halve unemployment and poverty by 2014. Key educational measures include a ramping up of the Adult Basic Education and Training programme, based on a model developed in Cuba and New Zealand, and a massive upgrade of the FET colleges.

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The 2007 Further Education Training (FET) Reform

FET colleges provide vocational education and training during the post-compulsory period, namely after grade 9, up to pre-higher education learning. A major ZAR 1.9 billion 3-year programme was launched in 2006 to recapitalise the colleges, tackle vital and long neglected curriculum reform, and invest in staff training and development, infrastructure and equipment. The new system of FET colleges began in the 2007/08 school year, with major innovations including the delivery of a National Certificate (Vocational) (NCV), the promotion of institutional autonomy, and the introduction of institutional monitoring systems. More than 25 000 students, only 2 000 short of the set target, enrolled in the 2007-08 school year and the national objective is to reach 1 million students by the 2014-15 school year. A total of 1 861 college lecturers were trained to offer the new programmes and examiners were appointed to start preparing for the first NCV examination at the end of 2007. FET colleges are financed 80 per cent through the national budget and 20 per cent through the payment of enrolment fees, which in many instances can be covered by bursaries awarded to the students.

Thus far at the time of writing, progress in redressing the huge geographical disparities in the quality of teaching and equipment of FETs remains limited. In addition, the system does not explicitly foresee partnerships with companies and ensure that colleges are responsive to industry demand. Practical training takes place through simulations carried out in workshops within the colleges, while co-operation with companies to set up on-the-job training is left to the initiative of individual colleges. In addition, although FET colleges can be providers of training under the NSDS and can receive accreditation under the NQF, they do not collaborate with SETAs, suggesting a lack of co-ordination between the education/initial training sphere and that of continuing training.

Efforts are still needed to raise the status of FETs, which are usually regarded as appropriate for less talented students and low status occupations. The poor reputation of the colleges is also due to uncertainties concerning access to higher education from the FET colleges, and SETA recognition of the National Certificate (Vocational). According to the OECD Education Review of South Africa, in order to make FETs more attractive, companies should be represented in the colleges' governing boards, and should be actively involved in awareness campaigns highlighting how vocational training can help in creating employment. With a view to ensuring flexibility of the system, the Review suggests that the Provincial Education Department establish mechanisms to monitor the impact of training offered by FETs on the local labour market, following the pathways of the learners through tracer studies.

Another key intervention within AsgiSA is the Joint Initiative for Priority Skill Acquisitions (JIPSA), introduced by the Deputy President in 2006. It aims to address priority skills shortages through a variety of means including: organising special training programmes and exchange programmes with other countries, bringing back retirees or South Africans and other Africans working outside Africa, and attracting new immigrants where necessary.

Currently, the JIPSA joint task team has set a target to train 50 000 new artisans by 2010, and to increase the number of new engineers, by importing them in the short to medium term. A major criticism of this initiative is that despite the substantial overlap between the objectives of the NSDS and JIPSA, there is no co-ordination between JIPSA, and the DoL. Overall, despite these positive developments and initiatives, much work remains to be done to integrate education

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policies, poverty alleviation and job creation strategies into a comprehensive system for human resources development.

Political Context

In December 2007 the elections for the ANC party leadership took place in a tense climate in which the incumbent Thabo Mbeki, president of the country, was pitted against his former deputy Jacob Zuma, who had been dismissed in 2005 on charges of fraud and corruption. Zuma was victorious by a large margin, although allegations of corruption erupted shortly after. As ruling party leader Zuma is now the front-runner for the Presidential elections in 2009, when Jacób Thabo Mbeki steps down. The acrimonious battle between these two leaders is likely to continue through the elections.

Immediately following the elections, Zuma was once again charged with major corruption. Although it is highly unlikely that the Court will come out with a verdict before the elections, these allegations have rendered the Zuma presidential ambitions uncertain. Zuma's supporters include trade unions, the Youth league of the ANC and the party's left wing. Although the market-friendly policies of the Mbeki administration are likely to remain in place, the prospect of a Zuma presidency remains unsettling to investors.

Social Context and Human Resources Development

The favourable economic growth has been supported by the progressive improvement in political and social stability throughout the last decade. Nevertheless, tensions have increased since 2006, with frequent strikes and discontent over the slow pace of improvement in poverty and unemployment.

Crime remains endemic, with an increase in the number of violent crimes, despite the decrease in the overall crime rate. Big cities are particularly affected by the phenomenon. The causes of such high levels of violence are not fully understood. What is certain is that the police force needs to be strengthened. The population perceives the entire criminal justice system as part of the problem, due to its inefficiency and corruption. The task is admittedly difficult due to the lack of legitimacy the system inherited from Apartheid.

Jobs remain the Achilles heel of the economy. Only recently has unemployment begun to edge down, with the creation of about 1.2 million jobs since 2005. Nevertheless, according to the Human Research Science Council, attaining the AsgiSA goal of bringing employment down to 13 per cent by 2014 will require the creation of 5 million net new jobs. A poverty line of ZAR 3 000 per year (about USD 2 per day) suggests that 43.2 per cent of South Africans were poor in 2006, while the Gini coefficient was 0.68. Undeniable progress has been achieved by the broad-based grant system but these do not reach the long-term unemployed or informal sector workers, who number more than 2.5 million.

The government is prioritising access to and quality of basic public services. The 2007 Community Survey showed remarkable improvement in housing, primary education and access to basic utilities, such as water and electricity. However, more remains to be done, especially concerning the quality of these services.

Rural land redistribution is advancing at a very slow pace with just over 5 per cent having been redistributed, well short of the 30 per cent target. Although the government has built 2.4 million urban residences since 1994, most of the poor black population remains confined in the cheaper remote suburbs. As a result, cities and towns still reflect the geographic and racial separation of Apartheid. Despite the undeniable social progress brought by the widespread provision of decent housing (71 per cent of people live in formal dwellings), the poor remain *de facto* excluded from the economic opportunities of the cities.

The measures recently implemented by the government include the creation of a Housing Development Agency, which acquires well-located land for housing from State Departments, SOEs and the

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private sector, then releases it to the private sector and municipalities to build low-income housing. The government also intends to establish a Land Fund to buy well-located land for residential purposes. In addition, efforts are being made to revitalise the centres of the main cities, which suffered from large-scale exodus at the end of Apartheid due to high crime rates. Some city centres have low building occupancy rates, business having fled to safer districts such as Sandton, in northern Johannesburg. Tax rebates and other local incentives are starting to reverse urban decay in some centres.

Although South Africa justifiably allocates a fifth of its budget (6 per cent of GDP) to education, which is high by international standards, the current system still struggles to address huge geographical and quality imbalances inherited from Apartheid. The largest problem is the shortage of qualified teachers. Despite funding reallocations there remain stark differences between more and less privileged schools, for example there are almost 30 teachers with 4 years of post high school education per 1 000 pupils in formerly white schools while in formerly black schools the ratio is 21 to 1 000. South African schools perform worse than most of their international and African counterparts. According to a 2005 international test comparing the reading skills of children across 40 countries, almost 80 per cent of primary school pupils in South Africa did not reach the lowest benchmark.

Secondary education is characterised by high drop out and repetition rates. In 2007, the pass rate for final year high school students fell to 65.2 per cent, from 66.5 per cent in 2006. Poor maths and science teaching resulted in only 40 per cent of students passing maths and less than a third passing science. For the 2008 school year, a new curriculum has been designed which makes one of two mathematics options mandatory – mathematics or mathematics literacy as well as life orientation and two South African languages, one of which is the language of teaching and learning. The Medium Term policy statement for the 2008-10 period foresees an average annual growth of 11 per cent in education spending mainly for school buildings, textbooks, school nutrition programmes, and higher education funding. Nevertheless, additional efforts are needed to identify and support underperforming schools.

Public expenditure on health increased by 15 per cent in value from 2006/07 to 2007/08 and is expected to attain an average annual growth of 11.4 per cent in the medium term. However, despite increasing funds, quality differences between public and private systems are huge, with the public health system suffering from widespread inefficiency, lack of funds, and a chronic shortage of qualified medical staff. In this sense, rising migration of healthcare professionals from rural to urban areas, and even worse, to other countries, contributes to the shortage. Substantial geographical disparities in facilities and medical staff persist. The National Human Resources for Health Strategic framework was launched in 2006 to guarantee a steady supply of qualified and appropriately remunerated professionals.

Although limited, some progress has been recorded in the health status of South Africans. Progress has been made in creating the building blocks – legislation, financing and health information systems – that are vital to the provision of good quality care, and in reducing costs for patients. There is also a sense of sustained progress for components of a number of programmes. For example, in 2006, South Africa was declared polio free by the Africa Regional Certification Commission and the incidence of malaria has been reduced by 18 per cent from 2005 to 2006, surpassing the target of 10 per cent. The government aims to extend child immunisation coverage from 82 per cent in 2005/06 to 90 per cent, and to further reduce maternal mortality.

Despite the stabilisation of prevalence, the main health challenge remains the HIV/AIDS epidemic, with AIDS remaining the leading cause of death among adults and in part reversing progress in child and maternal mortality. Prevention efforts do not seem to be effective in inducing testing: in 2006 only 10 per cent of men went for voluntary testing. Despite the free ARV distribution programme in place since 2005, the goal of ARV treatment for 80 per cent of the infected population by 2012 is falling short, with only

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40 per cent obtaining treatment. Lack of access to ARV medication contributes to the continued high number of AIDS-related deaths. To respond to these challenges, 20 addition ARV treatment sites were installed at clinics and major hospitals around the country by June 2007 and wage incentives were introduced to retain practitioners.

An improved National Strategic plan for HIV/AIDS and Sexually Transmitted Illnesses was issued in 2007. The plan, which aims for universal access to ARV, is the outcome of consultations with a wide spectrum of stakeholders. The challenge lies in its effective implementation, as targets for 2007 have not been attained.

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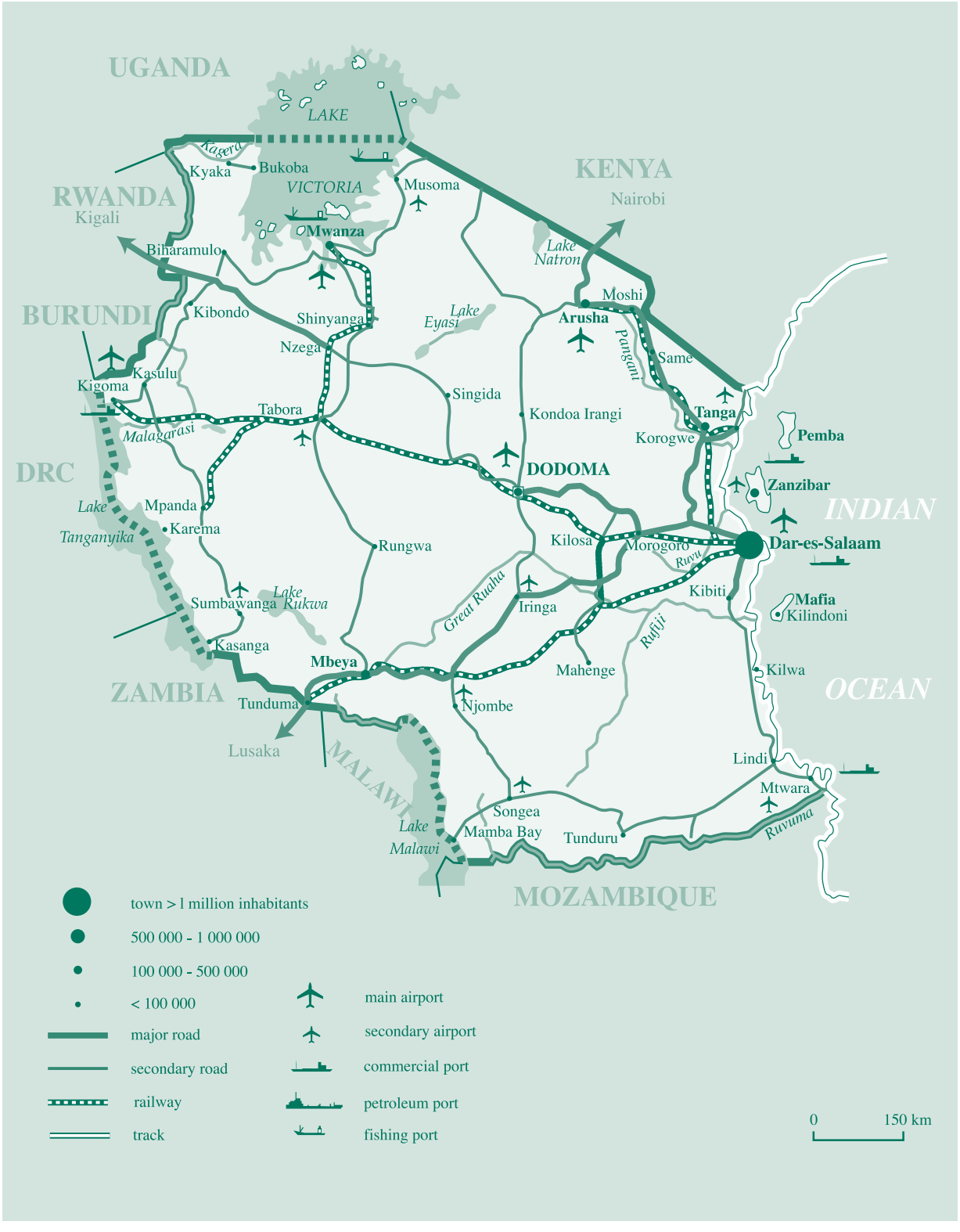
Tanzania



key figures

• Land area, thousands of km²	945
• Population, thousands (2007)	40 454
• GDP per capita, USD at constant 2000 prices (2007)	403
• Life expectancy (2007)	52.5
• Illiteracy rate (2007)	18.2

Tanzania

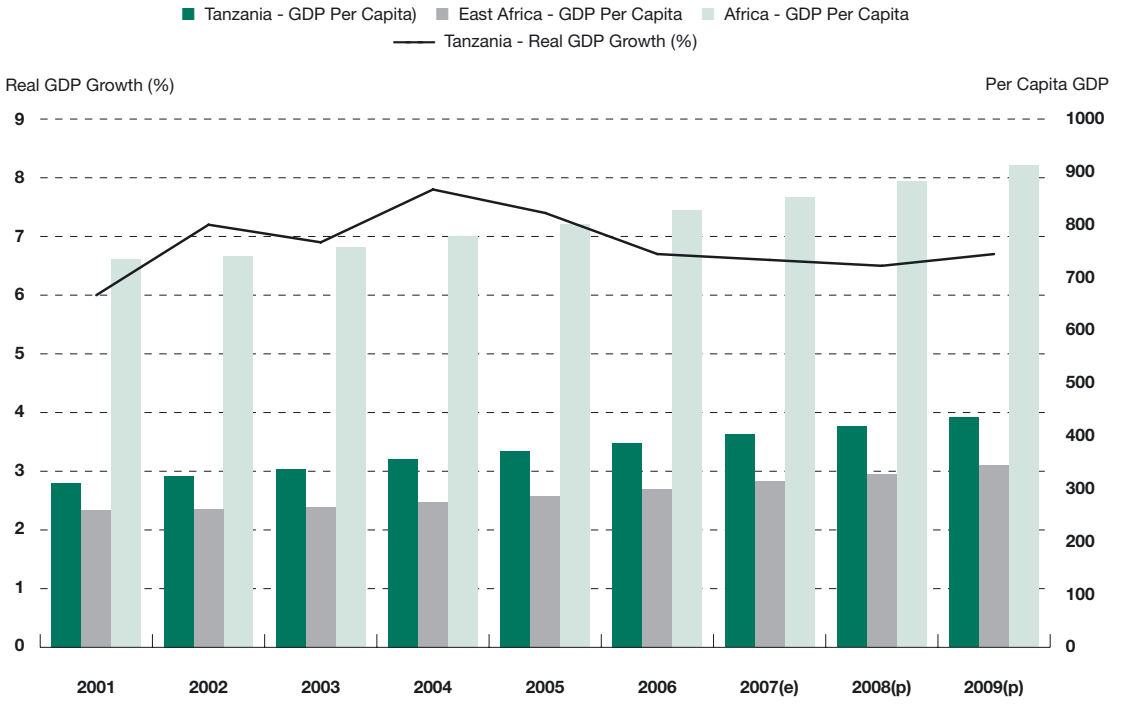

UGANDA
LAKE
VICTORIA
Kagera
Kyaka
Bukoba
Musoma
Mwanza
RWANDA
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Natron
Moshi
Arusha
Pangani
Same
BURUNDI
Kibondo
Shinyanga
Lake
Eyasi
Nzega
Kasulu
Kigoma
Singida
Tabora
Malagarasi
Kondoa Irangi
Tanga
Korogwe
Pemba
DODOMA
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Njombe
Lusaka
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Mamba Bay
Tunduru
Ruvuma
MOZAMBIQUE
town > 1 million inhabitants
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100 000 - 500 000
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major road
secondary road
railway
track
main airport
secondary airport
commercial port
petroleum port
fishing port
0
150 km

Tanzania

TANZANIA HAS MANAGED TO NOT ONLY overcome the aftermath of adverse weather shocks in 2005 and 2006 and an outbreak of Rift Valley Fever during 2007, but also shows signs of a recovering economy. Favourable weather conditions enabled a good harvest in 2007 and provided adequate water levels for the operations of hydropower dams that are the main source of electric power generation. The economy is projected to grow by 6.6 per cent in 2007 compared to 6.7 per cent in 2006. The outlook is encouraging for subsequent years as well, with GDP growth expected to maintain the same momentum, at 6.5 per cent in 2008 and 6.7 per cent in 2009. However, the recent increase in fuel prices, the newly announced wage regulations for the private sector and the political turmoil in Kenya may dampen this outlook.

A new commitment to improving governance and accountability in public office.

Figure 1 - **Real GDP Growth and Per Capita GDP**
(USD at constant 2000 prices)



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

StatLink http://dx.doi.org/10.1787/317027821401

Recent Economic Developments

Agriculture grew at 5 per cent in 2007, an improvement over the 4 per cent growth in 2006, and is projected to grow slightly more than 5 per cent in 2008. As a result of the good harvest in 2006/07, distribution of food aid was scaled down. The country was able to rebuild its Strategic Grain Reserve (SGR) stocks to about 130 000 tons by June 2007, with a further increase to 150 000 tons anticipated by the end of the 2007/08 financial year. The country will remain food secure in 2007/08, although localised

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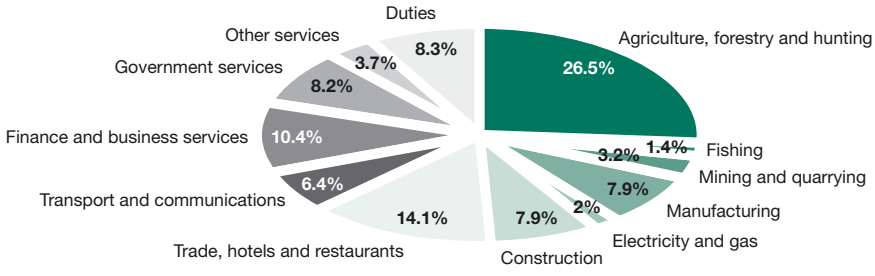
food shortages may continue in some districts due to poor road connectivity with surplus areas. Emergency food release from the SGR is available to address any shortages.

Agriculture remains a crucial source of income, employment, and food security, especially for the rural population. The revised National Accounts statistics published in September 2007, reveal that the output shares of services and industry have grown relative to the agriculture sector, which has historically dominated. The most rapidly expanding service sub-sectors were tourism, real estate and business services. In 2006/07 services rose to an estimated 43.8 per cent of GDP. The share of industrial production has also increased considerably while the contribution of agriculture fell to 11.4 percent.[1] Agricultural sector performance, especially the livestock sub-sector, experienced an additional set back from the outbreak of Rift Valley Fever in late 2006 and early 2007, causing cattle as well as human deaths. Consumption of meat fell drastically and restrictions on cattle slaughter and transportation reduced incomes in major cattle rearing zones.

The government adopted a number of measures to promote agricultural recovery following the drought-related downturns in the last two years. The measures include: improvements of rural infrastructure (roads, market places and warehouses); expanding the fertilizer and agro-inputs subsidy programme initiated in 2005 to cover the whole country; expanding the areas benefiting from irrigation and extension services, which assist farmers in adopting yield increasing technologies (e.g. promotion of production and marketing of non-traditional export crops); promotion of downstream value addition activities (e.g. agro-processing); enhancing access to domestic and foreign markets; and assistance in compliance with international quality standards.

Industrial production, comprising manufacturing, mining and quarrying and construction, grew by an estimated 9.2 per cent in 2007 compared to 8.5 per cent in 2006, and is expected to grow by 10 per cent in 2008. Maintaining high growth rates in the industrial sector will depend on successfully overcoming weaknesses in infrastructure, especially in energy and transportation. The growth of the service sector was expected to slow by 1 per cent from 7.7 per cent in 2006 to 6.7 per cent in 2007. However, a rebound is expected in 2008. As in 2006, trade, hotels and restaurants, real estate and business services, and government services were the most dynamic sub-sectors in 2007. The positive outlook in GDP growth reflects efforts to safeguard macroeconomic stability, a prerequisite for private business to thrive. Under the Labour Institutions Act of 2004 the Government has set new sectoral minimum wages, which went into effect in January 2008. The newly announced sector-specific minimum wages range from TZS 85 000 (Tanzanian shillings) to TZS 350 000, as compared to former minimum wages of TZS 48 000 for urban and TZS 35 000 for rural areas. The new minimum wages are considered high by private businesses and might lead to shedding of labour as a measure to cope

Figure 2 - **GDP by Sector in 2006/07** (percentage)



Source: Author's estimates based on Ministry of Planning, Economy and Empowerment data.

StatLink http://dx.doi.org/10.1787/318177637870

1. Sector shares of GDP are based on revised National Accounts published in July 2007.

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Table 1 - **Demand Composition**

	Percentage of GDP (current prices)		Percentage changes, volume			Contribution to real GDP growth		
	1999	2006	2007(e)	2008(p)	2009(p)	2007(e)	2008(p)	2009(p)
Gross capital formation	**17.5**	**27.9**	**14.5**	**13.4**	**8.0**	**3.1**	**3.1**	**2.0**
Public	3.4	8.0	25.0	20.0	10.0	1.5	1.4	0.8
Private	14.1	19.9	10.3	10.4	7.0	1.6	1.6	1.1
Consumption	**92.8**	**86.0**	**6.0**	**5.9**	**6.8**	**5.1**	**5.0**	**5.7**
Public	11.6	17.7	5.6	5.0	4.4	0.8	0.7	0.6
Private	81.2	68.3	6.0	6.0	7.2	4.3	4.3	5.1
External demand	**-10.3**	**-13.9**				**-1.6**	**-1.5**	**-1.0**
Exports	12.5	22.1	5.5	4.7	6.3	0.9	0.7	1.0
Imports	-22.9	-36.1	11.0	9.2	8.1	-2.5	-2.2	-2.0
Real GDP growth						**6.6**	**6.5**	**6.7**

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

StatLink http://dx.doi.org/10.1787/321405587378

with increasing costs of production. The anticipated growth in sectoral output during 2008 will depend on how enterprises cope with these new wages.

On the demand side, investment as a share of GDP is rising relative to consumption. Investment was strong in 2006, rising to 8 per cent of GDP up from 3.4 per cent in 1999. It is expected to increase even further in 2009 given the government focus on infrastructure development. Private investment is also rising thanks to more widespread access to bank credit and foreign capital inflows. In terms of consumption, imports — led by capital goods and fuel — are likely to maintain the high growth rate seen in recent years.

Macroeconomic Policies

Since February 2007 Tanzania has implemented a reform programme under a three-year IMF Policy Support Instrument (PSI), following the end of the Poverty Reduction and Growth Facility (PRGF) programme in December 2007. Overall, Tanzanian macroeconomic management over the last decade has been positive, enabling graduation to PSI status. PSI status involves surveillance by the IMF, but no lending. The objective of the government under PSI is to increase social spending and infrastructure investment while maintaining macroeconomic stability.

Fiscal Policy

Due to the massive investment in the expansion of social services, government expenditure has risen sharply in recent years, with a further hike of 34 per cent slated for 2007/08. According to initial projections completed in July 2007 and based on previous GDP series, government expenditure would have been 28 per cent of GDP in 2007/08. However, the revised national accounts lowered the forecast to 25.5 per cent of GDP in 2007/08.

The government anticipates that growth in spending will be accommodated by a large increase in revenues, thanks to a combination of strong domestic revenue collection measures and robust GDP growth. As a result, the government budget deficit is forecast to increase only slightly in 2007/08. The revenue-raising measures include indexation of specific excise duty rates, upward adjustment of forestry and hunting fees, fuel levies and user charges. Together, these measures are expected to yield close to 1 per cent of GDP in revenue. The bulk of the increase in revenues is anticipated to come from continued improvements in tax administration, specifically through: further strengthening of large-tax payers department audits in key areas such as mining; tightening procedures for medium-tax payers by establishing specialised units in district offices; additional improvements in customs

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

	1998/99	2003/04	2004/05	2005/06	2006/07(e)	2007/08(p)	2008/09(p)
Total revenue and grants[a]	**12.7**	**18.7**	**21.3**	**18.8**	**19.6**	**20.9**	**22.2**
Tax revenue	9.1	11.6	12.5	12.0	12.6	12.8	13.0
Grants	2.5	6.1	7.6	5.6	5.9	7.0	8.3
Total expenditure and net lending[a]	**13.7**	**21.9**	**24.3**	**23.9**	**24.1**	**25.4**	**27.0**
Current expenditure	11.5	16.3	17.0	18.0	17.5	17.8	18.3
Excluding interest	*8.4*	*15.4*	*15.9*	*16.7*	*16.3*	*16.5*	*17.0*
Wages and salaries	4.0	4.0	4.2	4.1	4.5	4.3	4.1
Interest	3.1	0.9	1.1	1.4	1.2	1.3	1.3
Capital expenditure	2.0	5.6	7.3	5.9	6.6	7.6	8.8
Primary balance	**2.0**	**-2.2**	**-1.9**	**-3.8**	**-3.2**	**-3.3**	**-3.6**
Overall balance	**-1.0**	**-3.2**	**-3.0**	**-5.2**	**-4.5**	**-4.6**	**-4.9**

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

StatLink http://dx.doi.org/10.1787/322188830278

procedures, notably for fuel products; and tighter monitoring of tax exemptions. There are also plans to strengthen collection of non-tax revenue after results from a 2007/08 study are obtained. Donor assistance is also estimated to have grown both in absolute terms and as share of GDP to 5.9 per cent in 2006/07, and further growth is projected in the next two fiscal years.

In 2007/08, 65 per cent of expenditures will be directed to financing Tanzania's second-generation Poverty Reduction Strategy — the National Strategy for Growth and Reduction of Poverty (NSGRP) priorities — up from 46 per cent in 2006/07. There is a strong focus on sustaining social achievements in the education, health and water sectors and on investment in infrastructure.

The government has consistently refrained from domestic deficit financing so as to ease the pressure on monetary policy and interest rates. The authorities are aware that expenditure restraint will be necessary should there be an unexpected shortfall in revenues. In particular, a sharp rise in the public wage bill is imminent due to a recruitment drive in the education and health sectors and the salary increases for other poorly paid civil servants, as recommended by the Presidential Wage Review Commission. The impact of an increased wage bill on public expenditure and inflation remains to be seen.

Expenditure restraint is also necessary as a step towards regaining budgetary independence, given that donor assistance accounts for about 42 per cent of the total budget and about 80 per cent of the development budget. Furthermore, financial vulnerability might result from credit guarantees to the private sector and parastatal bodies under the National Empowerment Policy of 2004[2]. The policy aims to facilitate creation of capacity for local entrepreneurship, among other things, through facilitating easier access to loans for micro, small and medium enterprises. During 2006/07, the government set aside TZS 21 billion for soft loans to micro and small enterprises, in additional to other guarantees already overseen by the central bank. The syndicated loan to TANESCO (equivalent to 1 per cent of GDP) is the largest loan ever issued to a single parastatal firm. If not well managed, these guarantees could result in new debt service obligations for the government. Although there is no national policy on Public Private Partnerships (PPP), collaborative

2. Older schemes such as External Payment Account (EPA), which was created to handle a debt buy-back scheme in the 1990s, has shown the vulnerability to corrupt practices if not well managed. The mismanagement of the scheme led to the dismissing of the Governor of the Central Bank, setting a precedent in the country.

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programmes in infrastructure sectors are also gaining prominence. The legal framework for PPPs, however, must be developed.

The Public Financial Management Reform Programme (PFMRP) review undertaken in 2007 underscored the need to further strengthen the budgetary system in Tanzania, even though it is amongst the most advanced in sub-Saharan Africa. Considerable scope exists for: aligning strategic planning, the Medium Term Expenditure Frameworks (MTEF) and the annual budgeting exercises; improving budget execution by enhancing cash management; strengthening fiscal monitoring by implementing a functional classification of expenditures and extending reporting to the central government (this includes monitoring and reporting on national development strategy (MKUKUTA) spending, contingent liabilities, quasi fiscal activities, and government assets); and, further strengthening of internal and external auditing. Successful reform will require additional measures to address limited staff capacity at the mid and lower levels in central and local government agencies, which will be initiated in 2007/08.

Domestic debt remains relatively modest at USD 1.5 billion (roughly 10 per cent of GDP) as of June 2007, and could decline further if the government honours its commitment to limit domestic deficit financing in the medium term. Efforts are being made to reduce domestic debt service costs through adjustments to the maturity profile of the debt and by increasing the depth of local financial markets.

Monetary Policy

Inflationary pressures emanating from increased world oil prices and domestic food prices challenged the price stability objective of the Tanzania Central Bank in 2007. The Central Bank also had to contend with liquidity creation associated with inflows of external aid. In addition, the shallowness of the financial market complicates the task of the monetary authorities since it entails volatility of money market interest rates in response to open market operations. Tighter monetary policies pushed up the overall yield on treasury bills to 17.1 per cent in June 2007, from 8.2 per cent in June 2006.

Despite a good harvest, food prices eased only slightly with average food inflation falling to 7.0 per cent in 2007 from 7.9 per cent in 2006, due to higher transport costs related to fuel price increases. Underlying inflation increased particularly rapidly, averaging 7.0 per cent in 2007, compared to 4.5 per cent in 2006.

The slowdown in growth of the monetary aggregates indicates that the Central Bank tightened policy. Extended broad money grew by 20.7 per cent in the 2006/07 fiscal year, below both the 31.6 per cent growth in 2005/06, and the target of 24 per cent for 2006/07. Broad money supply grew by 20.1 per cent in 2006/07, also below both the level of the previous year's growth of 24.5 per cent and the target of 23 per cent. Supported by significant foreign lending and government credit guarantees, credit to the private sector nevertheless grew rapidly to 36.4 per cent; it was 35.9 per cent in 2005/06.

Greater co-ordination and transparency of monetary, fiscal, and exchange rate policies and deepening of the money market could help lower interest rate volatility and improve policy making. The Bank of Tanzania is planning to make greater use of foreign exchange rather than Treasury bills in open-market operations. It also plans to improve transparency through issuing policy statements after monthly monetary policy committee meetings and through periodic analyses of the economy.

Increasing reliance on foreign exchange sales for liquidity management in 2007/08 has led to easing of Treasury bill yields and to appreciation of the shilling against major currencies, reversing the sharp depreciating trend during 2006/07. Nevertheless, the Bank of Tanzania is committed to maintaining a flexible exchange rate. To further boost the stability of the money market, improving the liquidity forecasts of the joint Bank of Tanzania -Ministry of Finance Cash Management Committee is crucial. Careful planning of spending and cash flows to Ministries, Departments and Executing Agencies (MDAs) including Local

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Government Authorities (LGAs) is also necessary to manage the liquidity implications of large fluctuations in government cash balances in commercial banks.

External Position

Tanzania's chronic trade and current account deficits have widened recently, with the latter going from 3 per cent of GDP in 2004 to about 10 per cent in 2006 and 11 per cent in 2007. Imports surged in the last few years due to adverse weather and the sharp rise in world oil prices. Even the favourable harvest in 2006/07 did not significantly dampen the fast rising import bill, while export promotion measures appeared to have had little impact outside of tourism. Merchandise export growth has remained quite modest, with the partial exception of minerals, led by gold. Until 2000 Tanzania's major exports were traditional crops, mainly coffee, cotton, tobacco and cashew nuts. Export diversification efforts are showing some success. Mining, mainly gold, accounted for 47.8 per cent of export earnings in 2006, and is expected to reach 50 per cent in 2007, a sharp increase from 27 per cent in 2000. Traditional crops accounted for only 16 per cent of merchandise export earnings in 2006.

Services exports, mainly of tourism, contributed significantly to foreign-exchange earnings, rising by 13.4 per cent in 2006 and an estimated further 14 per cent in 2007. Tourism, mainly hotels, was also the largest recipient of FDI during 2006 and 2007, receiving nearly 50 per cent of the projects approved by the Tanzania Investment Centre (TIC). Ongoing efforts to promote Tanzanian tourist attractions, including development of wildlife, cultural tourism, and archives and antiques, are showing positive results. The government also plans to expand marketing efforts, including television advertisements. The live volcano Oldonyo Lengai Mountain was reopened during 2007 and is seen as a possible additional attraction for both local and international tourists.

Increasing productivity and competitiveness must start with improvements in the business environment. Regional co-operation can be an important building block towards global integration. Tanzania's overlapping membership in various regional groupings may be counterproductive, however, and needs to be addressed. The East African Community (EAC) Customs Union is the most important of Tanzania's regional memberships, but the EAC integration process is far from complete. Further steps remaining to be concluded include: harmonisation of investment codes and rules of origin; institution of joint customs border posts and uniform cargo clearance procedures; standardisation of regulations on product quality standards and metrology; double taxation issues; and restrictions on labour mobility. The accession of Rwanda and Burundi into the EAC in July 2007 will further broaden trade ties among member countries. In August 2007 the EAC Heads of State endorsed the need to move towards establishing a Common Market and a Monetary Union by 2012, while proceeding gradually towards a political federation. In December 2007 the EAC signed an interim Partnership Agreement with the European Union covering trade in goods, a development clause and fisheries as they await conclusion of the comprehensive pact. The agreement is accompanied by

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

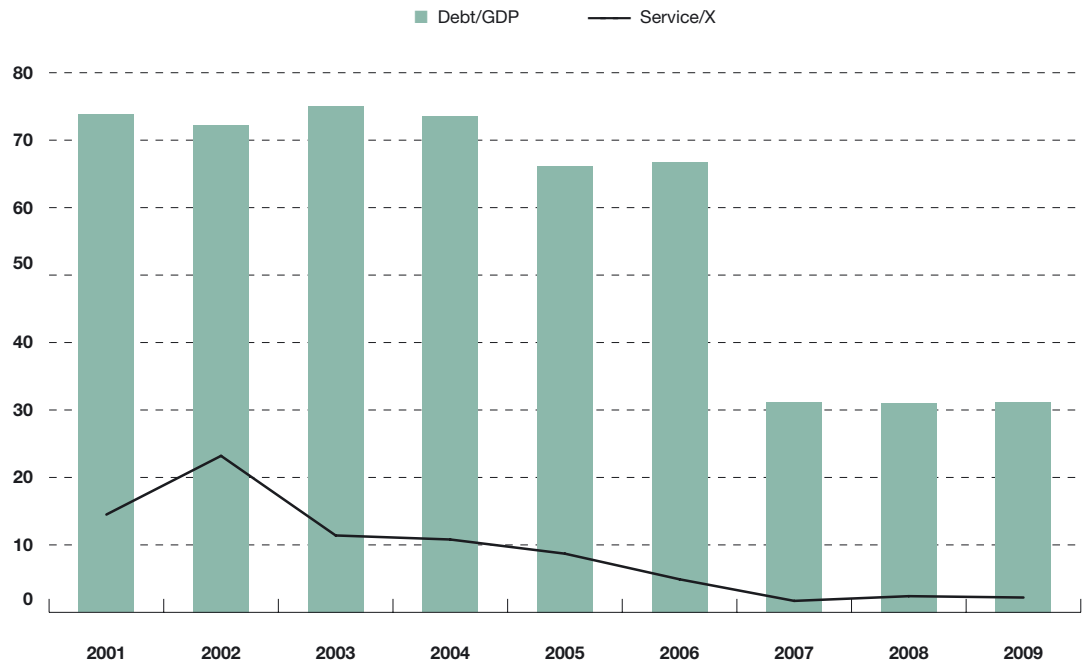
	1999	2004	2005	2006	2007(e)	2008(p)	2009(p)
Trade balance	-7.0	-7.8	-9.3	-15.0	-15.8	-18.9	-19.2
Exports of goods (f.o.b.)	6.2	11.5	11.8	12.2	12.2	11.5	10.9
Imports of goods (f.o.b.)	13.2	19.4	21.2	27.2	28.0	30.4	30.1
Services	-1.9	1.2	0.4	1.7	1.6	1.7	1.9
Factor income	-1.5	-0.9	-0.8	-0.5	-0.2	-0.2	-0.2
Current transfers	3.5	4.6	3.5	4.1	3.8	4.0	4.0
Current account balance	**-6.9**	**-2.9**	**-6.2**	**-9.6**	**-10.7**	**-13.4**	**-13.6**

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

StatLink http://dx.doi.org/10.1787/323320422505

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Figure 3 - **Stock of Total External Debt** (percentage of GDP) **and Debt Service** (percentage of exports of goods and services)



Source: IMF.

StatLink http://dx.doi.org/10.1787/320255538443

easing of rules of origin in the European Union (EU), which has been a major constraint for African exporters trying to export to Europe. The agreement will maintain EAC member states' access to duty free, quota free markets in the EU for all exports except sugar and rice, which are to be liberalised gradually.

Foreign direct investment into Tanzania has been strong, estimated at USD 475 million during 2006 and forecast by the Tanzania Investment Centre (TIC) to rise to USD 550 million in 2007, about 3 per cent of GDP.

Tanzania continued to receive considerable debt relief during 2006/07 through the Multilateral Debt Relief Initiative (MDRI) and Highly Indebted Poor Countries (HIPC) Initiative. As a result, the stock of external debt in June 2007 was reduced to USD 4.9 billion (approximately 31 per cent of GDP), nearly 44 per cent below the stock in June 2006. The government has committed to refrain from non-concessional external borrowing. A joint IMF-World Bank analysis in July 2007 shows that external debt will most likely remain sustainable, as long as Tanzania's current account deficit is financed at highly concessional terms.

Foreign aid and capital inflows more than offset the trade deficit, such that Tanzanian foreign reserves rose to an estimated at USD 2.3 billon in June 2007, equivalent to 4.2 months of imports. Projections for 2007/08 are that reserves will remain around this level. However, this seemingly satisfactory situation depends on an uncomfortable reliance on foreign aid.

Structural Issues

Recent Developments

The government has emphasised the participation of the private sector as a key partner in Tanzania's development strategy. There is a high level of political support through the Tanzania Private Sector Foundation (TPSF), chaired by the President of the United Republic

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of Tanzania (URT). The increased number of FDI projects approved by the TIC indicates that the strategy is having some success. Major efforts to address structural hurdles to private sector development have yielded positive results in areas such as the streamlining of business licensing and registration requirements, legal and judicial reforms, and access to finance. In the World Bank's Doing Business indicators, Tanzania has improved from the 142nd position out of 175 countries in 2006 to the 130th position out of 178 countries in 2007. Scope for further structural reforms is indicated by the fact that Tanzania still ranks below its EAC partner states and many other fast growing economies in Africa and elsewhere.

Poor infrastructure in transport, communications and energy is a major bottleneck that requires increased and sustained investment. The country is implementing a Medium Term Transport Sector Infrastructure Investment Plan (TSIP) but many areas remain untouched. A new Roads Act was enacted in April 2007, increasing budget allocations for road projects to 4.1 per cent of GDP in 2007/08 from 2.6 per cent in 2006/07. Public-private partnerships in infrastructure are also being explored by the government. In the energy sector, hydropower supply has also benefited from the restoration of water levels in major reservoir dams in 2006/07. The Financial Recovery Plan (FRP) for the Tanzanian Electric Supply Company, TANESCO provides for tariff increases to finance new investments. The FRP will involve substantial investments in the power infrastructure that deteriorated badly during a long period of neglect. To this end, in 2007 TANESCO signed a USD 220 million medium term loan with a syndicate of local financial institutions. Additional financial support is being negotiated with Tanzania's development partners to augment the local resources for the FRP as well as the broader Power Sector Reform agenda, which aims to improve the system as a whole and increase access to electricity.

The government announced in 2007 its intention to complete, by December 2007, the divestiture of 36 public enterprises that had not been completed in 2006. Although some good progress has been achieved, it has been difficult to keep this deadline. The major privatisation deal concluded in September 2007 was the concession of Tanzania Railways Corporation (TRC) to RITES Limited of India. RITES Limited will operate passenger and freight services over a period of 25 years, with the government retaining a 49 per cent share of the renamed Tanzania Railway Ltd. Privatisation of the giant insurance company, the National Insurance Corporation (NIC), has been postponed pending a reassessment of its assets. On the other hand, restructuring of the Tanzania Investment Bank (TIB) is progressing well and it has been recapitalised to further boost lending to medium and small sized enterprises.

The Second Generation Financial Sector Reforms (SGFSR) consolidate achievements made during the first generation reforms, and are attempting to address remaining structural constraints to the sector's development. Emphasis includes: establishment of a framework for lease and mortgage financing; a credit information data bank; and a legal and regulatory basis for a credit information bureau. A draft Lease Finance Law was presented to the parliament in November 2007. The use of land in commercial transactions is still limited. The government has been rather slow to revise controversial clauses in the Land Act that would allow lenders to foreclose on mortgaged land, thereby facilitating its use as collateral. Another objective of the SGFSR is a unified legal and regulatory framework and investment guidelines for pension funds. Guidelines for pension fund investments are to be submitted to the government during 2008, after they have been harmonised with amendments to the country's Social Security Act.

Balancing the objectives of raising growth and environmental protection is becoming increasingly important for Tanzania. Investment projects require Environment Impact Assessment (EIA) for approval by the National Environmental Management Council (NEMC). Between 1996 and 2004, before the creation of the NEMC in 2004, 39 out of 40 EIAs were approved. Since 2004, when the Environmental Management Act (EMA) was passed, the number of EIAs has increased while the rate of approval has declined to just 23 out of 32 proposals, indicating increasingly stringent environmental protection.

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Given Tanzania's heavy reliance on wood-based fuels and tourism, additional measures for protection and conservation are in order. A recent study of the timber industry in Southern Tanzania reveals that a large proportion of the population in that area is dependent on logging, and some districts derive as much as 50 per cent of revenue from timber. The study also cited significant corruption in awarding contracts and payments for timber.

The government has proposed some fiscal measures for environmental protection in the 2007/08 budget framework. These include: an increase in fees and charges imposed by the Ministry of Natural Resources and Tourism; an increase in the duty levied on plastic shopping bags; an increase in import duties on used cars that are 10 years or older; and a VAT exemption on liquefied petroleum gas (including its cylinders) to promote the use of gas for cooking and heating in households. Also, the government is reviewing mining contracts with foreign investors to enhance gains to the country.

The decentralisation by devolution programme is progressing, and in 2007/08 the government planned to transfer more resources to local governments to support service delivery at the local level. Complementary measures are required, however, to address acute human resource gaps in local governments. In the 2007/08 budget, the government also allocated more resources to be administered by the Local Government Authorities to promote agriculture. The interventions include irrigation projects, research, technology development and the provision of seeds and input subsidies. For example, the fertiliser subsidy programme, started in 2005, will be expanded.

Technical and Vocational Skills Development

Education is one of the priories of the Tanzanian second-generation Poverty Reduction Strategy (PRS), through the medium term plan for achieving the Tanzania Development Vision 2025. It seeks to provide equitable access to quality primary and secondary education for boys and girls, universal literacy among men and women, and the expansion of higher, technical and vocational education. Several strategies are in place and its implementation is closely monitored at different levels.

Two ministries, the Ministry of Education and Vocational Training (MOVET) and the Ministry of Science, Technology and Higher Education (MOSTHE), are responsible for management and co-ordination of the education system in Tanzania. While the Ministry of Education and Vocation Training (MOVET) co-ordinates primary and secondary institutions, MOSTHE deals with technical and higher education, as well as with science and technology development policy issues. The National Council for Technical Education (NACTE), a semi-autonomous corporate body of the government, is responsible for the accreditation and co-ordination of all technical education and training institutions except in higher education.

Between 1962 and the 1980s, the Tanzania government vigorously pursued a universal primary education programme, as a component of the goals of socialism and self-reliance, with some remarkable results. The gross enrolment rate in primary education rose from 35 per cent in the late 1960s to around 98 per cent in 1980. The economic crisis in the late 1970s and 1980s triggered a deterioration of literacy rates, reduced enrolment at basic and secondary education levels, and generally increased gender disparity at all education levels. By the mid 1990s nearly two-fifths of the population was estimated to be functionally illiterate, learning facilities had deteriorated, and the education system was generally unable to provide human resources to meet the evolving labour market conditions in a liberalised economic system.

In order to address this weakness, major education sector reforms began in the mid 1990s, backed by the Technical Education and Training Policy formulated in Tanzania in 1996 and the Higher Education Training Policy of 1998. Implementation of these policies has facilitated considerable improvements in human capital, but not at a pace sufficient to meet the demands of the strongly growing economy. Enrolment in higher education has been growing and is currently estimated

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at slightly more than 68 000 students (45 per cent female) compared to 30 000 students in 2002/03. Enrolment rose thanks to efforts being made to increase access to higher education including through ensuring funding for capable students from poor families. The ratio of females to males at the ordinary level (secondary school) is about 45 per cent, while for high school (pre-university) it is about 40 per cent. However, the country is still faced with a shortage of skilled labour at all levels.

The formation of the Vocational Education and Training Authority (VETA) in 1994 and the establishment of both VETA and private colleges at regional and district levels, has given a considerable boost to vocational education. The colleges have increased their capacity to absorb students leaving primary and secondary schools for vocational training at certification and diploma levels. The graduates are then eligible for admission to higher-level technical colleges. There are more than 1 000 public and private Technical and Vocational Education and Training (TVET) colleges and institutions. Between 2004 and 2006 VETA produced about 52 000 students (28 per cent of whom were female) from basic and short courses of various trades.

The cost of vocational training is however quite high, especially in private colleges. Although VETA-owned college fees are partially subsidised by the government through the payroll levies collected from employers, further expansion of facilities is necessary to facilitate the access of the rural poor. In recent years, government budget allocation to the education sector has increased from 2.1 per cent of GDP in 1995/96 to around 5.7 per cent of GDP in 2007/08, thanks to increased development assistance. More focus is still needed to enhance entrepreneurial skills development through increasing funding and forging linkages between training colleges and employers in different sectors to provide practical training. The implementation of the National Employment Creation Programme (2007), which focuses on the facilitation of projects to build entrepreneurial capacity through lifelong learning, is a commendable step in this direction.

Political Context

Although President Jakaya Kikwete remains popular, concerns are growing over the effectiveness of the government and its political will to combat corruption. However, the president, as chairman of the ruling party Chama Cha Mapinduzi (CCM), sent a clear message of zero tolerance on corruption in party election campaigns in 2007. Civil society has gradually gained ground in pushing for accountability. The media has played a critical role in keeping the public informed. These efforts have been backed by Parliament where, in several high profile cases, opposition MPs have challenged government officials suspected of corruption.

A major unresolved challenge in the political scene is the long-standing political impasse between CCM, and the major opposition party in Zanzibar islands, the Civic United Front (CUF). New discussions were opened between the Secretary Generals of the two parties in January 2007, aimed at finding a lasting solution to the islands' political problems. However, the lack of a clear agenda appears to have undermined the possibility of a quick breakthrough. While the dispute may not immediately affect the political scene on the mainland, failure to effectively address it could lead to further deterioration of the political situation on the islands, with negative consequences to the Union. The violence following the December 2007 elections in Kenya offers a lesson on the need to maintain security and peace and to work out the unresolved issues in Zanzibar well ahead of the next presidential election in 2010.

The crime rate and episodes of mob justice increased during 2007. This includes young criminals who burgle houses at night, mostly in Dar es Salaam. The government however, is taking measures to address the situation though community policing programmes and by enhancing its capacity to conduct criminal investigations.

In 2006 the president commuted all death penalties to life imprisonment, indicating support for human rights. There was therefore no capital punishment

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carried out in 2007 and a bill to abolish capital punishment will be tabled in 2008.

Ongoing public financial management, legal, and public service reforms are aimed at improving accountability and efficiency in the public sector. Implementation of the Second National Anti-Corruption Strategy and Action Plan (NASCAP II) was launched in December 2006, and a new anti-corruption law to strengthen the prosecution powers of the Prevention and Combating of Corruption Bureau (PCCB) was passed in April 2007. There have been calls for the government to demonstrate its commitment by promptly and effectively addressing the issues. This is because concrete results are yet to be seen in terms of the number of high-level corruption convictions and the imposition of penalties for misuse of public funds.

Some bold steps, though coming late, were undertaken to address allegations of misuse of public funds at the Bank of Tanzania. Allegations first surfaced in late 2006 that considerable sums had been paid out of the account in dubious deals. Local and donor groups put pressure on the government to closely follow up and ascertain the truth. As a result, a special audit of the External Payment Arrears (EPA) account at the Bank of Tanzania was completed in November 2007 during which the governor absented himself. In October 2007, a Presidential Committee was appointed to scrutinise mining contracts with the aim of raising government revenue and increasing benefits to the local population. A Parliamentary Committee was also formed to review the process through which a US-based private company won a tender to supply emergency power generators to TANESCO in 2006. Members of Parliament were concerned that the bidding and selection process violated the country's public procurement regulations. The company failed to honour its obligations and yet TANESCO had to pay huge sums of money because the contract was faulty. The final outcome from the recommendations of these committees will be closely monitored in 2008. The government is losing considerable funds each year due to dubious procurement deals that fail to abide by public procurement regulations. Corrective measures are to be further enhanced through the strengthening of audit functions of the Public Procurement Regulatory Authority (PPRA) and the National Audit Office (NAO).

In February 2008 a parliamentary committee recommended that the prime minister and two ministers be held accountable for violating established procurement rules. The three resigned, compelling the president to dissolve the cabinet.

Social Context and Human Resources Development

Tanzania boasts considerable improvement in social sectors over the last several years, which has brought the country closer to reaching national targets as well as the MDGs, especially in education. In the health sector, mortality rates among infants and children under-five are estimated to have improved substantially. The latest estimates, based on the Demographic and Health Survey of 2004, show infant mortality falling to 68 from 99 per 1 000 live births in 1999, and a reduction in under-five mortality to 112 per 1 000 live births from 147 per 1 000 live births in 1999.

Nonetheless, Tanzania remains a very poor country, with indications of rising inequality. Slightly more than a third of the population is still living below the national poverty line. The 2007 Human Development Report ranks Tanzania 159th in the Human Development Index out of 177 countries based on 2005 indices. The HDI value in 2005 was 0.467, an improvement from the 0.433 index value in 2000, but Tanzania still compares unfavourably with the average index for developing countries. The Human Poverty Index (HPI) ranking, focusing on the proportion of people below a basic human development threshold for education, health and incomes, put Tanzania at 67th out of 108 countries in 2005, which is little changed from its position of 64th out of 102 countries in 2004. About 30.6 per cent of the population is still functionally illiterate, despite progress in education. In the health sector, the probability at birth of a child not surviving to age 40 is quite high, estimated at 36 per cent. It is also estimated that about 38 per cent of the population

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has no access to/does not use an improved water source, which together with the poor sanitation that is especially rampant in unplanned urban dwellings, continues to cause outbreaks of water borne diseases such as cholera. HIV/AIDS is also posing an increasing challenge for the government. The government is currently scaling up support for the use of life-prolonging drugs for people living with HIV/AIDS. The expansion of health facilities, especially in rural areas, addressing the human resource shortages in hospitals, and low pay are among the government's priorities on the health agenda.

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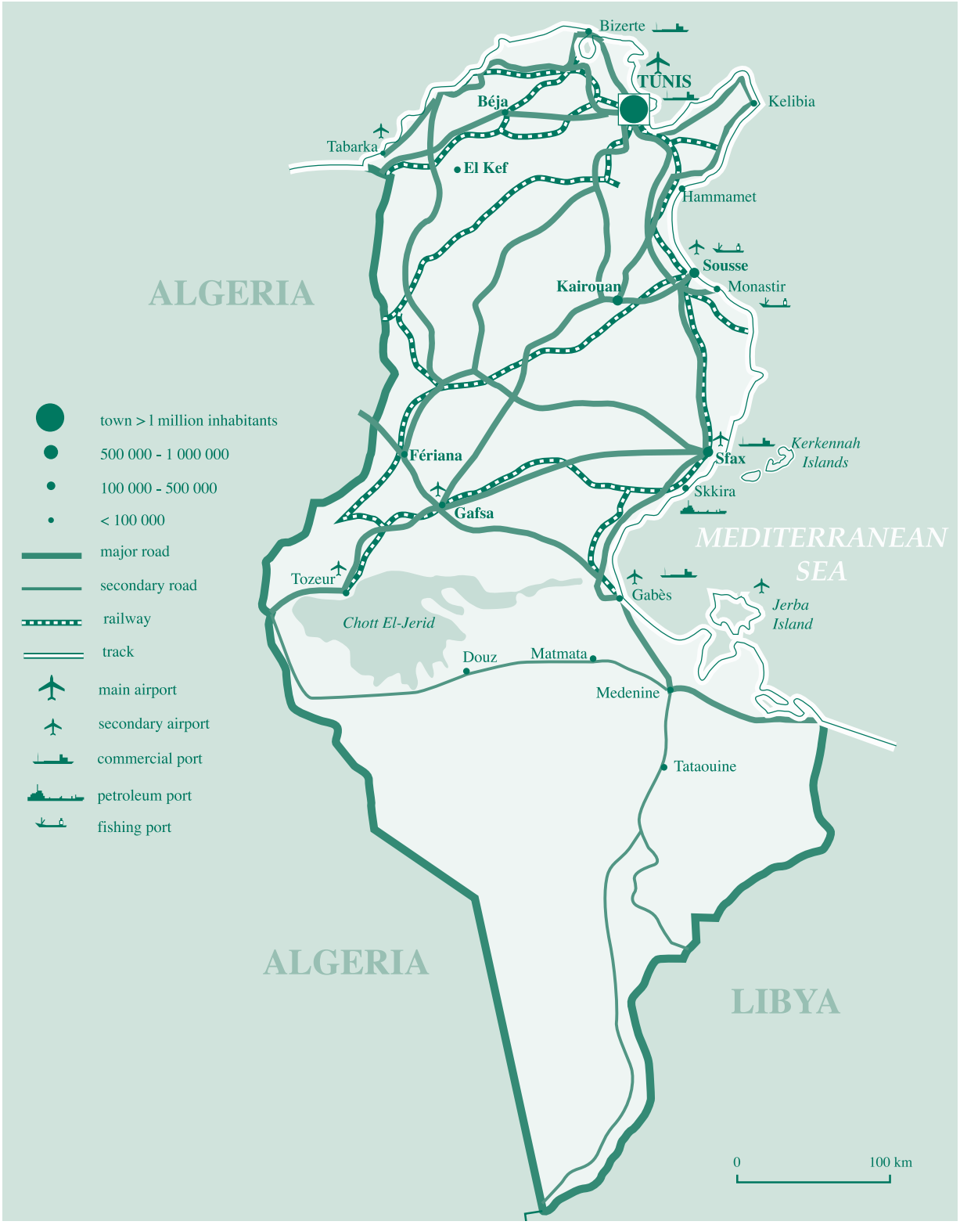
Tunisia



key figures

• Land area, thousands of km²	164
• Population, thousands (2007)	10 327
• GDP per capita, USD at constant 2000 prices (2007)	2 626
• Life expectancy (2007)	73.9
• Illiteracy rate (2007)	22.1

Tunisia


Bizerte
TÛNIS
Béja
Kelibia
Tabarka
El Kef
Hammamet
Sousse
ALGERIA
Kairouan
Monastir
town > 1 million inhabitants
500 000 - 1 000 000
100 000 - 500 000
< 100 000
major road
secondary road
railway
track
main airport
secondary airport
commercial port
petroleum port
fishing port
Fériana
Sfax
Kerkennah Islands
Skkira
Gafsa
MEDITERRANEAN SEA
Tozeur
Gabès
Jerba Island
Chott El-Jerid
Douz
Matmata
Medenine
Tataouine
ALGERIA
LIBYA
0
100 km

Tunisia

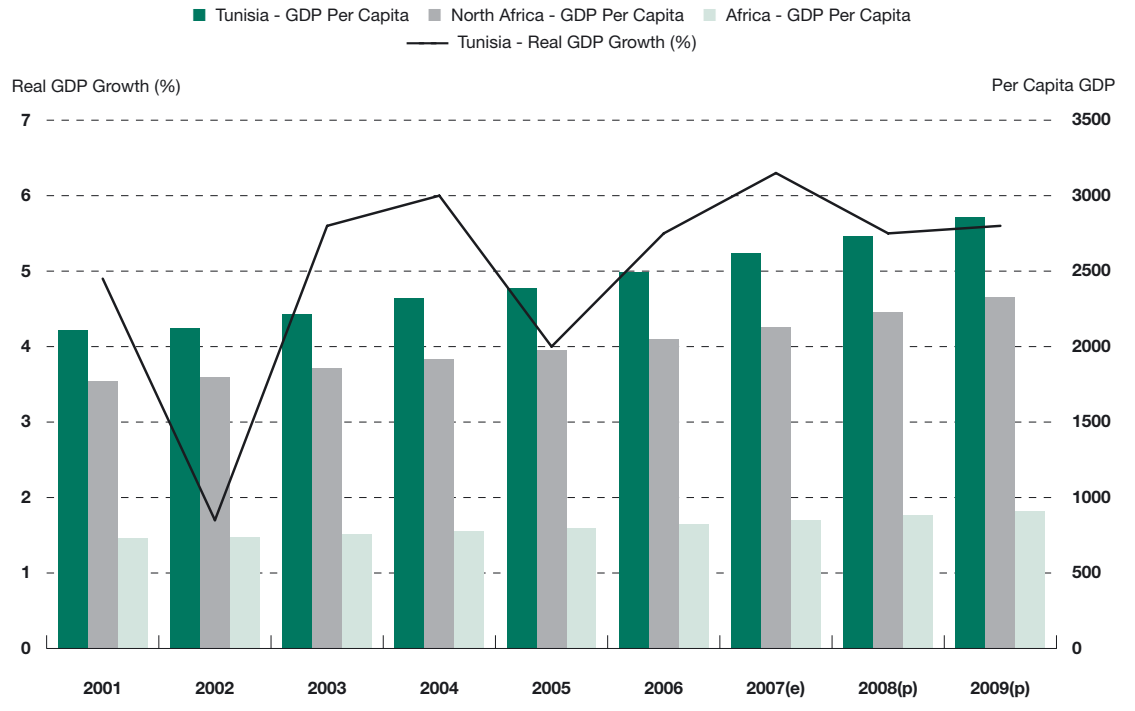
TUNISIA SEEMS TO HAVE SUCCEEDED in meeting the 1 January 2008 deadline, the day the Free Trade Zone Agreement with the European Union (EU) became effective, with a competitive, up-to-scratch economy, well-directed macroeconomic aggregates, and sound, cautious policies.

There is from now on no doubting that Tunisian industry was able to resist its greatest shock, which was the dismantling in 2005 of the Multifibre Arrangement (MFA). Real GDP grew by 6.3 per cent in 2007 and should progress by about 5.5 per cent in 2008 and in 2009. This good performance is directly related to a recovery in agriculture and to a strong increase in investment and exports. Growth perspectives are looking very positive and should allow the country to achieve all the Millennium Development Goals by 2015. The improvement observed in the average standard of living in the past few years has already been accompanied by remarkable social progress.

Further support the private sector to remain competitive and create employment.

Nonetheless, despite good macroeconomic policies, a qualified workforce and high-quality infrastructure, international observers have underscored the lack of vigour of the private sector as one of the country's main weaknesses. It is essential to improve the business climate. The other big challenges to the Tunisian economy are: to maintain its competitiveness as it faces

Figure 1 - **Real GDP Growth and Per Capita GDP**
(USD at constant 2000 prices)



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

StatLink http://dx.doi.org/10.1787/317110055564

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the rapid opening of its markets to European competition and employment. The unemployment rate exceeds an average of 14 per cent and particularly affects women and graduates from higher education.

Recent Economic Developments

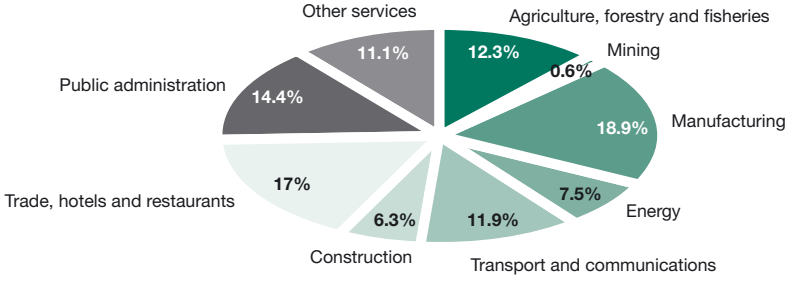
The 11th development plan is banking on an acceleration of the annual growth rate to an average of 6.1 per cent in 2007-11, against 4.5 per cent for the previous plan, based on progress in the market sector, private and foreign investment, and exports. The country seems to be on the right track to reaching these goals, as projections are pointing to a 6.3 per cent real GDP growth rate in 2007, against 5.4 per cent in 2006, and 5.5 per cent and 5.6 per cent real GDP growth rate in 2008 and 2009 respectively. With population growth slowing down, GDP per capita in 2007 was USD 9 401 in purchasing power parity, which placed Tunisia just behind Romania and well ahead of Morocco.

At the sectoral level, growth in 2007 was driven by strong domestic and European demand. It was primarily stimulated by services – telecommunications in particular (up 20 per cent) – the machinery and electricity industries (up 8 per cent), and construction and civil engineering (up 4.3 per cent). Over the years, the manufacturing and tourist sectors have gained a few percentage points of GDP to the detriment of the primary sector (agriculture, oil and phosphates). The Tunisian economy has been diversified and is now less vulnerable than in the past to external shocks such as climate hazards.

Agriculture accounted for 16 per cent of the working population and 12 per cent of GDP in 2006. After a drought-related 7 per cent fall in 2005, its growth rate settled at 2.5 per cent in 2006 and 2.1 per cent in 2007. The 2007 cereal crop, which increased by 25 per cent (up from 1.6 million to 2 million tonnes), should make it possible to reduce cereal imports in 2008. Tunisia exports a good part of its production of cereals, olive oil, vegetables (tomatoes, potatoes, onions, peppers) and fruit to the EU, but usually for amounts under the corresponding export quotas, and does not maximise the value of its exports. For instance, olive oil and wine would bring in more foreign exchange if they were exported in bottles. A 2007 World Bank report judged productivity in the Tunisian agricultural sector to be too weak and stagnant since 1992. The study recommended complete liberalisation of the sector, which is hard to envisage in the short run because of the impact it would have on poverty. Agriculture is also facing desertification and soil erosion. Every year, 20 000 hectares of land are lost to the desert.

Fishing progressed to 109 800 tonnes in 2006, up from 108 700 tonnes in 2005. Given the intensity of inshore fishing, the government is trying to develop fishing in the north of the country and on the high seas. It has also increased the refrigeration and preservation capacity of marine products and adjusted its standards to European export requirements. In 2006,

Figure 2 - **GDP by Sector in 2006** (percentage)



Source: Authors' estimates based on Institut national des statistiques (INS) data.

StatLink http://dx.doi.org/10.1787/318211041243

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20 300 tonnes were exported for a total amount of TND 225 million (Tunisian dinars).

Although crude oil is the leading export product in value, national production is far from covering the country's needs. The fact that only 46 per cent of consumption comes from Tunisian oil fields is due to the country's low refinement capacity. The only refinery, which is state-controlled, has a capacity of 1.9 million tonnes per year, which forces Tunisia to import refined products. To address this problem, the government plans to build a new refinery in the Gulf of Gabes and grant a 30-year concession to Qatar Petroleum International, and this should increase production by 6 million tonnes per year by 2010. At the same time, to increase production of crude oil, which is estimated at 70 000 barrels per day, exploitation and exploration agreements have been reached between the Tunisian public enterprise for oil activities, Etap, and foreign interests. US enterprises hold a 38 per cent share of the hydrocarbon exploration and production market, followed by European, Canadian and Arab enterprises. In all, between 2007 and 2011, Etap plans to drill about 75 oil wells and to issue 44 new exploration permits. In 2007, a dozen permits were issued. A new law on hydrocarbons is being planned to make it possible for foreign enterprises to invest and for Etap to apply for international loans. Tunisia's hydrocarbon reserves are estimated at 838 million oil-equivalent barrels.

Gas production in 2006 amounted to 2 149 million cubic metres, 80 per cent of which came from the Miskar field in the Gulf of Gabes. To reduce the cost of energy and preserve the environment, the 11th plan has earmarked investments in the gas sector worth EUR 133 million (euros), with a view to connecting 500 000 households and several industrial sites by 2009. British Gas has announced that it will invest USD 1.3 billion to extend and develop new production in Tunisia by early 2009.

As for phosphates, the Compagnie des phosphates de Gafsa (CPG), a state monopoly, produced a total of 7.8 million tonnes in 2006 and sold 83 per cent to another state enterprise, Groupe chimique (GC) for transformation into phosphoric acid or fertiliser. The balance was exported (11 per cent, for USD 28 million in revenue) or stored (6 per cent).

In 2006, the manufacturing sector accounted for more than 60 per cent of industrial production, about 20 per cent of the working population and 18.2 per cent of GDP. Growth reached 3.6 per cent in 2006, a mere 0.9 per cent progression from 2005, due to the bad performance of the textile sector (down 5 per cent) and the agrifood industries (down 0.6 per cent). The textile sector put up relatively good resistance to Asian competition by positioning itself on the short distribution channel, i.e. by catering to nearby European consumers, and on quality production. These should be added assets for Tunisia to face the intensification of competition projected for 2008, when Chinese exporters cut loose from their self-imposed limits. In 2006, the textile sector contracted by 4 per cent but still represented 5 per cent of GDP. The sector is broken up into small enterprises, often working as subcontractors, and suffers from a lack of vertical integration. The machinery and electricity industries sector is dynamic, with a 10 per cent growth rate in 2006, estimated at 8 per cent in 2007. The construction sector, which had grown by 5.5 per cent in 2006, has good perspectives owing in particular to increased investments in infrastructure, roads and tourist facilities.

The services sector represents about 40 per cent of GDP and half of the working population. It has expanded significantly in the past few years and has driven Tunisian growth upwards. New information and communication technology (NICT) has been designated as a strategic sector because of its employment potential, but tourism holds the leading position in services. It represented 6 per cent of GDP in 2006, employed more than one-third of the working population and constituted an important source of foreign exchange. In 2006, a record 6.55 million tourists entered the country, 2.7 per cent more than in 2005 for revenue amounting to EUR 1.6 billion , or 6.3 per cent more revenue. Most tourists were French (for 8 million overnight stays), followed by Germans and Italians, but the country is also attracting a growing number of Libyan and Algerian tourists.

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Table 1 - **Demand Composition**

	Percentage of GDP (current prices)		Percentage changes, volume			Contribution to real GDP growth		
	1999	2006	2007(e)	2008(p)	2009(p)	2007(e)	2008(p)	2009(p)
Gross capital formation	**26.3**	**23.1**	**11.1**	**10.0**	**10.5**	**2.1**	**2.0**	**2.2**
Public	4.4	6.2	6.0	4.0	6.0	0.3	0.2	0.3
Private	22.0	16.9	13.0	12.0	12.0	1.8	1.8	1.9
Consumption	**75.9**	**78.9**	**4.9**	**3.7**	**5.9**	**4.0**	**3.0**	**4.6**
Public	15.5	15.1	9.4	3.1	3.4	1.4	0.5	0.5
Private	60.4	63.8	3.9	3.9	6.4	2.6	2.5	4.1
External demand	**-2.3**	**-2.0**				**0.2**	**0.5**	**-1.2**
Exports	42.5	50.3	5.9	5.5	4.6	2.4	2.2	1.9
Imports	-44.8	-52.3	5.5	4.2	7.6	-2.3	-1.7	-3.0
Real GDP growth						**6.3**	**5.5**	**5.6**

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

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Estimates for 2007 are even better, with EUR 1.7 billion in revenues and 6.7 million visitors. An action plan aiming to improve the yield in this key sector will be finalised by 2011. Sea water therapy and hydrotherapy are among the areas chosen for diversification in tourism, as well as golf tourism – nine courses are already operational and six are scheduled for 2011. The country is also aiming to develop cruise tourism. In 2007, Tunisia received visits by 456 ships and more than 600 000 cruise passengers, and the World Tourism Organisation has projected 12 million cruise passengers per year by 2020.

Household consumption is the main engine of growth; it represented 63.8 per cent of GDP in 2006, up 8.8 per cent from 2005. It is expected to grow by just 4 per cent in 2007 and 2008. To develop investment, the 11th plan envisages an increase in household savings even if this requires putting brakes on consumption credit. Public consumption has remained relatively high, at 15.1 per cent of GDP in 2006, but growth projections are modest, as the International Monetary Fund (IMF) has recommended reducing it. Good perspectives for private investment (plus 12 per cent in 2008 and 2009), but also for public investment (up 4 per cent in 2008 and up 6 per cent in 2009) should make it possible for investment to grow faster. The investment effort is crucial for the 11th plan, which has set the goal of 25 per cent of GDP in 2011 (against 23.1 per cent in 2006), with special emphasis on the private sector and foreign direct investment (FDI). In 2008, investment should amount to EUR 1.1 billion, against EUR 800 million in 2007 and EUR 1.9 billion in 2006, based on the partial privatisation of Tunisie Télécom.

Macroeconomic Policies

The 11th development plan, called "Towards a new level of growth", covers the 2007-11 period. In terms of macroeconomic policy, it is aiming for an average budget deficit of 2.5 per cent of GDP (not including privatisations), an average current deficit of 2.6 per cent of GDP and external indebtedness at 39.1 per cent of available revenue by 2011, as well as for an average inflation rate in the range of 2.8 per cent per year. These projections are nonetheless very optimistic. Financing needs amount to TND 81.9 billion.

Fiscal Policy

The situation of public finances in 2007 was influenced by the high international prices of oil and food products, which weighed on the state subsidies

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

	1999	2004	2005	2006	2007(e)	2008(p)	2009(p)
Total revenue and grants[a]	**24.3**	**24.8**	**24.3**	**24.1**	**23.5**	**23.2**	**23.1**
Tax revenue	15.2	14,8	15.1	14.9	14.2	13.9	13.9
Oil revenue	5.9	5.8	5.9	5.9	5.9	5.9	5.9
Total expenditure and net lending[a]	**27.8**	**27.0**	**26.9**	**26.9**	**26.6**	**26.2**	**26.0**
Current expenditure	20.6	19.4	20.4	20.4	20.2	19.8	19.6
Excluding interest	*17.2*	*16.6*	*17.6*	*17.6*	*17.6*	*17.3*	*17.1*
Wages and salaries	11.7	12.1	12.1	12.0	11.8	11.1	10.8
Interest	3.4	2.8	2.8	2.8	2.6	2.6	2.5
Capital expenditure	6.9	7.4	6.4	6.2	6.3	6.3	6.3
Primary balance	**-0.1**	**0.5**	**0.2**	**0.0**	**-0.5**	**-0.5**	**-0.4**
Overall balance	**-3.5**	**-2.3**	**-2.6**	**-2.8**	**-3.1**	**-3.0**	**-2.9**

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

StatLink http://dx.doi.org/10.1787/322273166537

for energy and basic products. The budget deficit reached 3.1 per cent of GDP in 2007, up from 2.8 per cent in 2006, and should decline to 3 per cent in 2008 and 2.9 per cent in 2009.

To limit the impact of subsidies on the budget, Tunisia increased the price of lead-free premium petrol by 4.35 per cent and that of diesel by 6.33 per cent in October 2007. This was the eighth price hike since February 2005, the total increase varying between 33 and 137 per cent depending on the product. Tunisian prices have, however, remained below international levels, with a litre of lead-free premium oil at TND 1.20 and a litre of diesel at TND 0.84.. Four measures have been adopted since 2005 to reduce automobile-fuel consumption: a strict enforcement of the speed limit; a lower fuel allocation for administrative vehicles; cancellation of customs duties on two-wheel motor vehicles; and a consumption diagnosis of engines before the required vehicle inspection.

Excluding subsidies, 2007 expenditure was contained. It amounted to 26.6 per cent of GDP, down from 26.9 per cent in 2006, and this downward trend is expected to continue. On the other hand, as an effect of longer life expectancy, the social security system moved from a surplus of 1.3 per cent of GDP in 1999 to a deficit of 0.3 per cent in 2006. In July 2007, parliament voted a rise of pension contributions in order to absorb the deficit temporarily. A genuine reform of the health-insurance system is planned for 2010 to make it viable through to 2030.

According to the 2008 budget state revenues should be 6.1 per cent higher than in 2007 and come in the following forms: tax revenues (more than TND 10 billion), revenues from loans (TND 3.6 billion) and energy revenues (TND 1.7 billion), the aim being to reduce borrowing. Of the total budget of TND 15.3 billion voted for 2008 , 56 per cent is intended for management expenditure, 21 per cent for development expenditure and 23 per cent for reimbursement of the public debt. The government has announced salary raises for civil servants. On the basis of these projections, the budget deficit is expected to be 3 per cent of GDP.

Monetary Policy

Tunisia's central bank, the Banque Centrale de Tunisie (BCT), continued to implement its restrictive monetary policy by maintaining the money supply as broadly defined (M2) in order to control inflation. The inflation rate for 2007 was 3.1 per cent, down from 4.5 per cent in 2006, and should stay around 3 per cent in 2008 and 2009. The lower rate was achieved in the face of higher prices for fuel and raw materials on the world markets by subsidising basic products and by dipping into the money stocks for market adjustment. To meet imported inflation, the money authorities also continued to

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implement their policy of a growing exchange-rate flexibility, which has made it possible to slow down the increase in prices since August 2006. Between January 2007 and January 2008, the Tunisian dinar appreciated by nearly 5.8 per cent against the US dollar and depreciated by 5.1 per cent relative to the euro. Free floating is not scheduled until 2009 at the earliest.

The Tunisian authorities want to restrain household indebtedness. According to a national survey on household expenses, consumption and standard of living, average indebtedness per household was TND 2 600 at the end of 2006, or about 6.5 times the average salary. Consumption credits grew by 25 per cent in 2006 and represented 41 per cent of credits to private individuals, up from 30 per cent in 2003.

External Position

After signing the association agreement with the EU in 1995, Tunisia focused on upgrading its industry in anticipation of the 1 January 2008 deadline, after which its trade in industrial products with the EU was to be completely liberalised. The authorities are now set to negotiate an enlargement of the agreement to cover services and agricultural products. At the same time, the country is working on accelerating trade and financial integration amongst the Maghreb countries and has welcomed the idea of a Mediterranean Union favourably, whereas the plan for an Arab Maghreb Union is finding difficulty in materialising. On the other hand, the Agadir Agreement signed in 2005 with Egypt, Jordan and Morocco led to the institution of a free-trade zone in March 2007 and, in December 2007, the four countries agreed on a common action plan to face Asian competition in the field of textiles The plan is to reinforce intra-regional trade of inputs and to establish co-operation with international-trade enterprises to conquer new market shares in Europe, the main outlet for textile products from the southern Mediterranean countries. The Pan-Euro-Med rules of origin system, which authorises cumulation of origin and entered into force in August 2006, allows Tunisia to export goods incorporating intermediate products from any other country in the Euro-Med zone without being submitted to the rule of sufficient working or processing; products are thus automatically considered as being of Tunisian origin. Although the EU's market share in Tunisia continues to shrink every year, it is still the country's first trading partner and accounts for three-fourths of Tunisian exports and close to two-thirds of its imports. At the beginning of 2008, Tunisia reopened negotiations in view of a free-trade agreement with the United States. Generally speaking, Tunisian customs tariffs under ordinary law (based on the most-favoured-nation clause) are still very high (greater than 30 per cent).

In 2006, Tunisia's trade deficit worsened, as exports grew (12.6 per cent) far less than imports (15.6 per cent). The cost of imports became greater because of changes in the prices of energy and of the products of the electricity and machineryl industries both in 2006 and in 2007. The trade deficit thus rose from 6.8 per cent of GDP in 2005 to 8.2 per cent in 2006 and is expected to go down to 6.4 per cent in 2007 and in 2008. The good performance of exports is mostly drawn from the mechanical, electricity and manufacturing industries,

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

	1999	2004	2005	2006	2007(e)	2008(p)	2009(p)
Trade balance	-10.3	-8.6	-6.8	-8.2	-6.4	-6.4	-8.3
Exports of goods (f.o.b.)	28.2	34.3	36.1	37.5	39.2	41.2	39.7
Imports of goods (f.o.b.)	-38.6	-42.9	-42.9	-45.8	-45.6	-47.6	-48.0
Services	8.2	5.8	6.3	6.0	6.0	6.1	6.2
Factor income	-0.2	0.4	-1.0	-0.3	-0.6	-0.6	-0.6
Current transfers	0.3	0.4	0.4	0.5	0.5	0.5	0.5
Current account balance	**-2.1**	**-1.9**	**-1.0**	**-2.1**	**-0.5**	**-0.4**	**-2.2**

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

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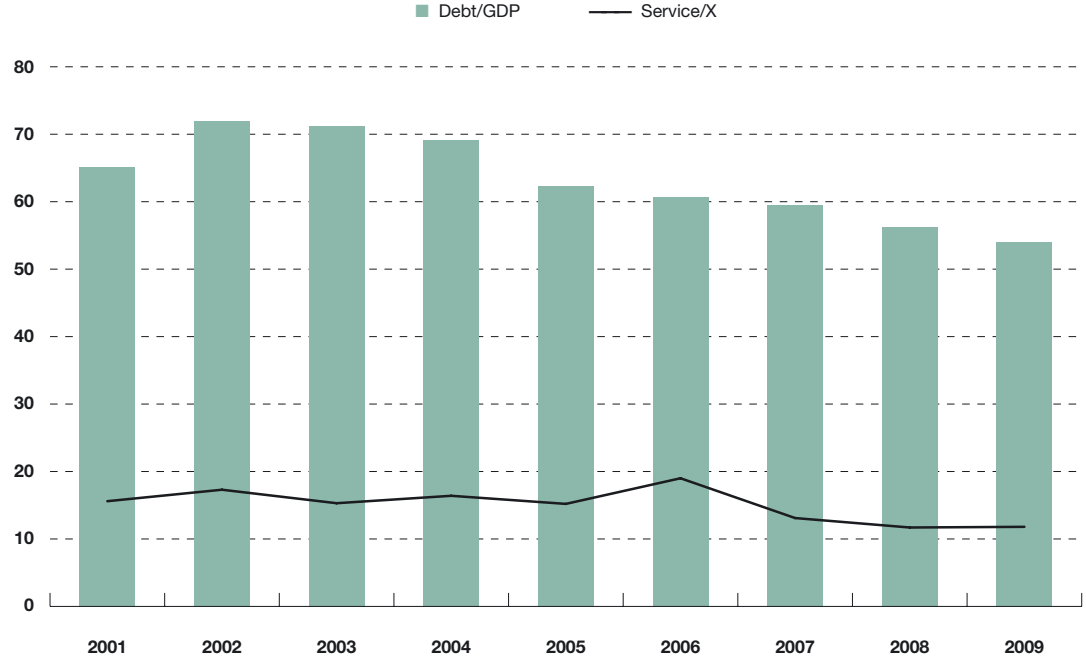
excluding textiles. Textile exports declined by about 3 per cent in 2006, but in the first nine months of 2007, they increased by 15.9 per cent in value owing to recovery in demand in the European market. The agricultural sector, the machinery and electricity industries, and the oil sector recorded strong growth, which brought about a 26.6 per cent rise in exports in the first nine months of 2007 as compared with the same period in 2006. With its greater opening to trade and its good perspectives for growth, Tunisia should increase its imports in the coming years. This could aggravate the trade deficit despite the progression in exports. It is estimated at 8.3 per cent of GDP in 2009.

In 2006, the balance in services improved but resulted nonetheless in a lower surplus: 6 per cent of GDP, down from 6.3 per cent the previous year. The foreign exchange generated by tourism increased by only 3.3 per cent, down from 15.2 per cent in 2005. Thus, the current deficit, after having declined in 2001-05, increased in 2006 as a result of the aggravation of the trade deficit and represented 2.1 per cent of GDP. It should come close to 0.5 per cent of GDP in 2007 and 2008, and 2.2 per cent in 2009.

At the end of 2006, the balance of payments stood at a record surplus of EUR 1.7 billion (6.7 per cent of GDP) as a result of the revenue from the partial privatisation of Tunisie Télécom for EUR 1.8 billion. Foreign direct investment (FDI) also reached a record high of EUR 2.6 billion, or 320 per cent more than in 2005, but when privatisations are excluded, the figure becomes moderate. Official gross reserves continued to increase in 2007 (to the equivalent to five months' worth of imports) and have clearly improved in relation to 2003 (three months' worth of imports). Otherwise, the Banque des règlements internationaux estimated Tunisian holdings abroad at USD 7 million, while the BCT is campaigning for the repatriation of funds invested abroad.

A three-phase gradual liberalisation process of the capital account was initiated in 2005. The first phase has consisted in liberalising medium- and long-term

Figure 3 - **Stock of Total External Debt** (percentage of GDP) **and Debt Service** (percentage of exports of goods and services)



Source: IMF.

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capital flows, such as non-residents' direct investments and long-term credits, to the benefit of listed enterprises or government securities in national currency. This first phase has nearly been completed. Since the beginning of 2007, resident financial institutions can negotiate loans with non-residents in foreign currency for more than 12 months and for unlimited amounts (previously, such amounts were limited to TND 10 million per year). Resident listed enterprises can negotiate such loans up to the yearly limit of the equivalent of TND 10 million (which was previously TND 3 million). The ceilings on short-term loans in foreign currency have been raised significantly. The second phase plans, by the beginning of 2009, to liberalise direct investment abroad by residents so Tunisian institutional investors can make portfolio investments abroad and non-residents can make portfolio investments in the form debt certificates. This phase requires floating the exchange rate and a strong banking system to stand up to international competition, whereas on the foreign-exchange market, futures trading and foreign-exchange options remain restricted and put a brake on the opening of the capital account. The third phase is total convertibility of the national currency, scheduled for late 2009. It will require the liberalisation of portfolio investments abroad by residents and loans granted by residents to non-residents. This phase will necessitate a vigorous financial sector and a strong balance-of-payments situation. Thus, in 2010, Tunisians should be completely free to move their assets to foreign countries.

Tunisia is focusing on reducing its external debt by allocating part of its privatisation revenues to relieving its debt burden. Thus, the partial privatisation of Tunisie Télécom in 2006 made it possible to reduce outstanding public debt. The ratio of the external debt in percentage of GDP declined from 65.4 per cent in 2005 to nearly 59 per cent in 2006 and 53.6 per cent at the end of 2007. The presidential programme "For tomorrow's Tunisia" has set as a goal a debt level in the order of 46.5 per cent of GDP by 2009. This rate is, however, still higher than the median of other emerging countries that have a similar sovereign rating (40 per cent of GDP). The debt ratio in percentage of exports declined from 19 per cent in 2006 to 13.4 per cent in 2007.

Structural Issues

Recent Developments

Tunisia is developing "competitiveness centres" and should have 12 technology hubs on its territory by 2015. The authorities are expecting much from the private sector to meet their growth and employment-generation objectives. In respect of the country's enterprise-upgrading programme, which involves 10 000 enterprises, 3 896 had joined the programme by the end of 2006 and 2 434 had obtained approval of their modernisation plan for equipment renewal, reorganisation of the production system, staff training, quality control, etc. In 2007, the reforms implemented in view of the convertibility of the dinar, trade liberalisation and the enhancement of banking performances aimed at improving the business climate and at strengthening the economy's competitiveness. The World Bank's *Doing Business* 2008 report ranks Tunisia 88th out of 178 countries, a better ranking than Egypt's (126th) and Morocco's (129th). Nonetheless, the business climate is lagging behind in the employing workers category (113th) and even more so in the paying taxes (148th) and protecting investors (147th) categories.

The government is maintaining a cautious line in its privatisation policy. Having sold 35 per cent of Tunisie Télécom's capital in 2006 for USD 2.25 billion, it now plans to sell 16 per cent more by 2009. The Société tunisienne d'assurances et de reassurances (STAR), the leading Tunisian insurance company, is in the process of being partially privatised and is expected to dispose of 35 per cent of its capital in 2008. Since 1987, a total of 209 enterprises have been privatised for revenues amounting to TND 5.7 billion. In 2007, nine operations were performed for TND 130 million.

Transportation and communications policy is focused on the improvement of infrastructure and on deregulation and privatisation of the sectors. The latest far-reaching projects are the construction of a deep-water port by 2010 in Enfidha (70 kilometres south of Tunis), where the country's ninth most important airport will also be built (operational in 2009 for its first phase),

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the eighth having been inaugurated in Gabes in January 2008. A 160-kilometre highway, some sections of which are already finished, connects Sousse with Sfax, Madhia and Oued Zargua, and technical studies are underway, in particular to connect Sfax with the Libyan capital Tripoli. In Tunis, a new line in the elevated rapid transit system will extend the network from 32 to 60 kilometres by 2009. In the electricity sector, Tunisia is preparing a radical increase in its production capacities by 2010 with the construction of several new power stations (in the east, in the north, in the vicinities of Tunis, Sfax, Gabes and Cap Bon). Moreover, in December 2006, the state-owned oil and gas utility, Société tunisienne d'électricité et de gaz (Steg), signed an agreement with France for the construction of a nuclear plant in order to reduce the country's dependence oil and gas imports.

The telecommunications sector, in full expansion, recorded 18 per cent to 24 per cent annual growth rates between 2002 and 2006 and investment levels rose from TND 550 million to TND 650 million per year. Tunisiana, the second mobile telephony operator, finished 2006 with more than 3 million subscribers (against 4.3 million for Tunisie Télécom) and brought in more than TND 300 million with nearly TND 40 million in net profits. The price of telecommunications fell significantly but could drop further because the state is preparing to re-energise competition by selling a third mobile-telephony license by 2009 and disposing of some more of Tunisie Télécom's capital. On the other hand, the fixed line penetration rate is one of the lowest in North Africa: no more than 12.5 per cent of the population had a land line in 2006. Internet subscription tariffs dropped significantly, but connection speed remains very slow. There were 70 000 connections in March 2007, the national goal being 600 000 by the end of 2009. The number of Tunisians having a computer at home, however, is very low (7.2 per cent of households in 2006).

The banking sector recorded encouraging progress in 2006 with stabilisation of bank portfolios and improved profitability indicators. The rate of overdue debts fell from 24 per cent of total debts in 2003 to 19.2 per cent in 2006, for a targeted 15 per cent goal in 2009. The three state-owned banks reduced this type of debt from 27.4 per cent in 2004 to 19.7 per cent in 2006. At the same time, banks continued to build their reserves for bad debts, moving from 43.1 per cent in 2003 to 49.2 per cent in 2006, but the 70 per cent goal by 2009 will be quite difficult to reach, especially for the state-owned banks. In addition, the new 2006 banking legislation set strict rules on transparency and credit distribution, and strengthened the central bank's supervision role. All things considered, although the banking sector remains frail, there should be no danger of a future systemic crisis; the sector's weakness could, however, make economic growth problematic and above all, delay any serious attempt to liberalise the capital account.

In Tunisia, the yearly cost of environmental degradation is estimated at 2.1 per cent of GDP, the lowest rate amongst the Maghreb countries. The scarcity and fragility of natural resources is in fact the most disturbing problem, because mobilisation of Tunisian water and land resources has reached its limits.

Technical and Vocational Skills Development

In Tunisia, vocational training can be initial or continued training. The former aims to dispense the knowledge needed for practising a particular trade or profession, prepares students' integration into working life and includes training in vocational-training institutions, sandwich-training schemes, vocational learning and distance learning. As for continued vocational training, its aim is to adapt the labour force to technological and job changes, to impart new skills and to support the career and social promotion of those involved.

Initial training comprises three qualification levels: a vocational training certificate, or CAP, available to candidates aged 16 who have successfully acquired basic education; a professional technician's certificate, or BTP, available to those who have obtained the CAP or to high-school students having successfully completed the second year of secondary education; and an advanced technician's certificate, or BTS, open to those who have obtained a BTP or have successfully

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passed the baccalaureate, or secondary-education certificate, in a field compatible with the chosen option. The system is chiefly made up of four types of institution: private institutions, which mostly offer training in the services sector and represent about 45 per cent the country's total training capacity; a network of technical institutions under the supervision of the ministry of higher education, which represents 22 per cent of total capacity; vocation-training programmes managed by the ministries of agriculture, health and tourism, representing 15 per cent of total capacity; and a national network of training centres, currently managed by the ministry of education and training, which delivers 18 per cent of the country's total training capacity, specially in the industrial field. The ministry of education and training is the only provider of industrial training. In 2006/07 34 new centres were opened and 48 were reorganised for a training offer equivalent to 64 000 positions, up from 36 000 in 2003, and to 164 programmes. In 2007, Tunisia had 343 approved vocational-training centres and 133 private centres. The number of graduates in approved training grew from 15 000 in 2001 to 27 500 in 2005, then to 31 000 in 2006. By comparison, in the same year, about 10 000 students obtained their diploma from a private institution. Women represented 39.4 per cent of vocational-training graduates in 2005, down from 54.8 per cent in 2000, because more women are now moving into higher education.

In the field of continued training, a national continued-training programme, Pronafoc, was introduced in 1996 into small and medium-sized enterprises (SMEs) employing fewer than 100 permanent staff. It aims to help enterprises not only to acquire the necessary qualifications for a good application of production methods, introduce new technology, and improve the quality of production and the maintenance of equipment; but also to improve their management methods. Priority sectors are textiles, clothing, leather and shoes, the electricity and machinery industry, agribusiness, construction, and ceramics and glass. Pronafoc training can be followed on site or in another enterprise, or through night school, distance learning or courses abroad. The Fonds d'insertion et d'adaptation professionnelle, an employment and training fund, is also involved in the development of continued training; it serves all private enterprises, whatever their size. But in practice it is mostly large enterprises that benefit from continued training, very often under state supervision, because reimbursement of the vocational-training tax (TFP) does not hold out much incentive for the others.

A ministry of vocational training and employment had been set up in 1990 and was then abolished in 2002. Since then, vocational training has been under the authority of the ministry of education. Starting in 1993, the government instituted vocational-preparation internships allowing apprentices to obtain vocational training in return for lower wages. In 1997, in the broader context of upgrading the Tunisian economy, the government launched a programme to raise the standards of training and employment (MANFORME), a strategy of human-resources appreciation focusing on three goals: a demand-induced approach to respond to the production sector; a flexible training capacity to respond to the specificity and evolution of qualification needs; and encouragement of autonomy in the financing and management of training centres. In other words, all the planned actions were to be based on meeting the demand in skills. Since 1990s, efforts have been made to get the private sector involved in training. In view, however, of the delays in their implementation and the lack of financing, many reforms are still in their initial phase. At the end of January 2008, the chamber of deputies adopted a government bill on vocational training. The measures aim to increase the intake capacity of the centres, to reinforce option-based training under partnerships with enterprises and to promote the efficiency of sandwich-training schemes. In addition, bridges have been set up between general education and technical learning so students can transfer from one to the other.

The public training centres are essentially financed by the state budget. Registration and accommodation fees requested from the students represent only 10 per cent of their total budget. The weak links between the training centres and enterprises limit the possibilities

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of contract-based services and sources of income. Continued training is financed by the TFP, which has to be paid by all enterprises except offshore enterprises. Manufacturing enterprises pay 1 per cent of their wage bill, whereas non-manufacturing enterprises pay 2 per cent. On the other hand, they benefit from a partial tax cut when they provide continued training. In practice, only a minority of enterprises benefit from this provision. The tax cut is not a strong incentive, especially for SMEs, because the TFP is low and covers very little of the cost of continued training.

The chief challenge in vocational training is that of increasing the number of qualified people. Vocational training is part of the policy of employment and of the fight against unemployment, but the large majority of pupils choose to be schooled in the general education system.

It is estimated that 67 000 new skilled and trained workers are needed each year, or about 50 000 graduates of the Tunisian professional-training agency, the Agence tunisienne de formation professionnelle (ATFP). In 2006, the ATFP produced only 31 000 skilled and trained workers. To meet labour-force needs for the large investment projects, 30 construction specialties were opened and 140 000 training positions will be available in the next three years. It will however be necessary to attract applicants, when the vocational-training option is mainly dictated by failure in the secondary school curriculum. A second challenge is to get professional organisations and enterprises more deeply involved in the training process in to improve the quality of training and to adapt it better to the needs of the labour market. A third challenge is to adopt a new management model for the training centres in order to reduce their dependence on the state budget.

Political Context

The country lives under the rule of the Rassemblement constitutionnel démocratique (RCD), the party in power. In spite of the recent arrival in the chamber of deputies of opposition parties, which won 20 per cent of the 189 seats in 2004, and the announcement by the president of greater pluralism, there does not seem to be any real change. The incumbent president, Zine El Abidine Ben Ali, whose period in office ends in 2009, is expected to run for a new five-year term. The political and institutional reform process is stagnating because of the authorities' strict control over the information media and the press in general. According to the organisation Reporters without Borders, several newspaper issues are censored or forbidden every year and a number of Internet web sites are blocked. The authorities also monitor union activity and the Tunisian Human Rights League. This trend is expected to continue, especially in the context of the war declared on terrorism and the events that took place in December 2006, during which a cell connected to Al-Qaida was dismantled. In the view of many experts, there is a widening gap between the economic performance being achieved and the progress of civil liberties and political rights.

Social Context and Human Resources Development

As early as 1956, the Personal Status Law granted Tunisian women "a head start" in emancipation. In Tunisia, 23 per cent of the seats in the chamber of deputies are occupied by women – far above the 8.2 per cent average of the Arab world – and 26 per cent of municipal councillors and one-third of magistrates are also women, as well as 58 per cent of university students and 60 per cent of university graduates.

The poverty rate declined from 12.9 per cent in 1980 to 4.2 per cent in 2000, then to 3.8 per cent in 2005. This obvious improvement is the result of having pegged the poverty-reduction goal to economic growth. Thus, in 2007, 58.8 per cent of the state budget and 19 per cent of GDP were devoted to social transfers, which allowed households to improve their material living conditions, notably in the rural world. The middle class grows larger every year: it included 81.1 per cent of the population in 2005, up from 70.6 per cent in 2000. In the midst of these achievements, there are some persisting inequalities amongst households, in particular between urban and rural areas.

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Young persons, who represent two-thirds of the unemployed, seek to escape from "an uncertain future" in their country. A United Nations report estimates that 41 per cent of Tunisians between the ages of 15 and 19 wish to leave Tunisia. In the framework of a November 2007 agreement on migratory flows, Italy has announced a gradual 33 per cent increase of the entry quotas for Tunisian workers starting in 2008.

Health expenditure represented 2 per cent of GDP and 8 per cent of public expenditure in 2006. Health and welfare indicators improved between 2006 and 2007 with life expectancy at birth moving from 73.6 to 73.9 and the welfare coverage of employees who are members of the different social security schemes rose from 90.4 per cent to 91.9 per cent. All the health indicators are pointed in the right direction except for heart and respiratory diseases, which have increased as the average age of the population has risen. According to local sources, infant mortality was reduced from 21.1 to 18.4 per 1 000 live births between 2006 and 2007 and the population per physician fell from 1 043 in 2003 to 968 in 2007. Vaccination rates stood at nearly 100 per cent in 2006 and the HIV/AIDS epidemic had only affected 0.11 per cent of the total population. In addition, the various family-planning programmes implemented since the 1960s have made it possible to control the birth rate, which has been stable at 17 births per 1 000 population since 2003. Thus, the population growth rate has declined, from 1.08 per cent in 2004 to 1 per cent in 2006.

As for employment, government efforts resulted in reducing the unemployment rate from about 15 per cent in 2001 to 14.2 per cent in 2005. Since then the rate has remained in the vicinity of 14 per cent, its failure to decline being essentially due to a much greater employment demand every year, estimated at 88 300 for 2008. According to the estimates laid out in the 11th plan, 412 000 jobs should be created between 2007 and 2011 to reduce the unemployment rate to 13.4 per cent of the active population. Two-thirds of the demand comes from recent university graduates. To deal with this additional labour supply, the authorities intend to rely on self-employment and private initiative, an increased flexibility in the market and above all, on a reallocation of skilled labour to sectors with high employment capacities.

The education budget has represented 7 per cent of GDP since 2005. This effort has made it possible to reduce the illiteracy rate from 22.4 per cent in 2003 to 22.1 per cent in 2007. However, expenditure is essentially earmarked for buildings and facilities and the general aim is to improve the number of people in education rather than the quality of education. Net enrolment rates are close to 100 per cent in primary school, but only 73 per cent in secondary school, as a result of substantial school failure and drop-outs. In addition, whereas the number of pupils is declining in primary school, the number of university students is growing strongly and a figure of 478 000 students in 2011 is projected, up from 345 000 in 2007. Higher education is in the midst of the LMD reform (*Licence, Mastère et Doctorat*, or first degree, master's degree and doctorate). At the start of the 2007/08 school year, about two-thirds of higher-education institutions had adopted the reform.

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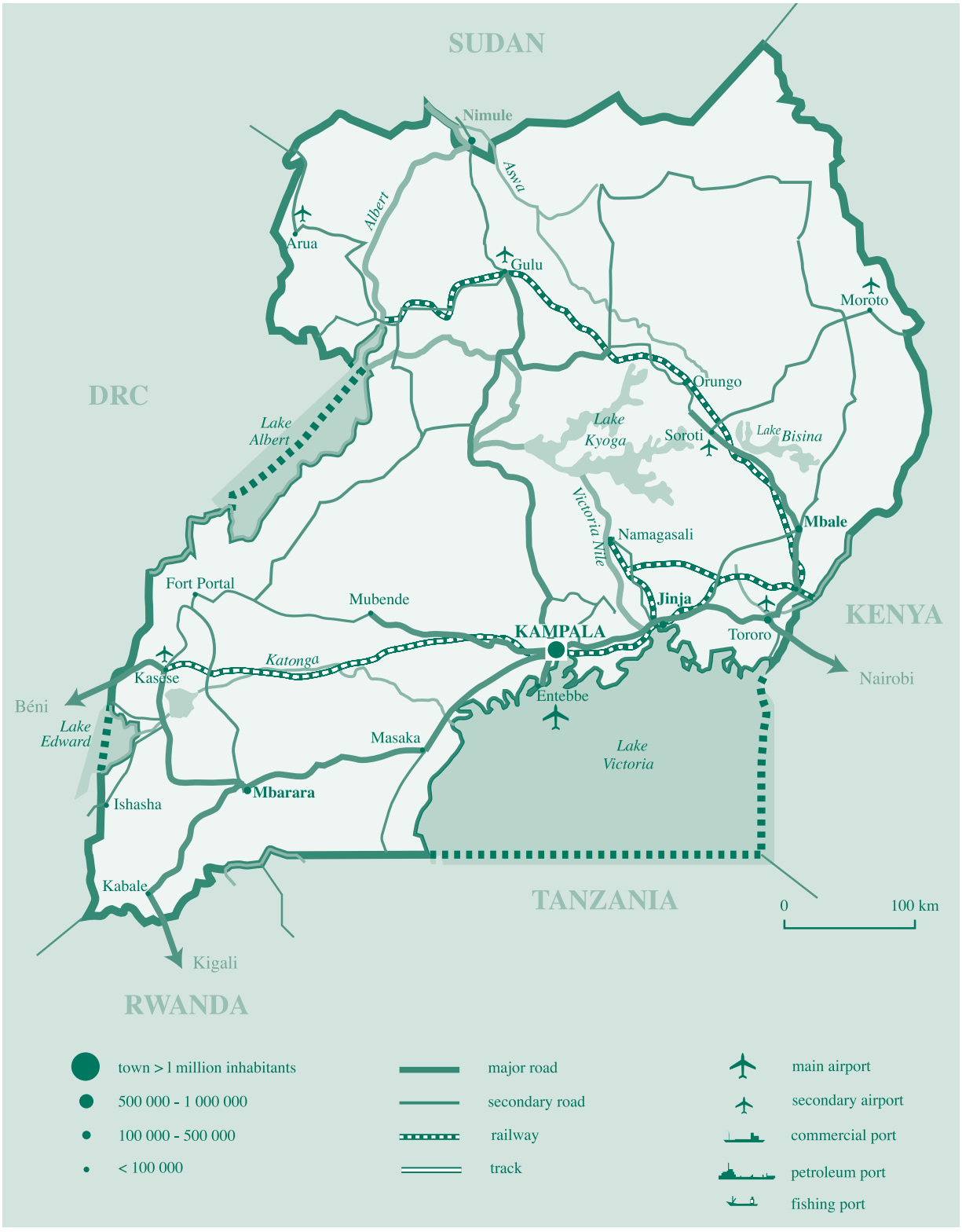
Uganda



key figures

• Land area, thousands of km²	241
• Population, thousands (2007)	30 884
• GDP per capita, USD at constant 2000 prices (2005/06)	273
• Life expectancy (2007)	51.5
• Illiteracy rate (2007)	26.8

Uganda


SUDAN
Nimule
Aswa
Albert
Arua
Gulu
Moroto
DRC
Orungo
Lake
Albert
Lake
Kyoga
Soroti
Lake
Bisina
Victoria Nile
Namagasali
Mbale
Fort Portal
Mubende
Jinja
KENYA
KAMPALA
Tororo
Katonga
Kasese
Nairobi
Entebbe
Béni
Lake
Edward
Masaka
Lake
Victoria
Mbarara
Ishasha
Kabale
TANZANIA
0
100 km
Kigali
RWANDA
town > 1 million inhabitants
500 000 - 1 000 000
100 000 - 500 000
< 100 000
major road
secondary road
railway
track
main airport
secondary airport
commercial port
petroleum port
fishing port

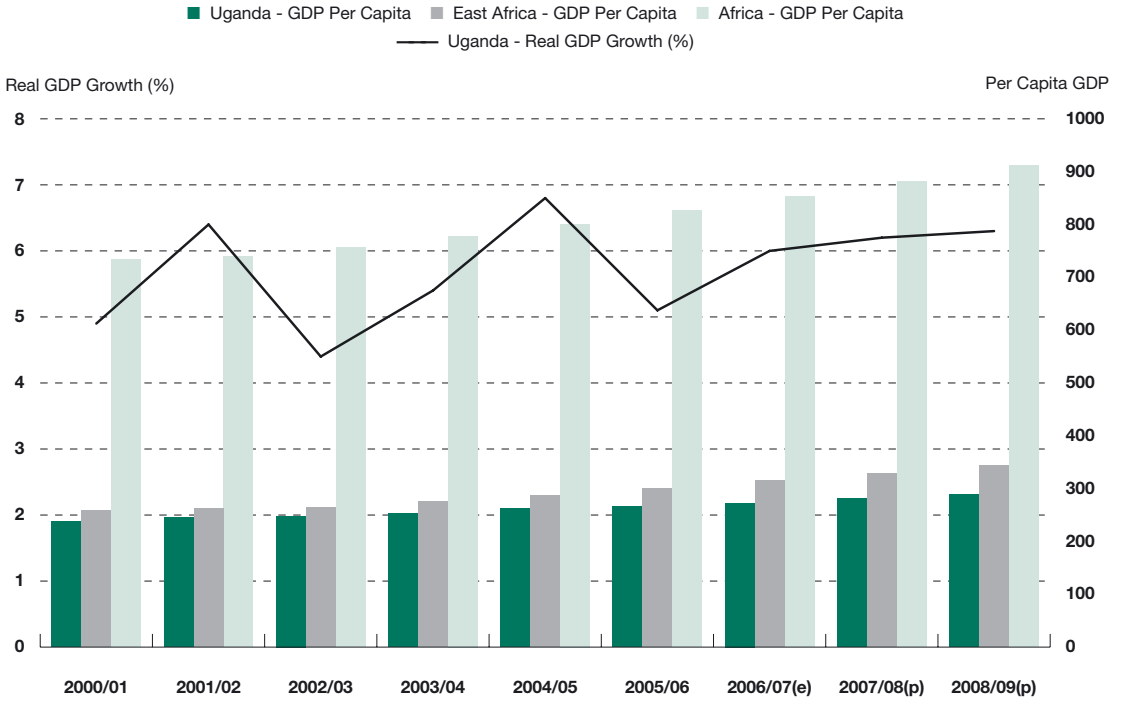
Uganda

UGANDA CONTINUES TO SUSTAIN THE SUCCESS of the last two decades with the economy characterised by high growth and low inflation. The real GDP growth rate was 6.0 per cent in the 2006/07 fiscal year and is projected to rise to 6.2 per cent in 2007/08. Economic performance in 2006/07 benefited from increased export diversification and investment in construction and services. The base of Uganda's growth seems to be broadening as reflected in the introduction of new products, exports, technology and movement of labour into new occupations. But growth remains below potential because of infrastructure constraints, especially the energy deficit, and shocks as a result of flooding that destroyed crops and transport infrastructure in some areas.

As in previous years, sound macroeconomic management and pro-market reforms supported by large inflows of concessional credit and grants from donors helped Uganda to maintain overall macroeconomic stability in the face of strong external and internal shocks, including increasing oil prices and declining terms of trade. Banking-sector reforms and the licensing of four new commercial banks led to higher lending to the private sector, but high interest rates and spreads are major constraints. Growth in employment in manufacturing and large-scale commercial agriculture remains limited and much

Fiscal decentralisation and financial autonomy are essential for improved service delivery.

Figure 1 - **Real GDP Growth and Per Capita GDP**
(USD at constant 2000 prices)



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

StatLink http://dx.doi.org/10.1787/316822153070

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of the growth in output and employment has been in informal and micro enterprises.

Uganda continues to enjoy political stability and has successfully hosted the Commonwealth Heads of Government Meeting (CHOGM) in November 2007. Deepening decentralisation is strengthening political and economic management and helping to improve the delivery of public services. The political environment has improved following the agreement with the Lord Resistance's Army (LRA) on cessation of hostilities signed in August 2006 and the new security accord with the Democratic Republic of Congo (DRC) signed in September 2007. However, large regional inequalities – with the eastern and northern regions trailing behind – and the security situation along the DRC border remain major concerns.

Despite economic and political challenges, Uganda has made notable improvements in social well being. This has been manifested in terms of increased per capita income, improved education (including universal primary and secondary education programmes), better health outcomes and continued reduction in HIV/AIDS infection rates. But, due to limited economic diversification and heavy dependence on subsistence agriculture, further significant progress in poverty reduction will be difficult. Uganda needs to strengthen and sustain measures introduced in recent years to improve governance and combat corruption in particular.

Recent Economic Developments

The Ugandan economy experienced robust 6.0 per cent growth in 2006/07, rebounding from the slowdown in 2005/06. Economic growth in 2006/07 was driven mainly by good performance in the services sector, which registered a 9.5 per cent growth rate compared to 5.8 per cent growth for industry and 1.8 per cent for agriculture. The transport and communication sub-sector which expanded by 22.3 per cent continued to spur growth in services, followed by construction (11.3 per cent) and wholesale and retail services (9.7 per cent). Telecommunications was the fastest growing sub-sector (33.3 per cent) due to rapid expansion in mobile telephone services, while rehabilitation and maintenance of roads, as part of the 10-year road-sector development plan, boosted growth in transport.

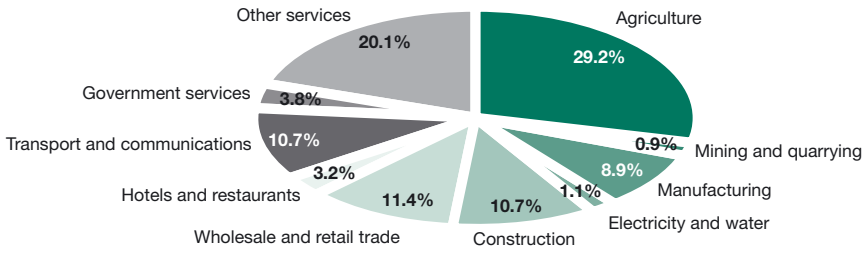
Despite the impact of flooding, growth in the agricultural sector improved in 2006/07 compared to 2005/06 thanks to normal and evenly distributed rainfall in the previously drought-stricken eastern and western parts of the country. This led to increased production of food and cash crops and should help poverty reduction efforts as income and asset inequality declines. Currently agriculture employs about 67 per cent of the labour force. However, the high population growth rate, coupled with declining average farm size, is an obstacle to agricultural production. A recent World Bank report shows that Uganda has the highest dependency ratio, i.e., the number of young people (under 16) and older people (over 64) who depend on people of working age (16 to 64) in the world[1]. This highlights the need for Uganda to modernise its agriculture at the same time as reducing dependency on it by diversifying the economy and creating more jobs in industry in particular.

Industrial output grew at 5.8 per cent in 2006/07, up from 5.6 per cent in 2005/06, despite the adverse impact of electricity shortages and increasing costs of inputs[2]. This strong performance was due mainly to high growth in the mining and quarrying sub-sector (14.2 per cent) in 2006/07, stimulated chiefly by increased construction activities. Growth in the manufacturing sub-sector although higher, remained modest at around 2.9 per cent (up from 0.1 per cent in 2005/06). Recent oil discoveries have raised hopes of Uganda becoming an oil producer by 2009.[3]

1. World Bank (2007), "Beyond Recovery: Investment and behavior change for growth," Uganda *Country Economic Memorandum* (vol. 2).
2. The energy shortage was caused by high demand and a drop in hydroelectric generation of nearly 200 MW due to falling water levels in Lake Victoria, along with a deficient transmission network and dilapidated distribution meters.
3. Ministry of Finance, *Background to the Budget 2006/07.*

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Figure 2 - **GDP by Sector in 2006/07** (percentage)



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

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The services sector's share in GDP continued to rise, reaching 47.1 per cent in 2006/07 compared to 45.8 per cent in 2005/06. In contrast, the share of agriculture declined from 33.3 per cent to 31.9 per cent over the same period. The share of industry remained virtually unchanged at about 21 per cent in 2005/06 and 2006/07. A major cause of the declining share of agriculture in aggregate output is the decline in food crop prices. Increases in the productivity of other crops were not sufficient to offset this fall. Meanwhile, despite progress in some sub-sectors, agriculture remains constrained by inadequate infrastructure, lack of market information, concentration on low-value crops and limited access to support services such as agricultural extension and food-processing technology.

Public and private investment remains the key source of recent GDP growth. Private investment in the services sector, especially in construction and telecommunications, attracted sizeable foreign direct investment (FDI). Oil exploration is another area that continued to attract increased foreign investment. Electricity shortages are a major constraint on investment in manufacturing.

Agriculture is expected to continue to recover despite the ongoing effects of HIV/AIDS and problems with plant and livestock disease. Increased agricultural investment and productivity is vital for Uganda to reduce poverty in view of the fact that over 83 per cent of all households and the majority of poor households

Table 1 - **Demand Composition**

	Percentage of GDP (current prices)		Percentage changes, volume			Contribution to real GDP growth		
	1998/99	2005/06	2006/07(e)	2007/08(p)	2008/09(p)	2006/07(e)	2007/08(p)	2008/09(p)
Gross capital formation	**19.4**	**23.3**	**16.1**	**10.6**	**6.6**	**3.2**	**2.3**	**1.5**
Public	6.2	4.9	21.2	7.8	5.0	0.9	0.4	0.2
Private	13.2	18.5	14.8	11.4	7.0	2.3	1.9	1.2
Consumption	**92.3**	**91.9**	**5.7**	**6.3**	**7.2**	**5.2**	**5.7**	**6.5**
Public	13.3	14.7	8.7	0.9	4.5	1.1	0.1	0.5
Private	79.0	77.3	5.2	7.2	7.6	4.1	5.6	6.0
External demand	**-11.7**	**-15.3**				**-2.4**	**-1.9**	**-1.7**
Exports	12.4	14.8	2.2	4.9	4.9	0.3	0.6	0.6
Imports	-24.2	-30.0	11.5	10.1	8.8	-2.7	-2.5	-2.3
Real GDP growth						**6.0**	**6.2**	**6.3**

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

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live in rural areas. Although Uganda's poverty rate declined from 56.4 per cent in 1992/93 to 31.1 per cent in 2005/06, over the past two decades, farmers and the rural population have consistently trailed behind other sectors in terms of welfare benefits from strong growth and economic transformation. In this context, Uganda's 2007 Human Development Report argues for modernisation of agriculture as a means to reduce poverty in the country.

Macroeconomic Policies

As in previous years, macroeconomic policy in Uganda in 2006/07 remains focused on: *i)* maintaining annual consumer price inflation at a maximum of 5 per cent; *ii)* reducing the fiscal deficit and encouraging greater private sector credit and investment; and, *iii)* maintaining adequate foreign exchange reserves (the equivalent of a minimum of five months of imports) and a competitive real exchange rate to encourage exports.

Economic policy is broadly based on the Poverty Eradication Action Plan (PEAP), which runs from 2004/05 to 2007/08. PEAP's key aims are to improve tax collection and management of the fiscal deficit, upgrade infrastructure, and widen access to education and health services. Besides the electricity shortages, key challenges include low levels of financial intermediation, an inadequate transport network and corruption. Economic policy continues since January 2006 to be monitored by a new IMF facility, the Policy Support Instrument (PSI) programme. The PSI provides surveillance and technical assistance to help Uganda maintain macroeconomic stability, while sending a positive signal to other donors. The PSI monitors government progress towards achieving the goals of the PEAP as well as broader issues of public-sector management and governance, including tackling corruption.

Fiscal Policy

In addition to emphasising fiscal prudence, the 2007/08 budget focused squarely on reorienting government expenditure towards prosperity for all in the context of the PEAP. The overall fiscal deficit, excluding grants, remained low at 2.8 per cent of GDP in 2006/07 compared to 2.4 per cent in 2005/06.

The fiscal deficit is driven by high government spending on development programmes, especially road infrastructure and universal secondary education, as well as expenditure associated with the Commonwealth Heads of Government Meeting, and for flood relief and peace efforts in the north. However, despite the fall in tariff revenue following the implementation of the East African Customs Union in 2005, the budget deficit is projected to stay low in 2007/08 and 2008/09 with

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

	1998/99	2003/04	2004/05	2005/06	2006/07(e)	2007/08(p)	2008/09(p)
Total revenue and grants[a]	**16.6**	**22.3**	**20.7**	**18.6**	**19.3**	**17.8**	**17.2**
Tax revenue	10.8	12.0	11.9	12.6	12.6	12.8	12.9
Grants	5.0	9.6	8.2	5.2	6.0	4.3	3.6
Total expenditure and net lending[a]	**17.8**	**23.8**	**21.4**	**20.9**	**22.0**	**22.2**	**21.7**
Current expenditure	10.6	14.7	13.4	13.4	13.1	13.3	12.9
Excluding interest	*9.7*	*12.7*	*11.9*	*11.9*	*11.8*	*12.0*	*11.7*
Wages and salaries	4.2	5.2	5.1	5.0	4.8	4.6	4.5
Interest	0.9	2.0	1.6	1.4	1.3	1.3	1.2
Capital expenditure	7.2	9.0	8.0	7.7	8.9	9.1	8.9
Primary balance	**-0.4**	**0.5**	**0.9**	**-0.9**	**-1.4**	**-3.1**	**-3.2**
Overall balance	**-1.3**	**-1.5**	**-0.7**	**-2.4**	**-2.8**	**-4.4**	**-4.4**

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

StatLink http://dx.doi.org/10.1787/322141733275

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strong GDP growth, increases in some excise tax rates, and government efforts to improve tax collection. While the fiscal deficit, including grants, also remains low, it is expected to rise over the medium term due to an expected decline in official development assistance.

Monetary Policy

The main aims of Uganda's monetary policy are to contain inflation below 5 per cent and maintain stability in the money and foreign exchange markets. To achieve these objectives, the Bank of Uganda (BoU) often engages in sterilisation of excess liquidity through purchases and sales of treasury bonds and foreign exchange. The BoU also uses repos (repurchase agreements) to manage liquidity (intra-auction liquidity). In addition to liquidity management tools, BoU uses the rediscount rate and the bank rate to achieve its monetary policy objectives.

In 2006/07 broad money supply, M2, grew by 15.4 per cent, up from 10.3 per cent in 2005/06. Bank lending to the private sector grew by 20.7 percent, although commercial banks' credit policies remain cautious and banks continue to prefer buying treasury bills and lending to foreign banks rather than to domestic businesses. A major challenge for monetary policy in Uganda is how to address the structural causes of high real interest rates and limited lending to the private sector. Also, liquidity sterilisation of balance of payments surpluses tends to appreciate the shilling and adversely affect export competitiveness.

The average consumer price inflation rate for 2006/07 was 6.4 per cent compared with 7.3 per cent in 2005/06. Although the actual inflation rate is higher than the target rate of 5.0 per cent, BoU's tight monetary policy has been successful in containing inflationary pressure and there appears to be no need for further tightening. The price increase was the result of strong growth in private consumption demand and increased oil and electricity prices, which led to higher transportation costs. Although food prices increased at the beginning of 2006/07 due to natural shocks (drought and later flooding), the annual food price index declined by the end of the year owing to a larger than expected increase in food production[4]. On top of this, relatively high demand and increased prices for imported non-food consumption items pushed underlying inflation (excluding food items) slightly above headline inflation in 2006/07[5] on an annual basis.

Interest rates in 2006/07 were largely unchanged from the year before. The yield to maturity on two-year treasury bonds was 12.4 per cent in September 2007. The yield on 364-day treasury bills rose slightly from 10 per cent in April 2006 to 10.3 per cent in September 2007, while the effective yield on 91-day bills declined from 7.9 per cent to 7.6 per cent over the same period. The inter-bank money market rate and the repo rate followed the same trend as the 91-day yield rate. These parallel interest-rate movements suggest that the financial markets are becoming more efficient.

The commercial banks' average lending rate remained very high at 19 per cent in 2007 compared to the time deposit rate of 11 per cent. The high spread indicates lack of competition in the banking sector and high operational inefficiency. Indeed government reports attribute high lending rates and spreads to high operating costs and perceived high risk of lending to the private sector. In addition, the government's fiscal deficit provides an ample supply of low-risk government securities, crowding out commercial bank lending to the private sector. There is a need for credit information agencies to assist banks to assess risk and thus increase lending to the private sector.

Uganda maintained its flexible exchange rate policy, with the Ugandan shilling's exchange rate freely determined by economic fundamentals. As is normally the case under flexible exchange rate regimes, BoU often intervenes to smooth short-term volatility. The

4. BoU's *Quarterly Bulletin*, December 2007.

5. According to the rebased consumer price index (rebased to 2005/06 instead of 1997/98), the headline inflation rate rose to 4.9 per cent in the year ending September 2007, while the annual underlying/core inflation rate dropped moderately to 5.7 per cent.

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Ugandan shilling appreciated against the US dollar by about 5.9 per cent in 2007 due to an increase in foreign currency inflows from the export sector, NGOs, and foreign purchases of Ugandan government bills and bonds. From June 2006 to March 2007, foreign exchange supply exceeded demand by USD 19.6 million and BoU bought USD 16.2 million of foreign currencies during this period that it endeavoured to sterilise.

External Position

Uganda's external position remains healthy. The overall balance of payments registered a surplus of USD 172 million in 2006/07 compared to USD 254 million in the previous year. As in previous years, the surplus was mainly the result of a large capital and financial account surplus, which amounted to USD 452 million in 2006/07 compared to USD 635 million in 2005/06. The capital and financial account surplus resulted largely from inflows of FDI, which increased from USD 257 million in 2005/06 to USD 322 million in 2006/07.

The current account deficit including grants edged up to USD 373 million (2.9 per cent of GDP) in 2006/07 compared to USD 265 million (2.2 per cent) in 2005/06. Excluding grants, the deficit remains relatively low (4.0 per cent of GDP), below the 5 per cent sustainability threshold, indicating the declining role of foreign aid in Uganda's balance of payments position.

The trend of the current account balance is largely a reflection of developments in the trade balance. In absolute terms, the trade deficit increased from USD 1.10 billion in 2005/06 to USD 1.24 billion in 2006/07. However, the growth rate of the trade deficit declined considerably, from 34.2 per cent in 2005/06 to 12.7 per cent in 2006/07. This decline was the result of the higher growth rate of merchandise exports (35.4 per cent) than imports (22.9 per cent). Much of the increase in Uganda's export receipts is attributable to higher unit prices for coffee (USD 1.7 per kilogramme in 2006/07 compared to USD 1.4 a year earlier) and to a lesser extent higher coffee export volumes (from 2.6 million 60-kilogramme bags to 2.7 million in 2006/07).

Uganda's exports are still dominated by a few agricultural exports such as coffee, tea, fish and cotton, which are highly vulnerable to weather and terms of trade shocks. Exports of coffee, the main export commodity, increased from USD 173 million in 2005/06 to USD 227 million in 2006/07 owing to favourable world prices, improved husbandry practices and good weather conditions at the critical time of bean maturation. Moreover, new coffee plantations, fostered under the government's strategic intervention since 2001, have continued to start production. Non-coffee exports rose from USD 717 million to USD 953 million, an increase of 33 per cent over the same period. Improvements were recorded for most non-coffee exports. Growth in import demand was due largely to capital goods imports, in particular the thermal generators required to counter the electricity shortage and for the construction of the Bujagali hydroelectric project. Relatively large increases in domestic investment that are awaited are expected to

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

	1998/99	2003/04	2004/05	2005/06	2006/07(e)	2007/08(p)	2008/09(p)
Trade balance	-7.2	-9.5	-9.6	-11.5	-11.8	-13.1	-13.4
Exports of goods (f.o.b.)	9.0	9.3	9.2	9.3	9.1	8.8	8.4
Imports of goods (f.o.b.)	16.2	18.8	18.9	20.7	20.9	21.9	21.8
Services	-3.8	-3.4	-3.9	-3.7	-5.3	-4.5	-4.3
Factor income	-1.8	-2.2	-2.0	-1.4	-1.2	-2.9	-3.1
Current transfers	4.2	13.9	13.9	13.8	14.3	13.7	12.7
Current account balance	**-8.6**	**-1.2**	**-1.6**	**-2.8**	**-4.0**	**-6.8**	**-8.1**

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

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result in widening trade and current account deficits in 2007/08 and 2008/09. Capital imports are projected to rise further if the government and private investors move ahead with the development of the recent oil discoveries.

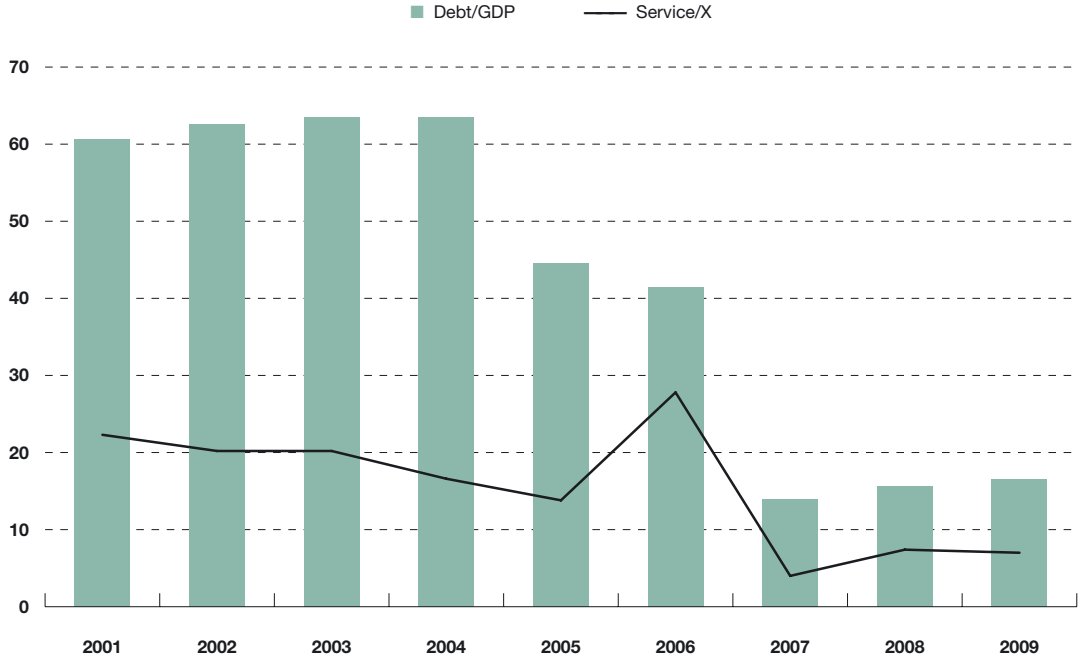
Uganda's foreign exchange reserves increased by over USD 85 million during the year ending September 2007, reflecting the balance of payments surpluses. The country's foreign exchange reserves are equivalent to about four months of imports in 2006/07 compared to five months of imports in the previous year.

As a result of the debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative, Uganda's external debt declined to USD 1.4 billion in 2007 and debt service decreased from 13.1 per cent of exports in 2005/06 to 3.5 per cent in 2006/07. Uganda was granted debt cancellation of USD 2.96 billion from the International Development Association and USD 486.26 million from the African Development Bank under MDRI. While debt relief is now declining, aid in the form of budget support and project support increased substantially, to USD 573 million and USD 494 million respectively in 2006/07.

Regional integration in the framework of the East African Community (EAC) continues to influence trade and development policy in Uganda. Consolidation of the EAC Customs Union (covering Kenya, Tanzania, Uganda, Rwanda and Burundi) led to lower or zero excise tax rates on some commodities, but expanded the regional market for Uganda's exports. To promote regional trade, the EAC is currently establishing a cross-border payments system to facilitate the efficient and safe transfer of funds within the region. The regional payment system is expected to be implemented in 2008.

Another key development is the signing by the ministers of the EAC of an economic partnership agreement with the European Union (EU) on 27 November 2007. This framework agreement will,

Figure 3 - **Stock of Total External Debt** (percentage of GDP) **and Debt Service** (percentage of exports of goods and services)



Source: IMF.

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over a transition period of 25 years, abolish tariffs on 81 per cent of current EU exports in industrial and agricultural products entering the EAC markets. In return Uganda has benefited from duty and quota-free access to the EU for most export of goods (excluding sugar and rice) since 1 January 2008. A deal on services and investments, not covered in the current agreement, will be negotiated in 2008.

The Ugandan Capital Market Authority has continued harmonising its laws with those of Kenya and Tanzania to enable a regional capital market by 2009 as envisaged in the EAC development strategy (2006-10). Rwanda and Burundi have joined the EAC. Further steps in the EAC integration project are to consolidate the customs union, complete negotiations for a common market protocol, and create the necessary conditions for monetary union.

Structural Issues

Recent Developments

Uganda has introduced several reform measures to increase economic growth and accelerate progress towards achieving the MDGs. The challenge Uganda faces now is how to deepen reforms already underway in the context of the current PEAP. The reforms focus on the promotion of private-sector led growth that is broadly shared across sectors and regions. They include institutional as well as fiscal and monetary measures aimed at improving the business environment and investment climate. Nevertheless, in 2007 Uganda's global ranking in the World Bank *Doing Business* indicators fell from 107th to 116th (out of 175 countries). Uganda performed relatively well regarding the ease of employing workers, protection for investors and ease of making tax payments, but performed poorly on the cost of starting a business, dealing with licenses, registration of property, securing credit and trading across borders.

These weaknesses can have an adverse impact on the government's efforts to enhance productivity and promote competitiveness and employment creation. Indeed a World Bank study published in 2007 pointed out that lengthy and costly business registration procedures (an average of 11 procedures taking on average 63 days) are to blame for observed high informality among Ugandan firms. Corruption has also been cited as a factor that encourages informality. While large domestic firms do not consider corruption as a binding constraint, small and medium enterprises (SMEs), foreign firms and exporters seem to be severely affected. Corruption adversely affects the quantity as well as quality of public service delivery especially in the area of infrastructure.

In addition to land-policy reforms that give investors easy access to, and flexible use of land, the government is developing a number of industrial parks to provide critical infrastructure to potential investors in central locations. Three business parks are under development: the Kampala Industrial and Business Park, Luzira Industrial Business Park, and, the Bweyogerere Industrial Estate. In 2007, the Uganda Investment Authority licensed a total of 330 projects with planned investment of USD 1.75 billion and estimated employment of 42 950. This represents a 100 per cent increase over the previous year in terms of investment value and a 26 per cent increase in terms of employment. Foreign capital accounted for 57 per cent of new investments in 2007.

Credit market participation by Ugandan firms remains very low, especially for SMEs. Also, access to bank credit is extremely limited for rural households. The economy is characterised by low credit demand and even lower credit supply, with high lending rates and interest rate spreads. Bank lending is concentrated on the building and construction sector (69.4 per cent) followed by trade (20.4 per cent) and other services (6.6 per cent). In efforts to increase competition and enhance financial intermediation, BoU relaxed the freeze on licensing of new commercial banks. Accordingly, four new commercial banks were licensed by September 2007.

Financial-sector development strategies for the short and medium term also include implementation of the Microfinance Outreach Plan (MOP) and its associated

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Rural Financial Services Programme (RFSP) to promote access to credit for SMEs and rural households. Implementation of the RFSP aims to develop a financial infrastructure of Savings and Credit Cooperative Organisations (SACCOs) that are capable of reaching the population in all sub-counties. The government is considering formulating a policy to guide and regulate all interventions in the microfinance industry in the area of supervision, regulation, coordination, lending, and savings mobilisation.

While the number of deposit-taking microfinance institutions remained the same in 2007, their total assets registered a 24 per cent growth. They also registered strong growth in deposits (50 per cent), loans (21.7 per cent) and return on equity (14 per cent). In order to reduce informality, the government registered a total of 250 SACCOs, which can eventually develop into deposit-taking microfinance institutions after fulfilling certain requirements.

The total labour force increased from 9.8 million to 10.9 million over 2003-2006. The official national unemployment rate was 2 per cent, while the urban unemployment rate was 7 per cent and the underemployment rate was estimated at 12 per cent in 2006/07. Self-employment in agriculture accounts for about 70 per cent of total employment and only 5 per cent of the workforce are in permanent formal employment. The labour market survey indicates that the average nominal wage increased by 5.3 per cent per year over 2001-2005 while employment grew by 6.8 per cent per annum over the same period. However, total factor productivity growth accounts for the bulk (about 80 per cent) of GDP growth in Uganda (World Bank, 2007).

Technical and Vocational Skills Development

Until recently technical skills development in Uganda was fragmented and lacked substantive policy direction. In 2003, a Business, Technical and Vocational Education and Training (BTVET) policy was formulated and adopted by the Ministry of Education and Sports (MoES). The aim of the policy is to provide a framework for technical skills development at the post-primary school level that prepares students for direct entry into the labour market as well as entry into higher-level technical and tertiary education. This requires changes in curricula, adequately trained staff as well as specialised institutions that can effectively respond to labour-market demand. MoES is preparing the BTVET Act for consideration and approval by parliament in 2008.

The Act aims to establish an institutional framework for the promotion and co-ordination of BTVET that clearly defines the scope and levels of its programmes and the roles of the different stakeholders in delivering them. It also: separates training and delivery of BTVET from quality assurance functions; specifies the criteria and the process of admission of students and trainees to BTVET institutions; provides for the effective education, training, governance and management of BTVET institutions; and, establishes mechanisms and organs for the regulation of qualifications (standards, assessment and certification) and training delivery in formal and non-formal institutions.

PEAP explicitly recognises BTVET as a priority area, to match training and education needs with the economy's need for skills. Beside the establishment and operationalisation of the Uganda vocational qualifications framework, PEAP calls for appropriate balance within post-primary education between academic and vocational education. In this regard, the secondary school curriculum is being reviewed to make it more responsive to national labour demands, and 56 secondary schools are being transformed into vocational schools. The Education Sector Plan envisages that BTVET will become an alternative to academic education in the last two years of secondary level, rather than an alternative to the early years of secondary education. The introduction of short modularised courses should also make it possible for adults to acquire skills over their lifetime.

Uganda's BTVET system is currently comprised of 145 public institutions, about 600 private training service providers, and an unknown number of apprenticeship and enterprise-based training programmes. The public BTVET system includes

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technical institutes, vocational training institutes and centres, technical schools, farm schools and community polytechnics. In terms of subject areas, public BTVET institutions cover: agriculture and forestry, business, co-operative programmes, hotels and tourism, health, wildlife, survey and planning, meteorology and technical studies. Formal BTVET programmes (colleges, schools and institutes) generally target students who have passed primary education grade 7. Typical programme duration is one to three years leading to the award of diplomas and/or certificates. Other training programmes vary in terms of intake requirements, duration, subjects and certification. They include institutional and enterprise-based training as well as on-the-job training programmes[6].

Although enrolment has been rising – from 23 206 students in 1999/2000 to 40 435 in 2006/07 – the public BTVET institutions reach only a fraction of potential demand. Females accounted for 50 per cent of total intake in 2007. While most BTVET institutions registered with the MoES are government-owned (87.1 per cent), 4.3 per cent are owned by the private sector and 2.6 per cent by the local community.

Private BTVET institutions include vocational training centres and schools, vocational secondary schools, and technical schools. About 450 of these institutions are members of the Ugandan Association of Private Vocational Institutions[7]. However, the full number and kind of private BTVET programmes is unknown and there are numerous informal vocational training institutions. Also, several government departments, such as the Ministry of Trade and Tourism, offer vocational and technical training outside the BTVET umbrella. In fact some government units offer similar training and support programmes, such as business incubation, without any co-ordination. This underscores the need for central registration and co-ordination of public and private BTVET activities in order to increase efficiency.

Firm-level data shows significant skill gaps in Uganda as well as low labour productivity. Studies indicate that the contribution of human capital to total productivity in Uganda is less than 10 per cent[8]. Forty-seven per cent of Ugandan firms report the lack of skills as either a moderate, major or very severe constraint to business and 60 per cent of top managers in Uganda have no university training compared with 6.8 per cent in Zambia and 30 per cent in Kenya and Tanzania. Meanwhile, the number of training programmes offered by Ugandan firms per worker is below the average for sub-Saharan Africa. Because Ugandan firms cannot find the workers with the right skills set, the current employment level in Uganda is 50 per cent lower than the optimal level or expected level of employment under current production technology (World Bank 2007).

Women accounted for 47.4 per cent of Uganda's total labour force of 9.8 million in 2002/03 while 85 per cent of the labour force lived and worked in rural areas[9]. Just over 17 per cent of the labour force was illiterate in 2003 and another 59.6 per cent had only primary school education, whilst 17.2 per cent had secondary education, and above-secondary education 5.6 per cent. Reports indicate a high demand for BTVET in the modern private sector and traditional subsistence agriculture[10].

Formal-sector incomes increase substantially with the level of education. While an employee with no formal education earns on average USH 25 000 per

6. BTVET Directorate, Ministry of Education and Sports (2007) "Data on BTVET public and private institutions".

7. See www.ugaprivi.org

8. Berthelemy, J. and L. Soderling, (2002), "Will There Be New Emerging-Market Economies in Africa by the Year 2020?" *IMF Working Paper* WP/02/131.

9. *Uganda National Household Survey 2002/03*. Uganda Bureau of Statistics. Kampala.

10. Wirak, A., Heen, B., Moen, E. and S. Vusia (2003), "BTVET for employment and private sector development in Uganda." A report commissioned by the Royal Norwegian Embassy in Kampala and Norwegian Agency for Development Cooperation (NORAD).

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month, average salaries rise to USH 40 000 for primary education, USH 99 000 for secondary education and USH 237 000 for specialised training or tertiary level[11]. However, the business-climate survey shows that return to education has been stagnant or declining in recent years because capital is the more binding constraint and schools are not providing the skills employers seek.

The public BTVET system is financed mainly through the government budget, contributions by employers and donors, and fees. BTVET programmes financed by the government received only 3.6 per cent (USH 670 billion) of the budget of the MoES in 2006/07 compared to 4 per cent (USH 540 billion) in 2002/03[12]. The budget for BTVET has not been protected within the Education Strategic Investment Plan and has therefore suffered from repeated cuts in absolute terms. The incorporation of BTVET subjects in secondary schools' curricula provides additional support to the BTVET system. Government also provides indirect support especially for private informal BTVET institutions through contributions to instructor training and wages. However, private BTVET institutions rely mainly on own sources of finance, especially fees, and donor support.

The government has encouraged local government and district-level ownership and participation in BTVET programmes through planning and construction of BTVET institutions, monitoring and supervision, and mobilisation of local support. Donors and NGOs such as German Technical Cooperation have contributed to the establishment and running of several BTVET institutions, although they consider slow progress towards finalisation of the BTVET Act as a constraint on their involvement. They want to make sure that the institutions they support offer standardised curricula and award certificates that are formally recognised by government and employers. Finally, some BTVET institutions obtain additional funding through levies on training activities and services.

A key challenge to the BTVET system is the lack of a legal framework and central co-ordination and guidance to upgrade and maintain standards. This calls for the urgent adoption of the BTVET Act to provide a national qualification framework for the classification and recognition of formal and informal training programmes, as well as the establishment of a central BTVET registry, or empowerment of the BTVET Directorate of the MoES to perform registration, co-ordination and supervisory functions. Other challenges include: inadequate human and physical BTVET infrastructure especially in terms of access to technology and teaching material; negative attitudes and stigma among key stakeholders; relatively low staff salaries; and, lack of reliable and up-to-date manpower surveys to inform curricula development.

Political Context

President Museveni and his National Resistance Movement party continued to consolidate their hold on power after winning the first multi-party elections in Uganda in 2006. Despite isolated incidences of unrest led by opposition parties, Uganda's overall political situation remained stable in 2007. The government successfully hosted the Commonwealth Head of Government Meeting (CHOGM) on 22-25 November 2007. President Museveni will serve as the Chairman of the Commonwealth for the next two years. In preparation for the meeting, there were many infrastructure developments including new roads and several hotels. However, the full contribution of CHOGM to the Ugandan economy, in terms of attracting tourism, is yet to be fully evaluated.

There is a tenuous prospect of peace in the north following the cessation of hostilities between the government and the Lord's Resistance Army (LRA) in August 2006. Despite serious challenges, the agreement is a major breakthrough and the talks provide the best

11. *Uganda National Household Survey 2002/2003.*

12. MoES, *Education Sector Medium Term Budget Framework Paper 2004* and *MoES Annual Performance Report 2007.*

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opportunity in 20 years for peace in northern Uganda. The government remains committed to the Peace, Recovery and Development Plan for northern Uganda and neighbouring districts that was launched in 2007. Many former rebels have returned to their villages and northern Uganda regained some sense of normality in 2007. The year also witnessed intensified disarmament of the Karimojong warriors and reduction in incidents of cattle rustling in Western Uganda's districts of Bundibugyo.

The country's self-assessment exercise under the African Peer Review Mechanisms of the New Partnership for Africa's Development was officially launched by the president in 2007. Under this exercise, Uganda is being assessed on the following thematic areas: democracy and political governance; economic governance and management; social governance; and corporate governance. The results of this assessment will help to improve governance mechanisms in Uganda.

Transparency International's corruption perception index shows that corruption in Uganda has improved slightly. Whilst Uganda's ranking in the corruption league table dropped from 105th position to 111th position, its average CPI score edged up from 2.7 in 2006 to 2.8 in 2007. In its 8th Annual Report, the Uganda Human Rights Commission highlighted a number of activities undertaken to fulfil its mandate, including training of different state agencies and public officials in human rights, coordinating civic education, and monitoring state agencies (e.g. military detention centres, police and prisons cells) in the observance of human rights. The report highlights key challenges that include poor quality of civic education programmes, non-enforcement of tribunal decisions, and delayed enactment of the law against torture.

Human development indicators also show modest progress. Uganda's ranking in the UNDP Human Development Indicators declined very slightly from 144th position in 2005 to 145th position in 2006. Despite this decline, Uganda remains in the medium human-development category. Improvements occurred in adult literacy and net enrolment in primary school.

The decentralisation process in Uganda has been deepened as a means to improve service delivery and reduce poverty in the context of the PEAP. Although the average poverty rate has declined from 56.4 per cent in 1992/93 to 31.1 per cent in 2005/06, some observers see the expansion in the number of districts from 56 to 72 in 2004 as a drag on efficient service delivery, especially education. To improve service delivery, local governments need sufficient resources and authority, along with effective local mechanisms of accountability. A recent report found that local authorities in Mbarara District have very limited financial capacity and autonomy to effectively improve service delivery, and parents lack effective mechanisms to hold local authorities accountable[13]. Also, local governments face a major challenge of revenue mobilisation that is negatively impacting good governance and service provision. The country's constitution empowered local governments in 1995 to collect graduated income tax, which accounted for 75 per cent of local government revenue in rural areas and 35 per cent in urban areas in 1997. However, the tax was abolished in 2006 and local governments have yet to find adequate alternative local revenue sources while compensations by the central government are insufficient.

The government of Uganda needs to design effective contingency measures to address economic and social problems arising from violence in neighbouring countries. For example, the recent post-election violence in Kenya resulted in fuel and goods shortages that affected huge sectors of the economy and exposed the inadequacy of existing government contingency measures[14].

13. Yan, T. (2007), "Education and poverty reduction in Uganda," A Consultancy Report. Education Decentralisation Group, University College London.

14. *Economist Intelligence Unit* (January 2008), Uganda country report.

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Social Context and Human Resources Development

Primary school enrolment is at 90 per cent and Uganda is on track to achieve the primary education's MDG target, according to national authorities. Total enrolment has increased slightly from 7.5 million in 2002/03 to 7.6 million in 2005/06. Investments in expansion of basic education infrastructure and facilities (particularly increases in the number of schools, class rooms and teachers' houses), improvement in availability of training materials, and the increased number of skilled and trained teachers have contributed to maintaining and slightly increasing the enrolment level. The government also made progress regarding access to education for children with special needs and promotion of gender parity.

Although gross enrolment in primary schools has continued to increase as a result of the Universal Primary Education (UPE) programme, the net enrolment ratio remained about 86 per cent over the last 5 years. The net enrolment ratio tends to be lower because a sizeable number of children attending school are outside the official age bracket; others have never attended school while some pupils continue to drop out of school. Being considered "too young", financial cost, disinterest by parents, and socio-cultural barriers largely explain why some children do not go to school. Most children who drop out of school do so because of costs – uniforms, stationery, transport, and boarding fees – that are unaffordable for poor households.

Investment in human capital through high-quality and affordable education is essential for Uganda to attract foreign investors. Despite notable improvements, the net secondary school enrolment ratio remains low (34.2 per cent in 2006) and higher for males than females. There is a high secondary school dropout rate due largely to high costs and unavailability of secondary schools. In January 2007 the implementation of the Universal Post Primary Education and Training (UPPET) initiative commenced. UPPET will serve to absorb the increasing numbers of pupils completing primary education as a result of the UPE initiative.

Preliminary findings from the Demographic Health Survey 2005/06 show marginal improvements in a number of core health indicators under the health sector strategic plan. Infant mortality declined from 88 to 76.9 deaths per 1 000 children between 2000/01 and 2005/06 while maternal mortality decreased from 505 to 435 deaths per 100 000 births over the same period. The percentage of deliveries in health facilities increased from 22.6 per cent in 2000/01 to 41 per cent in 2005/06 and the percentage of approved posts filled by trained personnel based on the 2005/06 local government staffing norms improved from 46.8 per cent in 200/01 to 75 per cent in 2005/06. The health sector achieved an out-patient department attendance at public and private not-for-profit health facilities of 100 per cent surpassing its 2006/07 target of 96 per cent. However, the sector suffers from shortages of drugs and difficulties in attracting and retaining trained staff.

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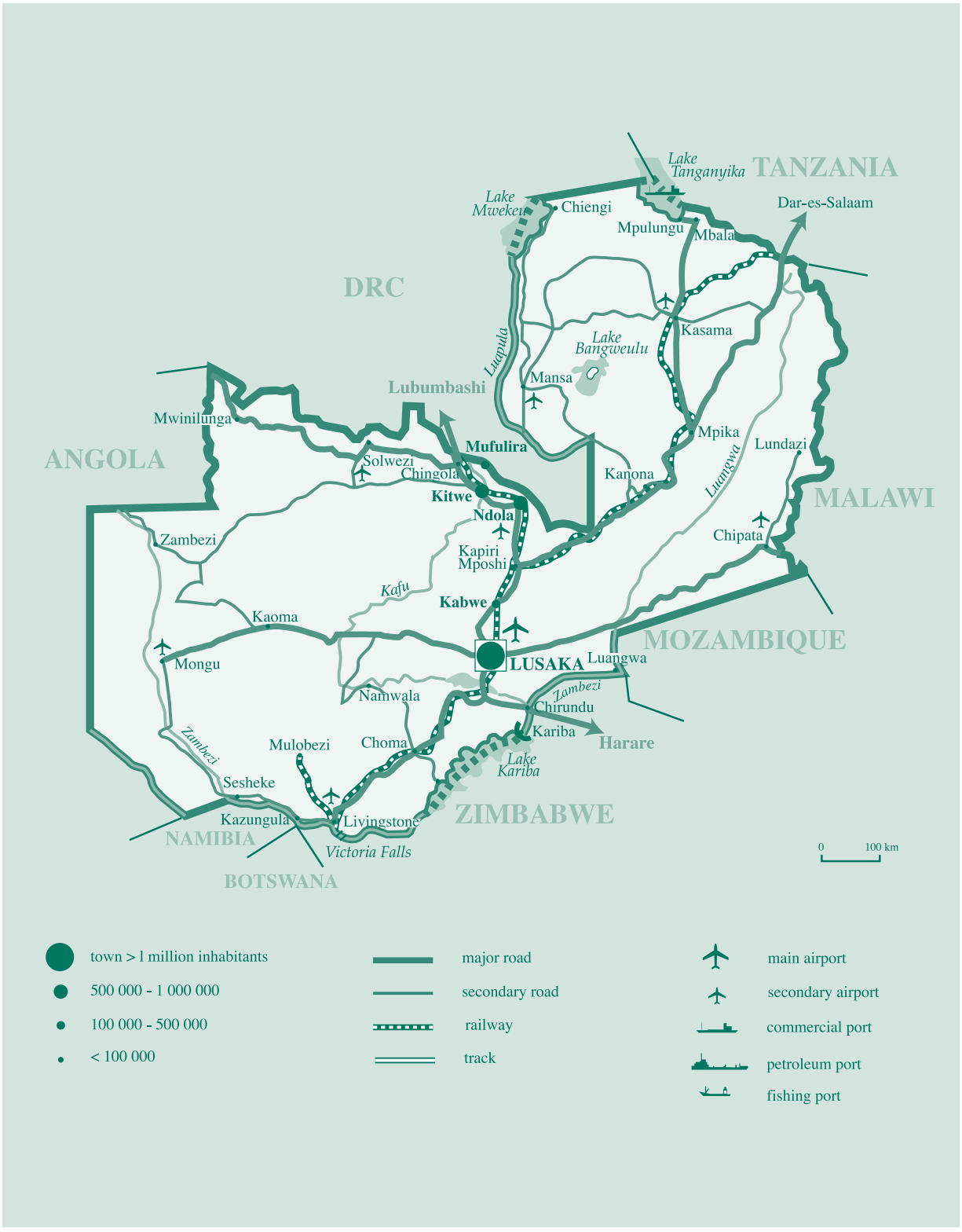
Zambia



key figures

• Land area, thousands of km²	753
• Population, thousands (2007)	11 922
• GDP per capita, USD at constant 2000 prices (2007)	385
• Life expectancy (2007)	42.4
• Illiteracy rate (2007)	16.5

Zambia


Lake Tanganyika
TANZANIA
Lake Mweketi
Chiengi
Dar-es-Salaam
Mpulungu
Mbala
DRC
Kasama
Lake Bangweulu
Luapula
Mansa
Lubumbashi
Mwinilunga
Mpika
Lundazi
Mufulira
ANGOLA
Solwezi
Chingola
Kanona
Luangwa
Kitwe
MALAWI
Ndola
Zambezi
Chipata
Kapiri Mposhi
Kafu
Kabwe
Kaoma
MOZAMBIQUE
LUSAKA
Luangwa
Mongu
Namwala
Zambezi
Chirundu
Kariba
Harare
Zambezi
Mulobezi
Choma
Lake Kariba
Sesheke
ZIMBABWE
Kazungula
Livingstone
NAMIBIA
Victoria Falls
BOTSWANA
0
100 km
town > 1 million inhabitants
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main airport
secondary airport
commercial port
petroleum port
fishing port

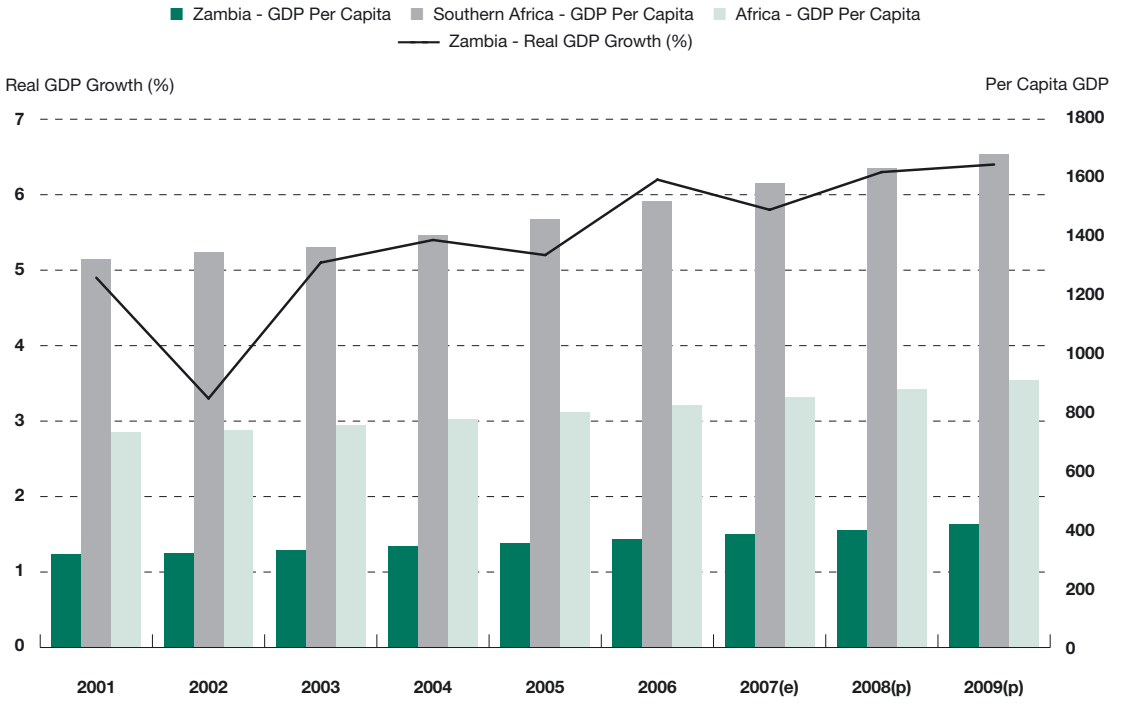
Zambia

In 2007, the economy grew just 5.8 per cent in Zambia, down from 6.2 per cent in 2006, primarily due to slower growth in the volume of copper production. The construction sector remained buoyant however, with growth remaining stable in 2007. In 2008 and 2009, the economy is expected to recover to just above 6 per cent growth with a strong increase in copper exports following huge investments in 2006 and 2007. This expansion in volume is expected to offset declining world market prices. On the negative side, adverse weather and increasing power outages at the beginning of 2008 will limit growth in agriculture and manufacturing.

The trend towards macroeconomic stability continued in 2007 with single digit inflation in December, a less volatile exchange rate and a low fiscal deficit. The progress of key reforms in areas such as public sector management and private sector development have been slower than anticipated.

The sectors with the highest growth only employ around 1 to 2 per cent of the active population.

Figure 1 - **Real GDP Growth and Per Capita GDP**
(USD at constant 2000 prices)



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

StatLink http://dx.doi.org/10.1787/317152144276

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Recent Economic Developments

With favourable weather conditions, the 2006/07 harvest was quite good, especially for maize and cassava, resulting in a food surplus for the second year in a row. There has also been an increase of the area under cultivation, partly due to the immigration of farmers from Zimbabwe. However, some flooding and problems with livestock diseases caused agricultural growth to slow to 2.8 per cent in 2007 as compared to 3.0 per cent in 2006. For the 2007/08 harvest only a small increase in agricultural output is expected due to widespread flooding, the effect of which can only partly be offset by improvements in the distribution of subsidised fertiliser. Agriculture is one of the priority sectors of the Fifth National Development Plan (FNDP), which details the government's development agenda and its poverty reduction programme for the 2006-10 period.

In 2007, mining production was stagnant, mainly due to flooding of some mines and labour disputes in the first half of the year. With mining companies having invested heavily, production is expected to increase in the coming years. While the mining sector only employs 63 000 people it contributes around 70 per cent of exports and 4 per cent of GDP. Mining companies are also engaged in development projects in the area of health and agriculture.

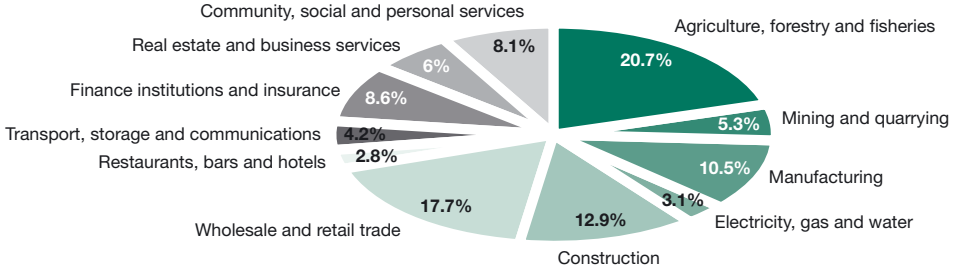
Growth in the manufacturing sector in 2007 was only 3.4 per cent partly due to electricity shortages and increased transportation costs arising from increasing oil prices. In some sub-sectors such as food, beverages and tobacco however, growth accelerated in 2007.

The construction sector performed well in 2007, posting robust growth of 13.3 per cent. Both housing and commercial building expanded, with hotel construction particularly being driven by the expectation that Zambia's tourism sector will benefit from the 2010 FIFA World Cup in South Africa. The construction demands of South Africa has led to capacity constraints however, as a number of Zambian firms are engaged there. With many construction inputs ranging from cement to crushed stones being produced locally, shortages have also been noted. Cement shortages in particular are expected to be alleviated in 2008 due to new investments in production.

Growth in services was mainly driven by wholesale and retail trade, which contributed 17 per cent to GDP in 2006. Tourism also performed better in 2007 with an increase in passenger arrivals of 6.4 per cent. In 2008 and 2009, a further increase in tourism is expected due to an improvement in facilities and the generally stable political conditions.

Government expenditure in 2007 was lower than budgeted, especially with respect to capital expenditure. However, since budget execution had been very poor in 2006, there was a large increase in public investment of 41 per cent, mainly in road construction. Private investment also increased especially in mining, leading to a surge in imported investment goods. Demand has

Figure 2 - **GDP by Sector in 2006** (percentage)



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

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Table 1 - **Demand Composition**

	Percentage of GDP (current prices)		Percentage changes, volume			Contribution to real GDP growth		
	1999	2006	2007(e)	2008(p)	2009(p)	2007(e)	2008(p)	2009(p)
Gross capital formation	**17.3**	**25.4**	**16.3**	**5.6**	**5.6**	**5.9**	**2.2**	**2.2**
Public	7.0	4.4	41.7	8.0	8.0	2.6	0.7	0.7
Private	10.3	21.0	11.0	5.0	5.0	3.3	1.6	1.5
Consumption	**93.1**	**65.8**	**2.0**	**3.7**	**2.6**	**1.4**	**2.5**	**1.7**
Public	12.7	20.3	-1.9	11.2	2.1	-0.4	2.1	0.4
Private	80.3	45.5	3.6	0.8	2.9	1.8	0.4	1.3
External demand	**-10.4**	**8.8**				**-1.4**	**1.6**	**2.5**
Exports	26.9	37.9	2.0	8.0	9.7	0.9	3.4	4.2
Imports	-37.2	-29.2	4.8	3.7	3.7	-2.3	-1.8	-1.8
Real GDP growth						**5.8**	**6.3**	**6.4**

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

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been mainly driven by investment facilitated by easier access to credit both for enterprises and households. The decline in government consumption was more than offset by an increase in private consumption.

The main downside risks for growth in 2008 and 2009 include a decrease in productivity due to the high prevalence of HIV/AIDS, shortage of energy, especially electricity, and further appreciation of the Zambian Kwacha (ZMK) due to the depreciation of the US dollar. Industrial action in the mining sector and floods at the beginning of 2008 might reduce production, especially in agriculture.

Macroeconomic Policies

Fiscal Policy

In 2007, fiscal policy was contractionary with higher revenues and lower than expected spending. Revenues (excluding grants) amounted to 16.8 per cent of GDP, as income tax payments rose, primarily from mining companies, and higher tariff revenues due to a rapid increase in imports. Tax collection exceeded its target by 5 per cent. On the expenditure side, public investment was lower than planned, particularly in roads. This was the result partly of a delay in donor funds, the late approval of the budget and some insecurity of spending in ministries due to public sector reforms. The resulting budget deficit was 1.8 per cent. In the Medium Term Expenditure Framework (MTEF) the share of government wages in GDP is expected to increase to above 8 per cent with an increase in staff for education, health, agriculture, judiciary and the police. Government revenue is expected to rise further in 2008 and 2009, through improved revenue collection as well as better tax policy and administration. The scheduled increase in spending mainly reflects investment and arrears reduction.

At the beginning of 2008, after long negotiations, the government increased the corporate tax rate for mining firms from 25 to 30 per cent and the royalty rate from 0.6 to 3 per cent, the average in the copper mining industry worldwide. In addition, a variable profit tax and a windfall tax were introduced and the capital allowance was reduced from 100 per cent to 25 per cent annually. While the Zambian government only received USD 26 million from mining firms in 2007, additional revenues of USD 415 million are expected for 2008. However, the expected decline in copper prices will offset some of the gains from these rate increases. As well as financing higher spending, these additional revenues are to be used to reduce some taxes like VAT and income tax, both in order to support private demand and to make the tax system more pro-poor.

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

	1998	2003	2004	2005	2006(e)	2007(p)	2008(p)
Total Revenue and grants[a]	**31.0**	**23.8**	**23.0**	**43.0**	**22.4**	**23.0**	**22.9**
Tax revenues	22.7	17.5	17.0	16.1	16.8	17.4	17.6
Grants	7.9	5.5	5.6	26.1	4.9	4.8	4.5
Total expenditure and net lending[a]	**28.2**	**26.6**	**25.7**	**24.4**	**24.2**	**26.2**	**26.5**
Current expenditure	15.8	17.9	18.7	19.0	19.1	19.7	19.6
Excluding interest	*13.0*	*14.4*	*16.1*	*17.1*	*17.4*	*18.3*	*18.2*
Wages and salaries	5.3	7.7	7.6	7.2	7.3	7.7	8.0
Goods and services	4.1	3.2	4.6	5.2	5.2	5.4	5.2
Interest	2.8	3.5	2.7	1.9	1.7	1.4	1.4
Capital expenditure	10.4	8.7	7.0	4.1	6.0	6.5	6.9
Primary balance	**5.6**	**0.6**	**0.0**	**20.5**	**-0.1**	**-1.8**	**-2.2**
Overall balance	**2.8**	**-2.8**	**-2.6**	**18.6**	**-1.8**	**-3.2**	**-3.6**

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

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Monetary Policy

Inflation increased somewhat to 12.7 per cent in March 2007 due to excess liquidity that had built up towards the end of 2006. Thereafter it declined steadily towards an average rate of 10.7 per cent in 2007, mainly driven by non-food inflation, which declined from 22.1 to 11.9 per cent between February and December 2007. Food inflation was still much lower at 5.3 per cent on average but some prices like maize have been increasing in line with rapidly increasing world market prices.

In 2007, the Bank of Zambia (BoZ) sought to reduce inflationary pressure by slowing the rate of growth of the money supply. Another factor helping to reduce inflation was the appreciation of the Kwacha from ZMK 4 407 per USD at end 2006 to ZMK 3 850 at end 2007. This reduced the price of imports. In addition, the rise in fuel prices slowed after April 2007, and fiscal policy remained neutral. Some risks of higher inflation in 2008 arise from increased international fuel and food prices, higher electricity tariffs that will trigger an increase in water tariffs and translate into higher production costs, and the lagged effects of higher money supply growth in the second half of 2007. Expectations of increasing inflation are widespread in the business community.

Interest rates have been relatively stable in 2007 with an increase of BoZ rates from 11.1 per cent in January to 13.5 per cent in December. Government bond rates also increased over the first half of the year and then stabilised. In August the BoZ issued bonds with maturities of 7, 10 and 15 years. The BoZ aims to bring inflation down to 5 per cent by 2009. With a view to achieving this, it is working to expand the range of its policy instruments and to move from money supply towards interest rate targets. This includes the conversion of BoZ claims on the government into tradable securities at the end of 2006 and plans to establish a secondary market for government bonds. Lending rates of commercial banks also declined from a base rate of 21 to 18.2 per cent during 2007, in line with decreasing inflation.

The BoZ pursues policies to smooth fluctuations in the exchange rate but not to influence its general level. In 2007 fluctuations in the exchange rate were less than 2005 and 2006. As the dollar has depreciated against all major currencies the Kwacha appreciated against the dollar but remained relatively stable against other currencies like the Euro or the Rand. The real effective appreciation of 5.5 per cent has helped to contain inflationary pressure.

The financial system is gradually improving as the Financial Sector Development Plan (FSDP) is

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implemented. In October 2007 the BoZ reduced reserve requirements from 14 to 8 per cent, which has led to a reduction in lending rates. Interest rates on savings and deposits have been stable which, combined with lower inflation, has increased incentives to save. However, the spread between lending and saving rates is still high at around 13 per cent. Barclays Bank Zambia increased its number of branches from 17 to 55 in 2007, mainly in areas previously not serviced by commercial banks. In general, the banking sector is healthy, showing an improvement in capital adequacy, asset quality and liquidity in 2007. Bank profits also increased in 2007 but there is some discussion about fees and service charges being too high.

The reduction in government domestic borrowing and falling interest rates have led to an increase in lending to the private sector. In 2007 loans by commercial banks to the private sector increased by more than 50 per cent. The banking sector also developed new products, including 20-year mortgages, and the national payment system has been modernised. The first credit reference bureau will also become fully operational in 2008. Thus far only defaulting loans are reported by law, and consumer consent is required for other information to be shared. Despite these reforms financial intermediation is still low by regional standards and lending rates are high.

External Position

Zambian exports are still highly concentrated towards copper and copper products, which accounted for around 70 per cent of exports in 2007. Other export products are sugar, maize, cotton, tobacco, flowers and vegetables. Non-traditional exports increased by around 26 per cent in 2007. Investment goods (machinery and mechanical equipment), accounted for 24 per cent of imports, followed by mineral fuels (12 per cent) and vehicles (10 per cent). Other imports consist of electrical machinery, iron and steel, plastic products, fertilisers and inputs for the mining industry. The greater than 30 per cent increase in imports in 2007 was driven by increased investment in the mining sector in previous years.

For both exports and imports the SADC is Zambia's main trading partner, followed by Asia, which has increased its share significantly over the past decade. COMESA accounts for around 10 per cent of trade. Trade with the EU is imbalanced with 18 per cent of imports but only 10 per cent of exports. There is also

Box 1 - SADC, COMESA and other Trading Partners

The SADC free trade area will be fully implemented in 2008 so that 85 per cent of goods from the region enter duty free. Tariffs on the remaining sensitive goods will be phased out by 2012. COMESA has reached an agreement on common external tariffs, although some issues with the classification of products as raw materials or processed products remain. In both regions it is not clear how customs revenue will be shared among members. For Zambia, as a landlocked country, this is of some concern as most of its imports enter through neighbouring countries.

There is a perception that negotiations for free trade agreements with the EU have delayed progress towards regional integration. Zambia did not submit a market access offer for EU products, as the list of products it regards as sensitive covers 24 per cent of imports from the EU, whereas the maximum share is 20 per cent. As a result, it no longer benefits from trade preferences under the Cotonou Agreement. Substantial revenue losses are anticipated although these will only occur over an implementation period of approximately 20 years. As Zambia is a Least Developed Country (LDC), its access to the EU market is now solely governed by the Everything but Arms (EBA) preferences, which also cover most of its exports to the EU but have more restrictive rules of origin.

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significant informal trade, for example with DRC, especially in agriculture but also in small-scale mining.

As SADC and COMESA are both moving towards customs unions, Zambia's double membership may become difficult to maintain. Zambia trades more with SADC and hosted the SADC summit in 2007 but progress towards a customs union is more advanced within COMESA. The government also considers the benefits from hosting the COMESA Secretariat in its decision about membership.

As the negotiations between the EU and most ACP (African Caribbean Pacific) countries of the Economic Partnership Agreements under the Cotonou Agreement could not be completed, Zambia signed an interim EPA at the end of 2007 without submitting a market access offer (see Box 1).

Currently Zambia applies very few non-tariff trade barriers. On the whole, imports are restricted solely for health reasons and exports of maize must be authorised due to concerns for food security. An export tax also exists on scrap metal, which is considered an important input for manufacturing.

Over the last five years, services have only accounted for approximately 10 per cent of exports. In contrast, service imports account for nearly 25 per cent of all imports, half of which is attributable to freight and insurance. The services account deficit roughly doubled between 2006 and 2007 due to the high share of transport services in mining investment and exports. Zambia is in the process of developing a strategy for trade in services, including the telecommunications and financial sectors.

After stagnating between 2004 and 2006, foreign direct investment (FDI) nearly doubled in 2007, specifically in mining where it is estimated at USD 1.2 billion. Employment in the mining sector increased from around 20 000 people in 2000 to around 62 600 in 2007, including contractors. The government indirectly holds stakes of 10 to 20 per cent in all traditional mines through ZCCM Investment Holdings. There has been considerable investment in new copper and cobalt mines. In addition, uranium and nickel mining is being developed in new regions that have very low levels of industrial activity. For example, the largest copper project in the world — at Lumwana — is being developed by Equinox Minerals in the northwest and is scheduled to begin operating in June 2008. The project also provides for an infrastructure upgrade, especially roads, that will benefit the entire region. In the construction phase Lumwana employed approximately 15 000 people but this will fall to just 1 000 during operation. Another project of note is the USD 375 million Konkola Copper Mines smelter project. This will come on line in mid-2008, creating more than 800 jobs and producing more than 250 000 tonnes of refined copper annually, making it the third largest smelter in the world.

The positive trade balance of 2006 was reduced in 2007, mainly owing to the increase in imports. Together with the increase in outflows of factor income, this resulted in a negative current account balance. The accumulation of external reserves however, reached

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

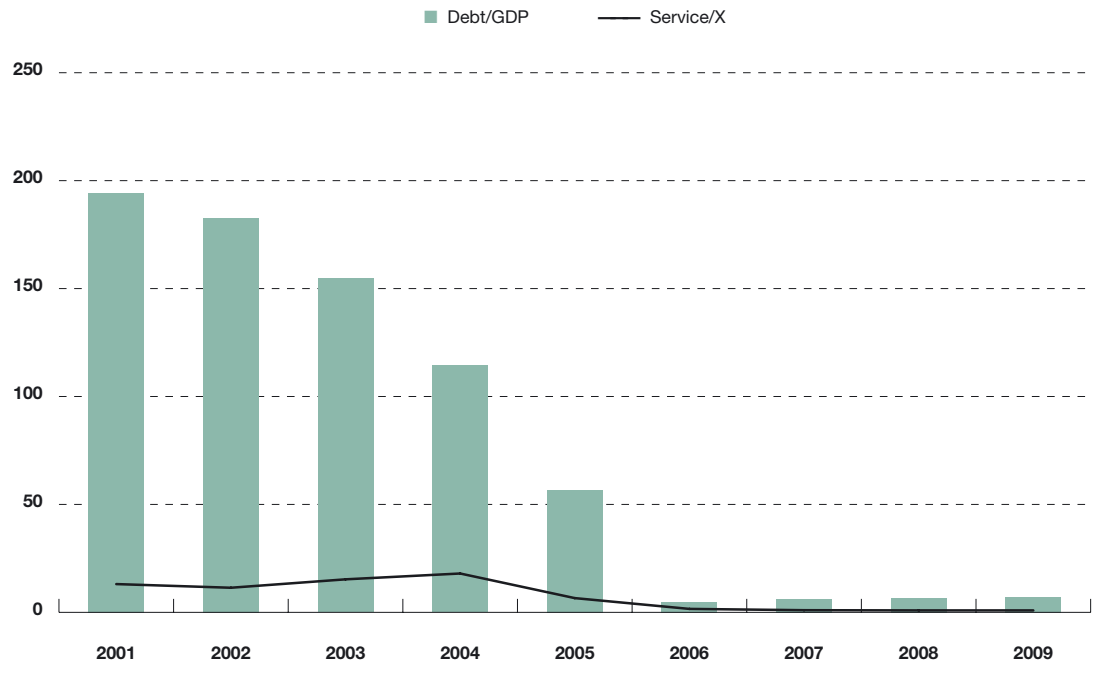
	1999	2004	2005	2006	2007(e)	2008(p)	2009(p)
Trade balance	-3.1	-0.5	0.7	10.9	9.5	4.7	2.5
Exports of goods (f.o.b.)	24.3	33.9	30.4	35.1	35.7	32.7	30.9
Imports of goods (f.o.b.)	27.4	34.4	29.7	24.2	26.1	28.0	28.4
Services	-6.6	-3.9	-2.7	-2.6	-4.9	0.0	0.0
Factor Income	-5.0	-6.4	-7.9	-8.7	-10.9	-9.4	-6.6
Current transfers	1.4	0.5	1.5	2.1	2.3	2.0	1.9
Current account balance	**-13.4**	**-10.3**	**-8.4**	**1.6**	**-3.9**	**-2.7**	**-2.2**

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

StatLink http://dx.doi.org/10.1787/323374154137

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Figure 3 - **Stock of Total External Debt** (percentage of GDP) **and Debt Service** (percentage of exports of goods and services)



Source: IMF.

StatLink http://dx.doi.org/10.1787/320402570872

USD 1.1 billion in December 2007, an increase of more than 50 per cent over 2006.

After the Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI) relief granted in 2005 and 2006 Zambia's debt has remained very low. In 2007 the net present value of external public debt as a share of exports was only 14 per cent, down from 176 per cent in 2004. The government is very reluctant to take up non-concessional loans and has announced its intention to limit its external borrowing solely to financing growth-enhancing projects. External debt increased by less than 10 per cent in 2007.

Total aid flows to Zambia in 2007 were USD 556 million, or 4.9 per cent of GDP. Between 20 and 30 per cent of this aid is disbursed in the form of budget support from the EU, World Bank, AfDB and other bilateral donors. A joint monitoring framework with a common set of indicators is in place reducing administrative costs for both sides. In 2007, an aid review concluded that 70 per cent of the agreed performance indicators had been met.

All major donors agreed on a Joint Assistance Strategy for Zambia (JASZ) that was signed in April 2007. The JASZ sets priorities for support and aims to better align donor strategies with the FNDP priorities, targets and country systems. In line with the Paris Declaration it aims to simplify aid management, improve aid predictability and reduce transaction costs for the government. However only 5 of the 16 signatories will replace their country strategies with the JASZ. Others will use it as a reference for their strategies. Although donors recognise recipients' needs to have three-year projections of funds in line with the MTEF process, only a few are able to provide these.

Zambia also receives grants and credits from China, funding projects such as a new stadium. In addition, considerable resources are channelled to NGOs from abroad, partly from official donors. In order to increase transparency and to avoid duplication of activities, the

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government plans to introduce mandatory disclosure of such flows and to enforce a measure of corporate responsibility onto NGOs. This plan has met with some resistance, especially since advocacy NGOs fear it may lead to politically motivated interference.

Structural Issues

Recent Developments

Ambitious reform programmes were begun over the last few years in several areas ranging from public sector management and decentralisation to private sector and financial sector development. The constitution is also under revision and the government's capacity to implement these reforms is being tested.

The aim of public sector management reforms is to achieve results-based budgeting with increased transparency and accountability and to improve the efficiency of spending. For example the Treasury is unifying accounts to improve cash management. This will bypass the need to deposit disbursements intended for line ministries in commercial banks during the procurement phase. At the same time, the Ministry of Finance and National Development (MoFNP) has to obtain credit at higher rates to cover current expenditure. On another front, the budget cycle is being pushed forward. The 2008 budget was presented one week before the end of January, more than a month earlier than in 2007. It has been made clear that preparations for investment projects by ministries should start immediately. In order to co-ordinate and implement these changes a suite of Public Expenditure Management and Financial Accountability (PEMFA) reforms have been designed but their implementation has been slow (see Box 2).

Although a new decentralisation policy was launched in 2004, the Decentralisation Implementation Plan (DIP) presented to cabinet in March 2007 had not been approved by the end of that year. The DIP provides for the devolution of functions and prescribes the financial and human resources at different levels of government. It is thus politically sensitive as it reduces the political control of the central ministries. The government appears to be pursuing a strategy aimed at building capacity at the country's 72 district councils before implementing the devolution of functions.[1] Because of

Box 2 – Implementing the PEMFA Reforms

PEMFA is a comprehensive reform programme targeting areas from debt and aid management to public procurement. Although PEMFA was launched in June 2005 it began operating only in mid-2006 and progress has been slow. Activity in 2007 focused primarily on training and procurement indicating a need to speed up implementation.

An important component of PEMFA is the Integrated Financial Management Information System (IFMIS). It aims at enhancing accountability, transparency and cost-effective delivery of public services by providing timely and accurate information on financial management, improving centralised control and monitoring expenditure at all levels. Further, it seeks to strengthen internal controls and increase the capacity to assess the effectiveness of spending. The system is expected to be operational in eight pilot sites in the first half of 2008.

The PEMFA programme faces a number of challenges, including an inadequate incentive structure for staff with additional duties, high staff turnover, and difficulties with measuring performance.

1. District councils are corporate bodies with perpetual succession and a common seal. They consist of members of parliament in the district, two representatives of chiefs appointed by all the chiefs in the district and all elected councillors from political parties in the district.

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the delay in implementation, only a small fraction of transfers budgeted for local governments were disbursed in 2007. In future, allocations for the councils will be made according to a formula that takes into account the availability of services, the local population and levels of poverty. Some taxes will also fall under the direct control of the councils, enhancing local ownership.

Inadequate infrastructure is seen as one of the main obstacles to increasing growth and development by both the government and the private sector. This applies to almost all areas of infrastructure: transport, energy, water and sanitation and information and telecommunications. Some road rehabilitation projects are underway mainly financed by aid. However road density in Zambia remains very low and the main export corridors suffer from overloaded trucks and heavy traffic. This is a cause for public concern as a household survey carried out by the Central Statistical Office (CSO) in 2006 indicated. Fuel prices are the highest in the region, due to a combination of high taxes and high production costs. Also, the Indeni Oil Refinery is subject to intermittent interruptions in production. In response to such problems, the government is planning to build a strategic oil reserve.

Electricity prices are very low, well below the levels needed for cost recovery. The sole electricity producer is the parastatal Zambia Electricity Supply Corporation (ZESCO). In 2007, electricity production increased only marginally with the rehabilitation of power stations ongoing. As a result, there was frequent load shedding for non-mining businesses and residential users. Regional supply shortages at the beginning of 2008, led to heavy power outages, affecting production in mining and manufacturing. ZESCO requested a 60 per cent tariff increase for 2008 to cover maintenance expenditure. At the end of 2007, the Energy Regulation Board approved tariff increases of 26.8 per cent for residential consumers and 1.3 per cent for commercial consumers. For 2009 and 2010, further increases have been approved but they are conditional on meeting performance benchmarks, such as reducing the wage bill from 49 to 30 per cent of the total budget by 2010. ZESCO has also begun to cut down on non-payment of bills through the introduction of 20 000 pre-paid meters, with an additional 125 000 to be installed in 2008. These meters also make it easier to collect arrears, as a share of the deposited money is automatically deducted for repayments. Collection rates have increased dramatically as a result, from 65 per cent to near 100 per cent in only a few months. Almost all electricity in Zambia is generated from abundant hydropower resources. However, electricity generation capacity has not increased significantly over the past 30 years. An expansion of the capacity of existing power plants by around 30 per cent is expected in the next 3 to 5 years. To increase capacity further public-private partnership (PPP) projects with Chinese and Indian firms have also been initiated in the same timeframe.

The private sector in Zambia consists of a few large firms, mostly in the mining sector, and a large number of small firms and micro firms in the informal sector. The share of the informal sector in economic activity and employment has been growing. The main obstacles facing the business community are lack of demand, limited access to finance and its high cost, shortage of raw materials, and the high costs of intermediate inputs.

In 2007, the agencies responsible for private sector support merged into the Zambia Development Agency (ZDA). ZDA now covers export and investment promotion, privatisation and SME development. As this involved substantial restructuring and a change in management, the new agency became fully operational only towards the end of 2007, so that impact of this reform will only become apparent in the course of 2008. The board of directors consists of ministries, relevant institutions and representatives from the private sector. ZDA focuses on high value-added activities. In 2007, new investment concentrated on agro-processing, copper products, processing of gemstones and tourism (primarily around Lusaka, the Copperbelt and Livingstone). Economic zones are granted special incentives by government but are developed by private companies. At the end of 2007, many private enterprises expected an increase in capacity utilisation and were planning to increase investment. ZDA also launched a programme to promote joint venture partnerships resulting, for example, in a memorandum of

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understanding between a local partner and a Korean mining company.

A small enterprise support project was established in 2007 in co-operation with a number of big mining firms and the International Finance Corporate (IFC) aimed at helping upgrade established firms that supply the mining industry. The mines currently import most of their consumable inputs, even boots and protective clothing. Support ranges from quality assurance to development of bankable business plans. The project also aims to stabilise demand while reducing input costs for the mines; as transport is expensive and unreliable, mine operators are forced to keep large stocks.

In 2008, the Citizens Economic Empowerment (CEE) loan programme is due to become operational. The seed money of ZMK 70 billion will be leveraged through co-operation with financial institutions. There is also a plan to establish preferences in government procurement for enterprises that benefit from the CEE initiative.

In 2007 and early 2008, with the inclusion of the Development Bank of Zambia, the Investrust Bank and the Copperbelt Energy Corporation (CEC) the number of listed companies on the Lusaka Stock Exchange (LuSE) rose to 17. Most stocks experienced capital gains, leading to an increase in market capitalisation by 41 per cent in dollar terms in the first half of 2007. LuSE has announced plans to introduce an alternative trading market for smaller companies.

Environmental issues are addressed in the FNDP but in practice they have not received much attention. Less than 1 per cent of government expenditure is allocated for environmental protection. Air and water pollution from mining has caused major environmental disruption in the Copperbelt. Under the privatisation process new investors were protected from the environmental liabilities of past mining activities. The newer technologies used by most transnational corporations reduced sulphur dioxide emissions and lowered the concentration of metals in waste dumps. However, occasional pollution of water by the mining industry persists.

Kabwe, a former lead and zinc mining and processing town, is considered one of the world's most polluted sites. Mining activities ended in 1994, but concentrations of lead dust and other metals in the water are extremely high, exposing residents to toxic levels of lead. Currently, donors are financing a rehabilitation and resettlement project for the area.

Technical and Vocational Skills Development

In 1996 a Technical Education, Vocational and Entrepreneurship Training (TEVET) policy was developed by the Ministry of Science, Technology and Vocational Training (MSTVT). The ministry funds a number of public training institutions at the same time as acknowledging the role of their privately run counterparts. The refurbishment of a number of government-owned institutions was largely achieved with donor support. The creation of management boards give training institutions a degree of independence enabling them to take decisions more rapidly than before. The presence of representatives from the private sector on these boards has helped to align the training programmes with their needs. At the same time, new private training providers have been established.

TEVET is the joint responsibility of the Ministry of Education and MSTVT. Since 2002 an investment programme has been underway to further rehabilitate training institutions and upgrade their equipment and human resources. Regular meetings are held between enterprises and the ministry, allowing the private sector to communicate its forecasted need for graduates in specific areas. Technical skills and vocational training is one of the priorities of the FNDP. Goals for TEVET include: the development of appropriate training, assessment and qualification systems to meet current and future demands of the labour market; improving the quality of training; strengthening the regulatory capacity; enhancing skills and qualification levels of lecturing personnel; increasing the participation of women and the disabled in training and lecturing; and, promoting distance learning.

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There are 268 registered vocational training institutions in Zambia, of which only 37 are rated as very good in terms of management, staff and facilities by the Technical Education, Vocational and Entrepreneurship Training Authority (TEVETA). The level of training ranges from crafts to technical grades and diplomas. Many institutes are accredited by international standards organisation but the quality of the institutions varies widely with some having state-of-the-art equipment and low teacher-student ratios and others struggling to maintain quality with low fees. In consequence some of the higher quality institutions are oversubscribed while others offering the same subjects find it difficult to attract enough students.

According to a recent survey by the MSTVT, training was provided to nearly 33 000 students in 2004. Women outnumbered men in all categories except engineering construction, agriculture and horticulture. Engineering and construction were the most popular subjects followed by business and law and information technology. The survey also indicates that most students were enrolled in private training institutions (43 per cent), followed by government institutions (33.5 per cent) and NGO-run institutions (18 per cent). In 2005 TEVETA was established as a regulator for the training sector. Private training institutions are required to register with the authority, which is leading the development of TEVET curricula and examinations (see Box 3).

Some institutions especially those offering higher levels of skills have established close relationships with the private sector. Firms often approach them and in some areas, competition for graduates is high. Graduates of lower quality institutions on the other hand, often have difficulty finding formal employment. However, the entrepreneurship component included in almost all curricula has helped many students to start their own business.

Government funding of TVET has been increasing, in line with the overall budget. Public funding is provided for public training institutes but students also pay fees. Stipends are available for students in specific disciplines coming from vulnerable groups. A tracking study in 2004 showed that most of graduates find a job after six months. Since funding from governments and donors

Box 3 - TEVETA

The creation of TEVETA has reinforced the government's commitment to work closely with the private sector in the area of skills developments. It has a board of governors in which all stakeholders including trade unions, private sector associations, research institutions, religious organisations and the government are represented.

One function of TEVETA is the development of curricula based on occupational profiles. Another important function is quality assurance with respect to training standards. Providers are regularly audited for compliance with minimum standards.

The third main function is the management of a training fund. In 2006 this fund was endowed with ZMK 8.2 billion and in 2007, it increased to ZMK 14 billion. The fund supports training in priority areas on a competitive basis. Funds are also available for pre-employment training for new skills like ICT and employee training where the employer and training provider co-operate closely. Another focus is on training for SMEs and informal sector enterprises. In these providers identify needs and design short, flexible courses to improve skills that have immediate application, such as business skills for handicraft producers and small-scale farmers. Thus far, less than half of the providers have made proposals to access the fund, partly due to the strict selection criteria requiring providers to submit proposals that clearly state the outcome of the training.

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is limited and fees only partly cover costs, some institutions have begun offering tailor-made short courses for private enterprises or individuals. These generate profit for the institutions that can be ploughed back into investments in equipment.

Many of the TVET activities and the TEVETA fund in particular have been financed by donors. A training levy is being discussed as a means to secure more sustainable funding for TVET and 60 per cent of enterprises (especially larger ones) appear to support this initiative.

Beyond the question of financing, a number of challenges for the future exist. There is still a major shortage of technical skills in Zambia. Specialised engineering skills are needed, particularly in the mining sector and there is also a shortage of adequately trained tradesmen including bricklayers and plumbers. Graduates of business studies, such as accounting, are starting to have difficulty in finding jobs. The Chamber of Mines plans to establish a centre of excellence for the mining sector. Thus far, mines and some large firms provide in-house training and scholarships for tertiary education in subjects with acute shortages such as engineering and geology.

Another challenge relates to the quality of training staff. On average more than 50 per cent of staff in the training institutions lecture and there is a shortage of qualified teachers. Many public sector employees in government or training institutions leave to join the private sector, especially mining companies, where salaries are much higher.

Political Context

A national constitutional conference was held in December 2007, despite planned boycotts by some civil society organisations and the main opposition party, the Patriotic Front (PF). Delegates to the conference hailed from parliament, civil society groups, traditional leaders and religious organisations. However, key women's organisations, trade unions and church groups stayed away, arguing that the majority of delegates were biased towards the ruling party. The PF was divided over the issue with some members participating in the conference and others siding with the boycott. The subjects under review range from presidential power, which is currently rather high, to the voting system, the budget cycle, and the death penalty. The conference is expected to sit for one year, after which a draft constitution would be subjected to a national referendum. The fact that the budget for the constitutional review process was doubled for 2009 indicates a measured approach to completing the process.

There is still widespread perception that efforts at tackling corruption have been insufficient. In the Transparency International 2007 report Zambia ranked 123rd out of 179 countries, with a score of 2.6. Likewise the 2007 *African Competitiveness Report* of the African Development Bank and the World Bank cites corruption as the most problematic constraint on doing business. The report of the Auditor General revealed that more than 1.5 per cent of total government expenditure in 2006 showed irregularities in management from misapplication of funds and unaccounted expenditure and stores to over-payments, misappropriation and unconstitutional expenditure.

The efforts of the Anti-Corruption Commission and the Task Force on Corruption have led to the conviction of only a few individuals and then only following public pressure. In this respect the improvement in freedom of the press in recent years has had a positive impact. There is also a perception that the Anti-Corruption Commission focuses its actions on the previous government and that the president is selective in his anti-graft crusade. However, in February 2007 the president dismissed the Lands Minister and other high officials in the Ministry of Lands for allegedly corrupt activities. The government has made some progress toward participation in the Extractive Industries Transparency Initiative but is not yet a full member.

Social Context and Human Resources Development

Poverty rates have fallen from 68 per cent in 2004 to 64 per cent in 2006. However, it is estimated that

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at least 10 per cent of the population have very little or no productive capacity and are thus trapped in long-term chronic poverty. These include the disabled and households affected by HIV/AIDS. An estimated 75 000 children are living on the streets.

Primary education is the area in which Zambia is most likely to meet the MDGs with net enrolment in primary education of more than 90 per cent and gender parity achieved. This arrests the previous long decline in education which has had the effect that Zambian men in their 40s are currently better educated than men in their 20s. Also in secondary education achievement rates increased in 2007, especially for girls. In the MTEF government expenditure on education is projected to increase from 15 per cent of total government expenditure to 15.30 per cent and an average of 5 000 teachers will be recruited each year.

The HIV prevalence rate among adults seems to have reached a plateau at around 17 per cent of the population. Women and especially young girls have much higher infection rates. Prevalence rates are also higher in urban areas, but while they seem to have stabilised there, they are increasing in rural areas. In contrast the prevalence rate for girls aged 15-19 seems to be declining although from a very high level, indicating some behavioural changes.[2] The number of people receiving anti-retroviral therapy has increased from 10 000 in 2004 to 137 000 in 2007. However for women it remains difficult to ask their husbands to be tested, but they often have to hide their medication to avoid being ostracised. The spread of HIV/AIDS is partly driven by domestic violence, which is closely related to the poor empowerment and low economic status of women. Despite general awareness of the HIV/AIDS pandemic, it does not figure very prominently in public debate. Recent attempts to streamline it into all sector policies such as the recent drafting of a sector-wide HIV/AIDS policy for financial institutions are steps in the right direction.

The high prevalence of HIV/AIDS has huge social and economic costs. The number of orphans in Zambia is above 1 million, with two-thirds of them are due to HIV/AIDS. By 2010, HIV is projected to reduce life expectancy by eight years. It also puts a heavy strain on the general health system and child and infant mortality rates, which had begun to improve, are now worsening. The reduction in agricultural extension workers is expected to have a negative effect on smallholder productivity even on those farms that are not directly affected by HIV/AIDS.

The FNDP states that the rights and needs of people with disabilities must be protected in all legislation and the development agenda at all levels of society. However, people with disabilities are rarely represented in decision-making and there is only one underfunded vocational rehabilitation centre with a total of 150 students. They also often do not have access to support programmes by ministries other than the Ministry of Community Development and Social Services. It is necessary then for all ministries to include a disability perspective in their portfolios.

The highest-growth sectors — mining, construction, financial services and tourism — only employ approximately 1 to 2 per cent of the population each. The vast majority of the workforce is self-employed (55 per cent) or employed as an unpaid family worker (26 per cent). Formal private sector employees only account for 9 per cent of the working population of around 4 million people and government employees for 6 per cent. There is some indication that formal sector employment declined slightly between 2004 and 2006, and even in urban areas informal employment accounts for 75 per cent of all employment. However, in Lusaka and the Copperbelt it is less, at around 50 per cent.

2. The latest survey data dates from 2002, thus estimates of current rates differ somewhat by source. Just 14 per cent of the population has been tested.

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Part Three



Statistical Annex



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Methodology

The aggregate figure for Africa, when reported, does not include countries whose data are unavailable.

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 2006 is from April 2006 to March 2007.

Table 7. Exports, 2006

The table is based on exports disaggregated at 6 digit level (following the HS2002)

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 HS2002). 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 (2002-06) (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 10. Foreign Direct Investment, 2001-06

The UNCTAD Inward Potential Index is based on 12 economic and structural variables measured by their respective scores on a range of 0-1 (raw data are available on: www.unctad.org/wir). It is the unweighted average of scores of: GDP per capita, the rate of growth of GDP, the share of exports in GDP, telecom infrastructure (the average number of telephone lines per 1 000 inhabitants, and number of mobile phones per 1 000 inhabitants), commercial energy use per capita, share of R&D expenditures in gross national income, share of tertiary students in the population, country risk, exports of natural resources as a percentage of the world total, imports of parts and components of electronics and automobiles as a percentage of the world total, and inward FDI stock as a percentage of the world total (Source: UNCTAD, *World Investment Report* 2007).

Table 11. Aid Flows, 2001-06

The DAC countries are: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom, the United States and the Commission of the European Communities.

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

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satisfy minimum subsistence needs. International poverty line: absolute poverty line corresponding to a level of income or consumption of USD1 or USD2 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. Access to Services

The Sanitation coverage is the percentage of the 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). The water supply coverage is the percentage of the population with access to improved water supply (household connection, public standpipe, borehole, protected dug well and protected spring or rainwater collection).

Table 16. Basic Health Indicators

Life expectancy at birth is the 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 is the 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 is the estimated number of years a newborn infant would live under the hypothesis of absence of AIDS during its life. Under nourishment prevalence is the proportion of the population that is suffering insufficient food intake to meet dietary energy requirements continuously. Food availability is the 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 is 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 is 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 17. Major Diseases

Healthy life expectancy at birth is the 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.

People living with HIV/AIDS is estimated whether or not they have developed symptoms of AIDS.

HIV/AIDS adult prevalence is the estimate of the adult population (15-49) living with HIV/AIDS. Malaria notified cases are 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. The Measles incidence is the 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.

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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. Employment and Remittances

Participation rate: measure of the proportion of a country's working-age population that engages actively in the labour market, either by working or looking for work. It provides an indication of the relative size of the supply of labour available to engage in the production of goods and services.

Total unemployment: proportion of the labour force that does not have a job and is actively looking for work.

Inactivity rate: percentage of the population that is neither working nor seeking work (that is, not in the labour force).

Table 21. Corruption Perception Index, 2001-07

The Corruption Perception Index (CPI) is a composite indicator based on surveys of business people and assessments of country analysts. A background paper presenting the methodology and validity of the CPI is available on the Transparency International website:
http://www.transparency.org/policy_research/surveys_indices/cpi/2007/methodology

Table 22 to 24. Political Indicators

The political indicators were built on information taken from the weekly newspaper *Marchés Tropicaux et Méditerranéens* according to a methodology first proposed by Dessus, Lafay and Morrisson[1]. The qualitative information derived from the newspaper were either computed as 0-1 variables with 0 being the non-occurrence of the event and 1 its occurrence or as 4-value indicators (with 0: non-occurrence, 1: occurrence but weak intensity, 2: medium intensity and 3: strong intensity). From these indicators, three main political indexes were constructed: an index of conflicts, a measure of the softening of the political regime and one of its hardening.

Table 22. 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.

1. Dessus. S., D. Lafay and C. Morrisson (1994), "A Politico-economic Model for Stabilisation in Africa", *Journal of African Economies.*

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- **Coup d'état and attempted coups d'état**

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.

Table 23. Softening of the Regime

- **Lifting of state of emergency**
- **Releases of political prisoners**
- **Measures in favour of human rights**
- **Improvement of political governance (fight against corruption…)**
- **Relinquishment of political persecution, rehabilitation, return from exile**
- **Political opening (measures in favour of democracy)**

1 = Discussion with the opposition,
2 = Entry of the opposition to power,
3 = Opening of a regime to elections.

- **Lifting of bans on strikes or demonstration**
- **Lifting of bans on press or public debates**

Table 24. Hardening of the Regime

- **State of emergency**
- **Arrests, incarcerations**

0 = non-occurrence,
1 = between 1 and 10 (non inclusive),
2 = between 10 and 100 (non inclusive),
3 = higher than 100.

- **Additional resources for the police, propaganda or censorship**
- **Toughening of the political environment (expulsions, dismissals, curfew, and dissolution of political parties)**
- **Violence perpetuated by the police (number of dead and injured)**
- **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.

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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

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Tables



Table 1 - **Basic Indicators, 2007**

	Population (thousands)	Land area (thousands of km²)	Population Density (pop/km²)	GDP at constant 2000 Prices (USD million)	GDP per Capita at constant 2000 Prices (USD)	Annual real GDP growth (average over 1999-2007)
Algeria	**33 858**	**2 382**	**14**	**72 923**	**2 154**	**3.8**
Angola	**17 024**	**1 247**	**14**	**21 214**	**1 246**	**10.8**
Benin	**9 033**	**115**	**81**	**3 118**	**345**	4.3
Botswana*	**1 882**	**582**	**3**	**8 353**	**4 439**	**5.8**
Burkina Faso	**14 784**	**274**	**54**	**3 959**	**268**	**5.6**
Burundi	8 508	28	327	860	101	2.0
Cameroon	**18 549**	**476**	**40**	**11 911**	**642**	**3.7**
Cape Verde	**530**	4	**132**	**850**	**1 602**	**7.0**
Central Afr. Rep.	4 343	623	7	990	228	1.0
Chad	**10 781**	**1 284**	**9**	**2 761**	**256**	**8.3**
Comoros	839	2	375	237	282	2.2
Congo	**3 768**	**342**	**11**	**4 146**	**1 100**	**3.4**
Congo, Dem. Rep.	**62 636**	**2 345**	**28**	**5 842**	**93**	**2.3**
Côte d'Ivoire	**19 262**	**322**	**61**	**10 662**	**554**	**0.0**
Djibouti	833	23	36	701	841	3.0
Egypt*	**75 498**	**1 001**	**75**	**135 984**	**1 801**	**4.9**
Equatorial Guinea	**507**	**28**	**18**	**4 843**	**9 543**	**21.7**
Eritrea	4 851	118	48	803	166	1.2
Ethiopia*	**83 099**	**1 104**	**83**	**11 681**	**141**	**5.8**
Gabon	**1 331**	**268**	**5**	**5 896**	**4 431**	**0.5**
Gambia	1 709	11	171	579	339	5.0
Ghana	**23 478**	**239**	**103**	**7 182**	**306**	**5.1**
Guinea	9 370	246	38	3 747	400	2.9
Guinea Bissau	1 695	36	61	221	131	2.0
Kenya	**37 538**	**593**	**63**	**17 122**	**456**	**3.8**
Lesotho	2 008	30	66	1 104	550	3.2
Liberia	**3 750**	**111**	**39**	**488**	**130**	**5.3**

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Table 1 - **Basic Indicators, 2007** *(cont.)*

	Population (thousands)	Land area (thousands of km²)	Population Density (pop/km²)	GDP at constant 2000 Prices (USD million)	GDP per Capita at constant 2000 Prices (USD)	Annual real GDP growth (average over 1999-2007)
Libya	**6 160**	**1 760**	**4**	**51 512**	**8 362**	**4.5**
Madagascar	**19 683**	**587**	**34**	**4 845**	**246**	**3.8**
Malawi	**13 925**	**118**	**148**	**2 197**	**158**	**3.1**
Mali	**12 337**	**1 240**	**10**	**3 968**	**322**	**4.9**
Mauritania	3 124	1 026	3	1 501	480	4.7
Mauritius	**1 262**	**2**	**618**	**5 866**	**4 649**	**4.1**
Morocco	**31 224**	**711**	**44**	**51 947**	**1 664**	**4.1**
Mozambique	**21 397**	**802**	**27**	**7 450**	**348**	**7.7**
Namibia	**2 074**	**824**	**3**	**4 659**	**2 246**	**4.3**
Niger	**14 226**	**1 267**	**11**	**2 374**	**167**	**3.9**
Nigeria	**148 093**	**924**	**163**	**66 014**	**446**	**4.9**
Rwanda	**9 725**	**26**	**50**	**2 572**	**264**	**5.6**
São Tomé and Principe	158	1	164	66	421	4.7
Senegal	**12 379**	**197**	**63**	**6 147**	**497**	**4.2**
Seychelles	87	0.455	190	632	7 300	1.0
Sierra Leone	5 866	72	82	1 392	237	8.9
Somalia	8 699	638	14	…	…	…
South Africa	**48 577**	**1 221**	**40**	**177 659**	**3 657**	**4.0**
Sudan	38 560	2 506	16	21 029	545	7.4
Swaziland	1 141	17	66	1 626	1 424	2.5
Tanzania	**40 454**	**945**	**46**	**16 284**	**403**	**6.5**
Togo	6 585	57	122	1 433	218	1.3
Tunisia	**10 327**	**164**	**63**	**27 118**	**2 626**	**5.0**
Uganda*	**30 884**	**241**	**157**	**8 441**	**273**	**5.8**
Zambia	**11 922**	**753**	**16**	**4 594**	**385**	**4.6**
Zimbabwe	13 349	391	34	5 524	414	-5.4
Africa	**963 680**	**30 323**	**32**	**817 577**	**848**	**4.7**

Note: * Fiscal year July (n-1)/June (n) **Fiscal year April(n)/march (n+1)

Sources: United Nations. Department of Economic and Social Affairs. Population Division. *World Population Prospects. The 2006 Revision*. Highlights. ADB Statistics Department, various domestic authorities and IMF *World Economic Outlook*.

StatLink http://dx.doi.org/10.1787/323472820611

Table 2 - **Real GDP Growth Rates, 1999-2009**

	1999	2000	2001	2002	2003	2004	2005	2006	2007 (e)	2008 (p)	2009 (p)
Algeria	**3.2**	**2.2**	**2.1**	**4.7**	**6.9**	**5.2**	**5.1**	**2.0**	**3.2**	**4.8**	**4.8**
Angola	**3.2**	**3.0**	**3.1**	**14.5**	**3.3**	**11.2**	**20.6**	**18.6**	**19.8**	**11.5**	**5.1**
Benin	**5.3**	**4.9**	**6.2**	**4.4**	**3.9**	**3.1**	**2.9**	**3.8**	**4.2**	**4.9**	**5.3**
Botswana*	**7.1**	**7.3**	**9.1**	**1.7**	**9.6**	**3.1**	**9.2**	**-0.8**	**6.0**	**5.3**	**5.2**
Burkina Faso	**6.2**	**1.9**	**7.1**	**5.4**	**8.0**	**4.6**	**7.1**	**6.1**	**4.3**	**4.7**	**5.8**
Burundi	-1.0	-0.9	2.1	4.4	-1.2	4.8	0.9	5.1	3.6	5.8	5.6
Cameroon	**4.1**	**4.2**	**4.5**	**4.0**	**4.0**	**3.7**	**2.3**	**3.2**	**3.6**	**4.8**	**4.6**
Cape Verde	**11.9**	**7.3**	**6.1**	**5.3**	**4.7**	**4.4**	**5.8**	**10.8**	**6.6**	**7.6**	**7.0**
Central Afr. Rep.	3.6	1.8	0.3	-0.6	-7.6	1.3	2.2	4.1	4.0	4.0	4.5
Chad	**-0.5**	**-0.5**	**11.5**	**8.5**	**14.3**	**33.7**	**7.9**	**0.2**	**-0.3**	**3.2**	**-0.7**
Comoros	1.9	1.4	3.3	4.1	2.5	-0.2	4.2	1.2	1.0	4.5	4.5
Congo	**-2.7**	**7.6**	**3.8**	**4.6**	**0.8**	**3.6**	**7.7**	**6.2**	**-0.7**	**6.4**	**6.4**
Congo, Dem. Rep.	**-4.3**	**-6.9**	**-2.1**	**3.5**	**5.8**	**6.6**	**6.5**	**5.1**	**6.2**	**6.6**	**7.1**
Côte d'Ivoire	**1.6**	**-3.7**	**0.0**	**-1.4**	**-1.6**	**1.8**	**1.2**	**0.9**	**1.6**	**2.8**	**3.8**
Djibouti	3.0	0.5	2.0	2.6	3.2	3.0	3.2	4.8	4.8	5.6	5.6
Egypt*	**6.1**	**5.4**	**3.5**	**3.2**	**3.2**	**4.1**	**4.5**	**6.8**	**7.1**	**6.8**	**6.7**
Equatorial Guinea	**23.2**	**13.1**	**67.8**	**20.4**	**14.4**	**32.7**	**8.8**	**5.3**	**9.8**	**5.8**	**4.1**
Eritrea	0.0	-13.1	9.2	0.6	3.9	2.0	4.8	2.0	1.3	1.3	1.1
Ethiopia*	**6.0**	**5.9**	**7.7**	**1.2**	**-3.5**	**12.3**	**8.7**	**5.4**	**8.2**	**7.5**	**7.4**
Gabon	**-8.9**	**-1.9**	**2.1**	**-0.3**	**2.5**	**1.4**	**3.0**	**1.2**	**5.5**	**4.2**	**4.1**
Gambia	6.4	5.5	5.8	-3.2	6.9	5.1	5.0	6.5	7.0	6.0	6.0
Ghana	**4.4**	**3.7**	**4.2**	**4.5**	**5.2**	**5.6**	**5.9**	**6.2**	**6.0**	**6.0**	**6.3**
Guinea	4.5	2.9	3.8	4.2	1.2	2.7	3.3	2.2	1.5	5.0	5.0
Guinea Bissau	7.6	7.5	0.2	-7.1	-0.6	2.2	3.2	2.7	2.5	2.1	2.2
Kenya	**2.1**	**0.5**	**4.5**	**0.5**	**2.9**	**5.1**	**5.7**	**6.1**	**6.6**	**4.0**	**6.5**
Lesotho	0.2	2.6	1.8	2.9	2.7	4.0	2.9	7.2	4.9	5.2	5.4
Liberia	**22.9**	**25.7**	**2.9**	**3.7**	**-31.3**	**2.6**	**5.3**	**7.8**	**8.0**	**9.2**	**11.0**

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Table 2 - **Real GDP Growth Rates, 1999-2009** *(cont.)*

	1999	2000	2001	2002	2003	2004	2005	2006	2007 (e)	2008 (p)	2009 (p)
Libya	**1.1**	**3.4**	**5.9**	**1.4**	**5.9**	**5.0**	**6.3**	**5.2**	**6.8**	**8.0**	**7.8**
Madagascar	**4.7**	**4.7**	**6.0**	**-12.7**	**9.8**	**5.3**	**4.6**	**5.0**	**6.3**	**6.5**	**6.7**
Malawi	**3.5**	**0.8**	**-4.1**	**1.9**	**4.2**	**5.0**	**2.3**	**7.9**	**6.8**	**5.1**	**5.5**
Mali	**5.7**	**-3.3**	**12.0**	**4.2**	**7.6**	**2.3**	**6.1**	**5.3**	**4.2**	**4.7**	**4.8**
Mauritania	6.7	1.8	2.9	1.1	5.6	5.2	5.4	11.7	2.0	5.0	5.0
Mauritius	**2.6**	**9.0**	**2.6**	**1.9**	**4.3**	**5.8**	**1.2**	**3.9**	**5.6**	**5.0**	**4.9**
Morocco	**0.5**	**1.8**	**7.6**	**3.3**	**6.1**	**5.2**	**2.4**	**8.0**	**2.2**	**6.0**	**6.1**
Mozambique	**7.5**	**1.9**	**13.1**	**8.2**	**7.9**	**7.5**	**8.4**	**8.0**	**7.2**	**7.0**	**6.8**
Namibia	3.4	3.5	2.4	6.7	3.5	6.6	4.8	4.1	3.8	4.4	3.3
Niger	**1.0**	**-2.6**	**7.4**	**5.3**	**7.7**	**-0.8**	**7.2**	**4.8**	**5.0**	**4.7**	**4.5**
Nigeria	**1.5**	**5.4**	**3.1**	**1.5**	**10.7**	**6.0**	**7.2**	**5.6**	**3.2**	**6.2**	**6.1**
Rwanda	**7.6**	**6.0**	**6.7**	**9.4**	**0.9**	**4.0**	**6.0**	**5.3**	**4.9**	**4.0**	**5.6**
São Tomé and Principe	2.5	3.0	4.0	4.1	4.0	3.8	6.0	8.0	7.0	6.0	6.0
Senegal	**6.3**	**3.2**	**4.6**	**0.7**	**6.7**	**5.8**	**5.3**	**2.1**	**2.8**	**4.9**	**4.6**
Seychelles	1.9	4.3	-2.3	1.2	-5.9	-2.9	1.2	5.3	6.1	5.9	4.2
Sierra Leone	-8.1	3.8	18.2	27.4	9.5	7.4	7.3	7.4	7.4	6.5	6.5
Somalia	...	...	...	...	...	...	...	...	...	...	...
South Africa	**2.4**	**4.2**	**2.7**	**3.7**	**3.1**	**4.9**	**5.0**	**5.4**	**4.9**	**4.0**	**4.9**
Sudan	3.1	8.4	6.2	5.4	7.1	5.1	8.6	11.8	11.2	10.7	11.0
Swaziland	3.5	2.6	1.6	2.9	2.9	2.1	2.3	2.1	2.1	1.0	1.0
Tanzania	**4.8**	**4.9**	**6.0**	**7.2**	**6.9**	**7.8**	**7.4**	**6.7**	**6.6**	**6.5**	**6.7**
Togo	2.6	-1.0	-2.3	-0.2	5.2	2.3	1.2	2.0	2.3	3.5	3.9
Tunisia	**6.1**	**4.7**	**5.0**	**1.7**	**5.6**	**6.0**	**4.0**	**5.5**	**6.3**	**5.5**	**5.6**
Uganda*	**8.2**	**5.4**	**4.9**	**6.4**	**4.4**	**5.4**	**6.8**	**5.1**	**6.0**	**6.2**	**6.3**
Zambia	**2.2**	**3.6**	**4.9**	**3.3**	**5.1**	**5.4**	**5.2**	**6.2**	**5.8**	**6.3**	**6.4**
Zimbabwe	-3.6	-7.3	-2.7	-4.4	-10.4	-3.8	-5.3	-4.8	-6.2	-4.5	-4.0
Africa	**3.3**	**3.8**	**4.2**	**3.5**	**4.9**	**5.6**	**5.7**	**5.9**	**5.7**	**5.9**	**5.9**

Note: * Fiscal year July (n-1)/June (n) **Fiscal year April(n)/march (n+1)
Sources: Various domestic authorities; IMF *World Economic Outlook* (October 2007) and authors' estimates and forecasts.

StatLink http://dx.doi.org/10.1787/323506232804

Table 3 - Demand Composition and Growth Rate, 2006-09

	2006						2007(e)				2008(p)				2009(p)			
	Final Consumption		Gross Capital Formation		External Sector													
	Private	Public	Private	Public	Exports	Imports	Total Final Consumption	Gross Capital Formation - Total	Exports	Imports	Total Final Consumption	Gross Capital Formation - Total	Exports	Imports	Total Final Consumption	Gross Capital Formation - Total	Exports	Imports
	Percentage of GDP						Real Percentage Growth				Real Percentage Growth				Real Percentage Growth			
Algeria	31.8	11.3	17.9	11.8	48.9	21.7	2.8	8.8	-0.4	5.6	5.2	7.2	1.7	5.7	5.2	8.2	2.3	7.9
Angola	31.6	21.2	2.4	8.9	73.8	37.9	12.9	-2.1	19.4	10.0	10.2	29.6	11.2	13.0	13.1	18.9	3.7	12.9
Benin	79.5	9.3	15.9	4.6	16.7	26.0	2.9	13.5	7.2	9.0	3.9	8.8	8.1	7.2	4.8	5.0	7.0	4.9
Botswana*	26.3	20.6	18.5	7.7	56.2	29.3	4.0	18.0	2.9	8.0	4.3	12.9	2.2	5.9	4.4	9.6	1.1	2.0
Burkina Faso	74.9	21.1	9.1	8.1	11.4	24.5	2.2	38.4	-9.8	13.1	3.4	10.9	6.8	6.6	4.0	13.1	7.5	6.7
Cameroon	71.6	9.6	14.0	2.7	23.0	21.0	3.0	5.8	5.0	4.3	4.2	8.8	4.1	5.3	4.8	4.5	3.9	4.9
Cape Verde	75.4	19.7	31.1	9.0	19.8	54.9	4.2	11.9	19.2	10.4	5.4	12.2	16.2	10.4	4.6	8.1	14.1	6.7
Côte d'Ivoire	71.7	8.2	6.7	3.0	51.3	41.0	2.7	6.3	1.8	5.8	4.2	20.6	0.8	8.3	5.2	20.6	1.5	9.3
Chad	26.2	23.3	12.5	3.0	57.0	22.1	3.7	10.0	-2.2	10.6	3.2	7.4	3.7	7.2	4.1	7.4	-4.2	7.1
Congo	24.0	9.1	18.3	5.0	81.3	37.6	3.3	19.6	-5.2	7.8	1.7	8.8	5.8	3.5	2.7	8.8	5.4	4.1
Congo, Dem. Rep.	88.2	8.8	10.0	3.4	31.7	42.0	6.6	10.0	0.2	6.3	6.2	15.7	2.5	6.1	5.8	17.5	4.1	2.9
Egypt*	70.6	12.3	10.7	8.0	29.9	31.6	6.4	27.4	19.3	31.3	6.2	12.5	10.2	13.3	6.6	11.4	6.1	9.4
Ethiopia*	91.0	13.0	8.3	12.2	14.9	39.4	9.4	15.0	11.1	16.7	9.0	12.6	7.8	14.4	7.7	11.2	9.1	10.9
Equatorial Guinea	10.0	2.9	23.2	17.0	97.3	50.3	0.1	12.3	5.5	5.8	2.3	8.3	2.3	3.6	3.0	5.0	1.1	2.0
Gabon	31.4	11.5	17.7	6.5	65.4	32.5	4.8	10.8	4.3	7.2	5.3	4.6	1.9	3.6	5.2	3.3	1.8	2.8
Ghana	78.8	16.5	18.0	12.2	38.6	64.1	7.3	17.3	0.1	10.6	7.0	11.4	3.8	9.5	6.8	6.2	4.8	6.4
Kenya	76.7	16.3	14.4	5.0	25.1	37.5	4.5	10.1	7.6	4.9	3.8	5.7	1.2	2.4	4.9	10.0	4.0	3.3
Liberia	99.1	11.8	37.7	5.7	35.5	89.9	5.2	9.5	9.8	6.6	2.8	9.1	14.5	4.8	4.8	8.8	14.6	5.1

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Table 3 - **Demand Composition and Growth Rate, 2006-09** *(cont.)*

	2006						2007(e)				2008(p)				2009(p)			
	Final Consumption		Gross Capital Formation		External Sector													
	Private	Public	Private	Public	Exports	Imports	Total Final Consumption	Gross Capital Formation - Total	Exports	Imports	Total Final Consumption	Gross Capital Formation - Total	Exports	Imports	Total Final Consumption	Gross Capital Formation - Total	Exports	Imports
	Percentage of GDP						Real Percentage Growth				Real Percentage Growth				Real Percentage Growth			
Libya	24.0	16.1	2.2	10.9	78.0	31.3	9.4	8.7	7.3	20.8	11.9	8.0	5.5	21.7	12.7	6.3	4.5	22.8
Madagascar	81.9	8.7	14.7	10.5	29.5	45.5	8.8	26.6	4.0	22.7	6.7	21.7	5.6	16.1	6.0	12.1	5.8	8.6
Malawi	98.0	15.2	3.4	6.4	30.0	53.0	10.3	15.5	3.6	17.3	4.8	10.3	5.3	5.5	5.6	7.2	6.3	6.7
Mali	65.3	17.3	12.8	7.6	29.9	32.9	3.2	16.4	2.3	7.5	3.5	10.1	6.1	6.5	5.2	6.5	2.5	5.2
Mauritius	70.6	14.3	18.7	7.7	61.7	73.0	4.0	4.2	5.1	-1.2	3.1	8.8	8.8	7.1	4.2	7.8	5.2	5.4
Morocco	55.5	18.3	26.1	5.5	33.0	38.4	-0.1	8.1	2.9	3.3	5.5	7.4	5.0	5.2	6.1	7.2	6.3	7.4
Mozambique	71.3	10.0	13.9	11.0	37.3	43.5	2.4	20.0	1.5	2.0	3.5	12.5	6.6	2.7	3.3	8.2	13.6	2.5
Namibia	51.1	22.5	20.5	6.2	52.2	52.5	4.3	16.2	3.5	10.5	5.1	13.2	3.5	9.1	4.8	10.0	1.9	7.6
Niger	74.1	15.4	16.1	5.8	18.7	30.1	6.8	11.8	0.7	12.5	4.8	13.7	1.2	9.6	4.9	6.3	2.2	5.7
Nigeria	34.3	21.8	11.6	10.2	56.6	34.6	8.9	15.2	-2.5	13.6	7.3	12.2	4.9	10.6	7.0	7.2	6.6	8.4
Rwanda	84.7	13.5	12.8	8.6	11.9	31.5	3.6	19.0	1.7	9.0	4.0	5.0	4.6	5.3	5.7	5.6	5.1	6.2
Senegal	77.3	15.1	19.3	5.8	24.0	41.5	1.7	8.9	2.0	3.4	4.9	6.8	2.7	4.7	3.7	7.8	3.0	3.5
South Africa	62.5	19.5	16.4	4.9	29.6	32.9	5.0	10.5	1.2	5.5	3.4	9.7	1.9	4.4	4.8	10.8	2.0	6.5
Tanzania	68.3	17.7	19.9	8.0	22.1	36.1	6.0	14.5	5.5	11.0	5.9	13.4	4.7	9.6	6.8	8.0	6.3	8.1
Tunisia	63.8	15.1	16.9	6.2	50.3	52.3	4.9	11.1	5.9	5.5	3.7	10.0	5.5	4.2	5.9	10.5	4.6	7.6
Uganda	77.3	14.7	18.5	4.9	14.8	30.0	5.7	16.1	2.2	11.5	6.3	10.6	4.9	10.1	7.2	6.6	4.9	8.8
Zambia	45.5	20.3	21.0	4.4	37.9	29.2	2.0	16.3	2.0	4.8	3.7	5.6	8.0	3.7	2.6	5.6	9.7	3.7

Note: * Fiscal year July (n-1)/June (n) **Fiscal year April(n)/march (n+1)
Sources: Various domestic authorities and IMF *World Economic Outlook* and authors' estimates and projections.

StatLink http://dx.doi.org/10.1787/323527551877

Table 4 - **Public Finances, 2006-09** (percentage of GDP)

	2006			2007(e)			2008(p)			2009(p)		
	Total revenue and grants	Total expenditure and net lending	Overall balance	Total revenue and grants	Total expenditure and net lending	Overall balance	Total revenue and grants	Total expenditure and net lending	Overall balance	Total revenue and grants	Total expenditure and net lending	Overall balance
Algeria	**42.3**	**29.4**	**12.9**	**41.2**	**29.8**	**11.4**	**43.0**	**28.7**	**14.3**	**41.9**	**29.5**	**12.4**
Angola	**46.4**	**35.5**	**10.9**	**45.2**	**35.2**	**10.0**	**44.1**	**34.9**	**9.2**	**44.2**	**40.3**	**3.9**
Benin	**19.2**	**19.6**	**-0.4**	**19.4**	**21.4**	**-2.0**	**19.8**	**22.6**	**-2.8**	**19.7**	**22.3**	**-2.7**
Botswana*	**39.4**	**31.3**	**8.1**	**39.6**	**32.6**	**7.1**	**39.6**	**34.2**	**5.4**	**41.2**	**37.9**	**3.3**
Burkina Faso	**18.1**	**23.3**	**-5.2**	**18.0**	**24.0**	**-6.0**	**17.8**	**24.9**	**-7.1**	**17.7**	**25.2**	**-7.5**
Burundi	36.8	38.5	-1.7	44.3	43.7	0.7	126.5	39.9	86.6	30.6	39.9	-9.3
Cameroon	**19.6**	**14.6**	**5.0**	**19.3**	**14.9**	**4.5**	**19.5**	**15.9**	**3.6**	**18.9**	**16.1**	**2.9**
Cape Verde	**30.9**	**35.5**	**-4.6**	**31.6**	**34.0**	**-2.3**	**31.6**	**34.1**	**-2.5**	**31.4**	**33.7**	**-2.3**
Central Afr. Rep.	21.2	14.1	7.1	16.5	14.0	2.5	14.4	13.7	0.7	14.4	13.7	0.7
Chad	**19.5**	**17.5**	**2.0**	**19.3**	**18.6**	**0.8**	**21.1**	**18.0**	**3.1**	**20.0**	**19.5**	**0.6**
Comoros	18.7	21.2	-2.6	24.1	26.1	-2.0	24.7	27.1	-2.4	25.6	27.9	-2.3
Congo	**44.4**	**27.3**	**17.2**	**44.9**	**29.8**	**15.1**	**43.8**	**27.1**	**16.8**	**43.6**	**27.0**	**16.7**
Congo, Dem. Rep.	**9.8**	**13.7**	**-3.9**	**22.9**	**20.8**	**2.2**	**25.5**	**25.9**	**-0.4**	**25.7**	**21.5**	**4.2**
Côte d'Ivoire	**18.8**	**20.3**	**-1.4**	**20.8**	**20.5**	**0.3**	**19.9**	**23.1**	**-3.2**	**20.1**	**24.5**	**-4.4**
Djibouti	35.0	37.4	-2.4	35.5	37.0	-1.6	31.1	36.4	-5.4	30.0	33.3	-3.3
Egypt*	**24.5**	**33.6**	**-9.2**	**24.6**	**30.4**	**-5.7**	**24.7**	**29.4**	**-4.7**	**24.9**	**28.3**	**-3.4**
Equatorial Guinea	**47.6**	**21.4**	**26.2**	**45.7**	**22.8**	**22.8**	**44.8**	**20.4**	**24.3**	**43.9**	**21.4**	**22.5**
Eritrea	37.9	54.8	-17.0	37.6	55.7	-18.1	33.7	52.1	-18.4	30.5	49.5	-19.0
Ethiopia*	**19.0**	**24.0**	**-5.0**	**20.8**	**23.9**	**-3.1**	**20.2**	**23.8**	**-3.6**	**20.7**	**23.7**	**-3.0**
Gabon	**31.7**	**22.5**	**9.2**	**31.3**	**21.7**	**9.6**	**31.0**	**19.9**	**11.0**	**31.1**	**19.5**	**11.6**
Gambia	22.9	29.2	-6.3	30.5	28.7	1.8	25.9	27.8	-1.8	25.4	27.5	-2.1
Ghana	**26.8**	**33.8**	**-7.0**	**27.0**	**35.2**	**-8.2**	**27.0**	**35.8**	**-8.8**	**27.2**	**35.6**	**-8.4**
Guinea	15.5	17.6	-2.1	15.9	15.0	1.0	15.4	16.6	-1.2	16.1	16.9	-0.8
Guinea Bissau	31.5	41.3	-9.8	23.1	40.4	-17.3	28.8	38.7	-9.9	25.9	37.0	-11.1
Kenya*	**21.5**	**24.8**	**-3.3**	**21.3**	**22.9**	**-1.7**	**21.2**	**25.6**	**-4.4**	**20.5**	**24.6**	**-4.1**
Lesotho	59.5	46.2	13.4	58.0	50.3	7.7	58.6	52.3	6.3	57.3	50.5	6.8
Liberia	**13.9**	**9.7**	**4.2**	**13.6**	**12.1**	**1.5**	**13.4**	**12.5**	**0.9**	**12.5**	**12.4**	**0.1**

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Table 4 - **Public Finances, 2006-09** (percentage of GDP) *(cont.)*

	2006			2007(e)			2008(p)			2009(p)		
	Total revenue and grants	Total expenditure and net lending	Overall balance	Total revenue and grants	Total expenditure and net lending	Overall balance	Total revenue and grants	Total expenditure and net lending	Overall balance	Total revenue and grants	Total expenditure and net lending	Overall balance
Libya	**71.7**	**32.6**	**39.2**	**73.6**	**33.5**	**40.2**	**79.2**	**31.9**	**47.3**	**80.1**	**34.1**	**46.0**
Madagascar	**59.1**	**21.4**	**37.7**	**15.8**	**19.3**	**-3.5**	**14.6**	**18.7**	**-4.1**	**14.5**	**18.0**	**-3.5**
Malawi	**41.2**	**41.4**	**-0.2**	**41.0**	**42.5**	**-1.5**	**40.3**	**43.5**	**-3.2**	**40.9**	**42.7**	**-1.8**
Mali	**56.2**	**24.9**	**31.3**	**22.7**	**23.7**	**-1.0**	**22.9**	**26.2**	**-3.4**	**22.7**	**26.4**	**-3.7**
Mauritania	64.0	28.3	35.7	26.9	29.8	-2.8	29.3	32.3	-3.0	27.9	30.3	-2.4
Mauritius*	**20.0**	**25.3**	**-5.3**	**19.2**	**23.5**	**-4.3**	**19.3**	**24.1**	**-4.8**	**21.6**	**26.7**	**-5.1**
Morocco	**25.6**	**27.8**	**-2.2**	**25.5**	**28.8**	**-3.4**	**25.3**	**29.0**	**-3.8**	**25.1**	**28.6**	**-3.5**
Mozambique	**26.6**	**28.0**	**-1.4**	**28.5**	**33.6**	**-5.1**	**30.4**	**36.6**	**-6.2**	**29.6**	**35.1**	**-5.6**
Namibia**	31.6	31.8	-0.2	33.8	31.9	1.9	32.3	32.0	0.3	30.7	31.4	-0.7
Niger	**60.8**	**19.3**	**41.6**	**21.1**	**21.9**	**-0.8**	**20.7**	**22.3**	**-1.7**	**19.7**	**22.8**	**-3.1**
Nigeria	**43.0**	**34.5**	**8.4**	**39.9**	**34.3**	**5.6**	**42.5**	**32.5**	**9.9**	**41.2**	**32.7**	**8.6**
Rwanda	**27.3**	**27.8**	**-0.5**	**28.1**	**28.5**	**-0.4**	**28.2**	**29.4**	**-1.2**	**26.8**	**28.6**	**-1.9**
São Tomé and Principe	37.4	49.9	-12.6	164.5	39.6	124.9	47.1	37.8	9.3	29.1	36.0	-6.9
Senegal	**21.6**	**27.7**	**-6.1**	**21.9**	**27.3**	**-5.5**	**21.5**	**27.8**	**-6.3**	**21.5**	**27.4**	**-5.9**
Seychelles	54.2	61.2	-7.1	49.2	55.0	-5.8	49.6	58.7	-9.2	49.1	57.9	-8.8
Sierra Leone	20.0	22.8	-2.7	49.2	25.5	23.7	21.6	25.9	-4.3	20.1	24.0	-3.9
Somalia	…	…	…	…	…	…	…	…	…	…	…	…
South Africa**	**27.6**	**27.3**	**0.3**	**28.6**	**27.8**	**0.8**	**28.7**	**28.0**	**0.6**	**28.4**	**28.0**	**0.5**
Sudan	19.4	23.7	-4.2	18.7	22.5	-3.8	20.4	23.3	-2.9	22.9	25.1	-2.2
Swaziland	36.2	35.7	0.5	36.5	38.5	-2.0	34.2	37.9	-3.7	32.7	38.1	-5.5
Tanzania*	**18.8**	**23.9**	**-5.2**	**19.6**	**24.1**	**-4.5**	**20.9**	**25.4**	**-4.6**	**22.2**	**27.0**	**-4.9**
Togo	18.3	21.1	-2.8	19.0	21.6	-2.5	20.2	22.8	-2.6	21.3	23.5	-2.2
Tunisia	**24.1**	**26.9**	**-2.8**	**23.5**	**26.6**	**-3.1**	**23.2**	**26.2**	**-3.0**	**23.1**	**26.0**	**-2.9**
Uganda*	**18.6**	**20.9**	**-2.4**	**19.3**	**22.0**	**-2.8**	**17.8**	**22.2**	**-4.4**	**17.2**	**21.7**	**-4.4**
Zambia	**43.0**	**24.4**	**18.6**	**22.4**	**24.2**	**-1.8**	**23.0**	**26.2**	**-3.2**	**22.9**	**26.5**	**-3.6**
Zimbabwe	51.3	58.6	-7.3	40.3	64.9	-24.6	0.1	0.2	-0.1	0.1	0.2	-0.1
Africa	**32.4**	**28.2**	**4.2**	**30.9**	**28.1**	**2.8**	**31.8**	**27.7**	**4.0**	**31.4**	**28.1**	**3.4**

Note: * Fiscal year July (n-1)/June (n) **Fiscal year April(n)/march (n+1)
Sources: Various domestic authorities and IMF *World Economic Outlook* (October 2007) and authors' estimates and projections.

StatLink http://dx.doi.org/10.1787/323560443550

Table 5 - **Monetary Indicators**

	Inflation (%)				Exchange Rate (LCU / USD)			Broad Money (LCU billion) 2007			Reserves, excluding gold (USD million) 2007	
	2006	2007(e)	2008(p)	2009(p)	2005	2006	2007	Level	% of GDP	Growth 2006/07	Stock at year-end	Eq. Months of imports
Algeria	**2.5**	**3.8**	**4.3**	**4.2**	**73.3**	**72.6**	**69.3**	**5 615.5**	**60.2**	**22.8**	**110 627**	**34.7**
Angola	**12.2**	**11.8**	**10.8**	**10.4**	**87.2**	**80.4**	**76.7**	**855.1**	**0.0**	**38.9**	**11 330**	**5.6**
Benin	**3.8**	**1.5**	**2.0**	**2.0**	**527.5**	**522.9**	**479.3**	**778.8**	**29.3**	**7.2**	**1 247**	**12.2**
Botswana	**11.6**	**7.1**	**8.8**	**9.0**	**5.1**	**5.8**	**6.1**	**32.3**	**50.3**	**31.5**	**10 023**	**31.8**
Burkina Faso	**2.3**	**2.0**	**2.0**	**1.9**	**527.5**	**522.9**	**479.3**	**748.2**	**21.9**	**21.3**	**1 055**	**7.3**
Burundi	2.8	7.1	6.6	4.0	1 081.6	1 028.4	1 081.9	312.6	30.4	3.7	177	4.5
Cameroon	**5.1**	**1.7**	**2.6**	**2.4**	**527.5**	**522.9**	**479.3**	**1 697.3**	**16.5**	**1.4**	**2 240**	**4.8**
Cape Verde	6.0	4.5	2.7	2.6	**88.7**	**87.9**	**80.6**	**92.9**	**82.4**	**8.7**	**385**	**4.4**
Central Afr. Rep.	6.7	3.1	2.3	2.4	527.5	522.9	479.3	123.9	14.9	0.8	129	4.5
Chad	**8.0**	**-4.2**	**3.4**	**3.1**	**527.5**	**522.9**	**479.3**	**367.7**	**11.8**	**-2.5**	**957**	**4.3**
Comoros	3.4	3.0	3.0	3.0	395.6	392.2	359.5	33.8	20.1	3.4	109	8.3
Congo	**4.0**	**4.0**	**3.6**	**3.8**	**527.5**	**522.9**	**479.3**	**690.1**	**17.5**	**3.4**	**2 038**	**7.3**
Congo, Dem. Rep.	**13.2**	**9.5**	**10.6**	**10.4**	**473.9**	**468.3**	**437.0**	**487.9**	**0.0**	**14.7**	**...**	**...**
Côte d'Ivoire	**1.6**	**2.3**	**2.2**	**2.4**	**527.5**	**522.9**	**479.3**	**2 540.1**	**26.7**	**10.7**	**2 216**	**3.4**
Djibouti	3.6	3.5	3.5	3.5	177.7	177.7	177.7	115.1	77.7	5.9	...	...
Egypt	**4.2**	**10.9**	**7.6**	**6.1**	**5.8**	**5.7**	**5.7**	**681.9**	**93.3**	**13.4**	**31 374**	**8.4**
Equatorial Guinea	5.0	4.9	3.8	3.5	527.5	522.9	479.3	350.0	7.5	9.9	3 264	7.4
Eritrea	17.3	22.7	25.2	25.5	15.4	15.4	15.4	24.2	145.2	4.9	...	...
Ethiopia	**12.3**	**17.1**	**12.1**	**10.9**	**8.7**	**8.7**	**8.9**	**66.1**	**48.1**	**17.3**	**1 348**	**2.6**
Gabon	**4.0**	**4.8**	**2.9**	**2.9**	**527.5**	**522.9**	**479.3**	**1 011.7**	**19.8**	**3.5**	**1 188**	**4.3**
Gambia	2.1	5.0	5.0	5.0	28.6	28.1	24.9	7.8	48.7	0.0	143	4.9
Ghana	**10.9**	**9.4**	**9.0**	**6.9**	**0.9**	**0.9**	**0.9**	**...**	**...**	**...**	**...**	**...**
Guinea	34.7	23.4	13.8	8.4	3 644.3	5 059.1	4 537.2	...	...	...	...	...
Guinea Bissau	2.0	3.0	2.6	2.5	527.5	522.9	479.3	68.5	40.0	24.2	102	7.2
Kenya	**14.5**	**9.8**	**10.1**	**7.4**	**75.6**	**72.1**	**67.3**	**754.7**	**37.5**	**16.9**	**3 355**	**3.9**
Lesotho	5.9	6.6	6.4	5.0	6.4	6.8	7.0	3.9	33.6	10.4	827	6.3
Liberia	7.2	8.0	7.5	6.5	**57.1**	**58.0**	**61.3**	**12.2**	**1706.9**	**42.4**	**119**	**2.2**

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Table 5 - **Monetary Indicators** *(cont.)*

	Inflation (%)				Exchange Rate (LCU / USD)			Broad Money (LCU billion) 2007			Reserves, excluding gold (USD million) 2007	
	2006	2007(e)	2008(p)	2009(p)	2005	2006	2007	Level	% of GDP	Growth 2006/07	Stock at year-end	Eq. Months of imports
Libya	3.5	7.0	7.0	6.4	**1.3**	**1.3**	**1.3**	**25.9**	**31.9**	**37.9**	**79 599**	**37.3**
Madagascar	**10.6**	**9.8**	**7.2**	**6.7**	**2 003.0**	**2 142.3**	**1 873.9**	**3 103.8**	**22.6**	**20.8**	**847**	**2.9**
Malawi	**9.0**	**8.5**	**7.7**	**7.3**	**118.4**	**136.0**	**140.0**	**79.6**	**21.9**	**26.7**	**217**	**2.0**
Mali	**1.5**	**2.1**	**2.0**	**2.3**	**527.5**	**522.9**	**479.3**	**871.8**	**25.6**	**-2.3**	**1 057**	**5.6**
Mauritania	6.2	7.6	7.3	5.0	265.5	280.8	267.7	...	...	...	...	...
Mauritius	**8.9**	**8.8**	**8.6**	**5.9**	**29.5**	**31.7**	**31.3**	**238.0**	**102.4**	**15.4**	**1 822**	**4.5**
Morocco	**3.3**	**2.5**	**2.6**	**2.3**	**8.9**	**8.8**	**8.2**	**581.7**	**96.6**	**4.7**	**24 039**	**9.1**
Mozambique	**13.2**	**7.9**	**7.1**	**5.3**	**23.1**	**25.4**	**25.8**	**66.0**	**0.0**	**26.8**	**1 445**	**4.8**
Namibia	5.1	6.7	6.0	6.1	**6.4**	**6.8**	**7.0**	**24.8**	**48.0**	**10.2**	**896**	**3.3**
Niger	**0.1**	**0.7**	**1.9**	**1.8**	**527.5**	**522.9**	**479.3**	**320.1**	**15.6**	**12.2**	**476**	**4.2**
Nigeria	**8.2**	**6.7**	**7.0**	**6.4**	**131.3**	**128.7**	**125.8**	**...**	**...**	**...**	**51 334**	**12.6**
Rwanda	**8.9**	**8.9**	**6.3**	**4.6**	**557.8**	**551.7**	**552.9**	**...**	**...**	**...**	**...**	**...**
São Tomé and Principe	23.6	16.6	11.4	8.2	10 558.0	12 448.6	13 536.8	887.7	70.7	9.3	33	3.8
Senegal	**1.9**	**5.9**	**2.2**	**2.3**	**527.5**	**522.9**	**479.3**	**1 839.4**	**35.1**	**5.6**	**1 488**	**3.9**
Seychelles	-0.3	4.4	5.0	5.0	5.5	5.5	6.7	4.7	98.4	-7.5	41	0.4
Sierra Leone	9.5	9.5	10.8	10.2	2 889.6	2 961.9	2 985.2	1 079.4	21.6	22.7	217	4.5
Somalia	...	...	...	...	...	...	...	...	...	...	...	...
South Africa	**4.6**	**6.5**	**6.8**	**5.0**	**6.4**	**6.8**	**7.0**	**1 364.6**	**71.0**	**20.2**	**32 943**	**3.9**
Sudan	7.2	8.0	6.5	5.5	2.4	2.2	2.0	18.9	0.2	5.5	1 378	1.5
Swaziland	5.3	6.8	6.3	4.9	6.4	6.8	7.0	5.3	27.4	21.5	719	3.6
Tanzania	**7.3**	**7.1**	**7.0**	**6.3**	**1 128.9**	**1 251.9**	**1 245.0**	**5 827.7**	**32.2**	**25.2**	**2 886**	**6.4**
Togo	2.2	3.2	3.0	3.1	527.5	522.9	479.3	443.5	36.5	15.2	479	3.9
Tunisia	**4.5**	**3.1**	**3.0**	**3.0**	**1.3**	**1.3**	**1.3**	**28.1**	**63.6**	**12.4**	**7 854**	**4.9**
Uganda	**7.3**	**6.4**	**6.4**	**5.6**	**1 780.7**	**1 831.5**	**1 741.2**	**4 285.8**	**22.0**	**16.0**	**2 361**	**8.5**
Zambia	**9.1**	**10.8**	**8.6**	**5.9**	**4 463.5**	**3 603.1**	**4 002.5**	**10 399.5**	**22.7**	**25.3**	**1 090**	**3.5**
Zimbabwe	1016.7	6723.7	...	...	22.4	164.4	10 166.7	57 112.2	0.1	6194.4	...	...
Africa	**6.5**	**8.2**	**7.5**	**6.3**	**...**	**...**	**...**	**...**	**...**	**...**	**...**	**...**

Source: Various domestic authorities; IMF *World Economic Outlook* (October 2007) and *International Financial Statistics* (March 2008) and authors' estimates and projections.

StatLink http://dx.doi.org/10.1787/323568510226

Table 6 - **Balance of Payments Indicators 2006-09**

	Trade balance (USD million)				Current account balance (USD million)				Current account balance (as % of GDP)			
	2006	2007	2008	2009	2006	2007	2008	2009	2006	2007	2008	2009
Algeria	**34049**	**32971**	**41611**	**41449**	**28929**	**27243**	**35300**	**35173**	**24.8**	**22.4**	**24.9**	**23.0**
Angola	**22277**	**35828**	**50556**	**49712**	**10538**	**10778**	**15285**	**16047**	**23.3**	**14.9**	**15.0**	**13.6**
Benin	**-508**	**-593**	**-693**	**-712**	**-296**	**-300**	**-413**	**-411**	**-6.3**	**-5.4**	**-6.6**	**-6.2**
Botswana*	**2158**	**2338**	**1913**	**926**	**2156**	**2383**	**1902**	**907**	**20.7**	**18.1**	**13.6**	**6.0**
Burkina Faso	**-486**	**-820**	**-1028**	**-1108**	**-511**	**-954**	**-1196**	**-1272**	**-8.5**	**-13.6**	**-15.2**	**-14.9**
Burundi	-181	-252	-220	-233	-109	-140	-126	-131	-12.0	-14.2	-11.4	-10.9
Cameroon	**364**	**431**	**427**	**218**	**-138**	**32**	**-226**	**-468**	**-0.8**	**0.2**	**-0.9**	**-1.8**
Cape Verde	**-463**	**-600**	**-726**	**-803**	**-60**	**-157**	**-187**	**-158**	**-5.3**	**-10.7**	**-10.6**	**-8.2**
Central African Republic	-27	-25	-34	-43	-57	-56	-76	-95	8.7	9.7	10.7	11.7
Chad	**2102**	**1768**	**2274**	**1845**	**-479**	**-638**	**-764**	**-436**	**-7.6**	**-10.8**	**-10.8**	**-6.2**
Comoros	-87	-91	-98	-103	-22	-16	-23	-23	-5.6	-3.7	-4.8	-4.6
Congo	**4384**	**5137**	**6775**	**7190**	**1167**	**1150**	**2590**	**2538**	**15.1**	**11.2**	**20.5**	**18.6**
Congo, Dem. Rep.	**-421**	**-65**	**-350**	**-380**	**-644**	**-678**	**-917**	**-892**	**-7.5**	**-7.9**	**-10.5**	**-9.6**
Côte d'Ivoire	**3154**	**3324**	**2589**	**2155**	**602**	**798**	**-69**	**-493**	**3.4**	**4.3**	**-0.3**	**-2.3**
Djibouti	-296	-366	-420	-485	-68	-121	-172	-189	-8.9	-14.5	-18.8	-18.7
Egypt*	**-11986**	**-15817**	**-18470**	**-17388**	**1752**	**2696**	**3239**	**1940**	**1.6**	**2.1**	**2.2**	**1.6**
Equatorial Guinea	**5599**	**6225**	**7096**	**7410**	**-178**	**-230**	**859**	**1251**	**-2.1**	**-2.3**	**7.9**	**10.7**
Eritrea	-388	-444	-374	-368	-24	-52	-35	-44	-2.1	-3.7	-1.9	-1.9
Ethiopia*	**-3383**	**-3715**	**-4589**	**-5463**	**-1547**	**-1627**	**-1929**	**-2076**	**-11.0**	**-10.5**	**-10.6**	**-9.8**
Gabon	**4474**	**5320**	**6651**	**6733**	**1852**	**2051**	**2626**	**2423**	**19.4**	**17.4**	**18.6**	**16.4**
Gambia	-138	-175	-200	-207	-68	-83	-79	-82	-19.8	-21.8	-18.6	-17.8
Ghana	**-2789**	**-2869**	**-3608**	**-4267**	**-896**	**-1033**	**-1396**	**-1629**	**-6.9**	**-8.6**	**-10.3**	**-11.0**
Guinea	69	-88	-187	-220	-185	-396	-546	-608	-5.9	-8.7	-12.0	-12.5
Guinea Bissau	-59	-35	-26	-24	-37	-44	-18	-25	-12.2	-12.7	-5.0	-6.4
Kenya	**-3266**	**-4488**	**-5331**	**-5379**	**-526**	**-514**	**-1054**	**-718**	**-2.3**	**-1.5**	**-2.6**	**-1.6**
Lesotho	-667	-732	-782	-801	66	25	13	28	4.4	1.6	0.7	1.5
Liberia	**-243**	**-264**	**-317**	**-301**	**-108**	**-147**	**-203**	**-179**	**-17.6**	**-20.5**	**-23.6**	**-18.6**

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Table 6 - **Balance of Payments Indicators 2006-09** *(cont.)*

	Trade balance (USD million)				Current account balance (USD million)				Current account balance (as % of GDP)			
	2006	2007	2008	2009	2006	2007	2008	2009	2006	2007	2008	2009
Libya	**25906**	**21199**	**27693**	**25818**	**24420**	**18676**	**24679**	**22788**	**48.8**	**44.5**	**46.6**	**41.5**
Madagascar	**-547**	**-854**	**-1230**	**-1381**	**-483**	**-912**	**-1493**	**-1651**	**-8.8**	**-12.6**	**-17.2**	**-17.3**
Malawi	-426	-319	-370	-420	-160	-138	-189	-220	-6.7	-7.8	-9.7	-9.9
Mali	**153**	**91**	**-21**	**-43**	**-256**	**-383**	**-533**	**-572**	**-4.2**	**-5.8**	**-7.1**	**-7.1**
Mauritania	200	137	170	56	-36	-186	-205	-263	-1.3	-6.8	-7.0	-8.8
Mauritius	**-1089**	**-1180**	**-1489**	**-1655**	**-281**	**-383**	**-551**	**-579**	**-4.3**	**-5.2**	**-6.7**	**-6.6**
Morocco	**-9051**	**-11326**	**-13882**	**-15704**	**2215**	**2230**	**624**	**100**	**3.4**	**2.8**	**0.7**	**0.1**
Mozambique	**-533**	**-1026**	**-1611**	**-1888**	**1448**	**-831**	**-1007**	**-1195**	**20.8**	**-7.6**	**-8.7**	**-9.8**
Namibia	95	-16	-305	-505	1153	1037	573	333	16.6	13.7	7.0	3.8
Niger	**-265**	**-217**	**-330**	**-364**	**-309**	**-300**	**-449**	**-534**	**-8.7**	**-7.0**	**-9.2**	**-10.3**
Nigeria	**31600**	**25476**	**34012**	**36216**	**14300**	**5129**	**13880**	**17195**	**12.4**	**4.2**	**9.3**	**10.2**
Rwanda	**-295**	**-385**	**-453**	**-480**	**-191**	**-163**	**-230**	**-234**	**-7.7**	**-5.3**	**-6.8**	**-6.4**
São Tomé and Principe	-67	-67	-72	-77	-57	-58	-65	-69	-45.9	-41.2	-42.0	-41.2
Senegal	**-1620**	**-1727**	**-2156**	**-2282**	**-872**	**-888**	**-1265**	**-1316**	**-9.5**	**-8.3**	**-10.5**	**-10.1**
Seychelles	-287	-377	-384	-314	-180	-223	-227	-117	-23.2	-30.4	-32.4	-16.8
Sierra Leone	-124	-155	-228	-164	-81	-104	-169	-99	-5.7	-6.7	-10.0	-5.4
Somalia	...	...	...	...	...	...	...	...	...	...	...	...
South Africa	**-6201**	**-7388**	**-10886**	**-14591**	**-16570**	**-18723**	**-22919**	**-26961**	**-6.5**	**-6.9**	**-7.6**	**-8.0**
Sudan	-1291	49	440	2257	-5489	-4975	-4761	-4131	-14.7	-10.7	-8.5	-6.2
Swaziland	91	35	-29	0	42	4	-32	-40	1.6	0.2	-1.1	-1.4
Tanzania	**-2128**	**-2453**	**-3244**	**-3647**	**-1361**	**-1659**	**-2297**	**-2584**	**-9.6**	**-10.7**	**-13.4**	**-13.6**
Togo	-427	-495	-551	-604	-134	-152	-161	-170	-6.0	-6.4	-6.3	-6.1
Tunisia	**-2527**	**-2447**	**-2698**	**-3756**	**-634**	**-172**	**-168**	**-977**	**-2.1**	**-0.5**	**-0.4**	**-2.2**
Uganda*	**-1102**	**-1245**	**-1544**	**-1756**	**-265**	**-424**	**-798**	**-1063**	**-2.8**	**-4.0**	**-6.8**	**-8.1**
Zambia	**1183**	**1091**	**581**	**321**	**176**	**-451**	**-326**	**-282**	**1.6**	**-3.9**	**-2.7**	**-2.2**
Zimbabwe	-49	5.76	206.04	39.75	-219	-139	122	-64	-4.4	-2.9	2.6	-1.4
Africa	**84435**	**78310**	**104059**	**94430**	**57286**	**35780**	**54419**	**47674**	**5.3**	**2.9**	**3.8**	**3.1**

Note: * Fiscal year July (n-1)/June (n) **Fiscal year April(n)/march (n+1)
Source: Various domestic authorities, IMF *World Economic Outlook* (October 2007) and and authors' estimates and projections.

StatLink http://dx.doi.org/10.1787/323655068617

Table 7 - **Exports, 2006**

	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	**Petroleum oils and oils obtained from bituminous minerals, crude (64.7%)**	**Natural gas, liquefied (11.0%)**	**Petroleum oils and oils obtained from bituminous minerals,o/than crude etc (9.3%)**	**2**
Angola	**Petroleum oils and oils obtained from bituminous minerals, crude (96.0%)**			**1**
Benin	**Cotton, not carded or combed (35.1%)**	**Waste and scrap, copper or copper alloy (18.0%)**	**Cashew nuts, in shell, fresh or dried (14.5%)**	**4**
Botswana	**Diamonds non-industrial unworked or simply sawn, cleaved or bruted (78.6%)**	**Nickel mattes (11.4%)**	**Diamonds industrial unworked or simply sawn, cleaved or bruted (4.1%)**	**1**
Burkina Faso	**Cotton, not carded or combed (82.7%)**			**1**
Burundi	Coffee, not roasted, not decaffeinated (56.3%)	Black tea (fermented) and partly fermented tea in packages exceeding 3 kg (10.5%)	Filtering or purifying machinery and apparatus for liquids nes (4.3%)	4
Cameroon	**Petroleum oils and oils obtained from bituminous minerals, crude (57.0%)**	**Lumber, tropical hardwood nes, sawn lengthwise >6mm (7.4%)**	**Bananas including plantains, fresh or dried (6.1%)**	**5**
Cape Verde	Tunas, yellowfin, frozen excluding heading No 03.04, livers and roes (24.6%)	Skipjack or stripe-bellid bonito,frozen ex headg No 03.04,livers&roes (13.7%)	Turbo-jets of a thrust exceeding 25 KN (10.9%)	7
Central African Republic	Logs, tropical hardwoods nes (37.1%)	Diamonds unsorted whether or not worked (32.3%)	Lumber, tropical hardwood nes, sawn lengthwise >6mm (8.7%)	3
Chad	Petroleum oils and oils obtained from bituminous minerals, crude (90.9%)			1
Comoros	Electrostatic photo-copying apparatus, indirect process type (25.4%)	Cloves (whole fruit, cloves and stems) (22.7%)	Tugs and pusher craft (19.2%)	4
Congo	Petroleum oils and oils obtained from bituminous minerals, crude (88.7%)			1
Congo, Dem. Rep.	Diamonds non-industrial unworked or simply sawn, cleaved or bruted (31.2%)	Cobalt ores and concentrates (18.2%)	Copper ores and concentrates (9.7%)	5
Côte d'Ivoire	**Cocoa beans, whole or broken, raw or roasted (31.4%)**	**Petroleum oils and oils obtained from bituminous minerals, crude (17.4%)**	**Cocoa paste not defatted (6.1%)**	**8**

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Table 7 - **Exports, 2006** *(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**	
Djibouti	Coffee, not roasted, not decaffeinated (13.1%)	Raw sugar, cane (8.3%)	Dump trucks designed for off-highway use (6.1%)	24
Egypt	**Natural gas, liquefied (19.7%)**	**Petroleum oils and oils obtained from bituminous minerals,o/than crude etc (13.2%)**	**Petroleum oils and oils obtained from bituminous minerals, crude (13.0%)**	**48**
Equatorial Guinea	**Petroleum oils and oils obtained from bituminous minerals, crude (91.7%)**			**1**
Eritrea	Medicaments nes, in dosage (12.8%)	Parts of boring or sinking machinery, whether or not self-propelled (11.8%)	Bovine leather, otherwise pre-tanned, nes (9.1%)	14
Ethiopia	**Coffee, not roasted, not decaffeinated (42.2%)**	**Sesamum seeds, whether or not broken (18.6%)**		**8**
Gabon	**Petroleum oils and oils obtained from bituminous minerals, crude (72.3%)**	**Manganese ores and concentrates etc (8.0%)**	**Logs, tropical hardwoods nes (7.6%)**	**2**
Gambia	Cashew nuts, in shell, fresh or dried (46.7%)	Ground-nut oil, crude (11.8%)	Ground-nuts shelled,whether or not broken, not roastd or otherwise cookd (8.8%)	5
Ghana	**Cocoa beans, whole or broken, raw or roasted (46.9%)**	**Manganese ores and concentrates etc (4.7%)**	**Aluminium unwrought, not alloyed (3.6%)**	**10**
Guinea	Aluminium ores and concentrates (40.0%)	Petroleum oils and oils obtained from bituminous minerals, crude (21.9%)	Aluminium oxide nes (11.6%)	4
Guinea Bissau	Cashew nuts, in shell, fresh or dried (86.9%)			1
Kenya	**Black tea (fermented) and partly fermented tea in packages exceeding 3 kg (14.5%)**	**Cut flowers and flower buds for bouquets or ornamental purposes, fresh (14.0%)**	**Petroleum oils and oils obtained from bituminous minerals,o/than crude etc (5.5%)**	**37**
Lesotho	Pullovers, cardigans and similar articles of cotton, knitted (22.2%)	Mens/boys trousers and shorts, of cotton, not knitted (18.2%)	Diamonds non-industrial unworked or simply sawn, cleaved or bruted (18.0%)	6
Liberia	**Cargo vessels nes and oth vessels for the transport of both persons and goods (31.4%)**	**Tankers (26.4%)**	**Petroleum oils and oils obtained from bituminous minerals, crude (13.6%)**	**4**
Libya	**Petroleum oils and oils obtained from bituminous minerals, crude (87.2%)**	**Petroleum oils and oils obtained from bituminous minerals,o/than crude etc (8.1%)**		**1**

Table 7 - **Exports, 2006** *(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**	
Madagascar	Pullovers,cardigans&similar article of wool or fine animal hair,knittd (12.5%)	Shrimps and prawns, frozen, in shell or not, including boiled in shell (12.3%)	Womens/girls trousers and shorts, of cotton, not knitted (8.0%)	25
Malawi	Tobacco, unmanufactured, partly or wholly stemmed or stripped (59.1%)	Raw sugar, cane (8.2%)	Black tea (fermented) & partly fermented tea in packages exceedg 3 kg (7.5%)	4
Mali	**Cotton, not carded or combed (56.2%)**	**Tankers (13.9%)**	**Cargo vessels nes&oth vessels for the transport of both persons&goods (13.5%)**	**7**
Mauritania	Petroleum oils and oils obtained from bituminous minerals, crude (35.8%)	Iron ores&concentrates,oth than roasted iron pyrites,non-agglomerated (34.0%)	Octopus, frozen, dried, salted or in brine (9.6%)	3
Mauritius	**Raw sugar, cane (17.9%)**	**T-shirts, singlets and other vests, of cotton, knitted (17.7%)**	**Tunas,skipjack&Atl bonito,prepard/preservd,whole/in pieces,ex mincd (9.7%)**	**19**
Morocco	**Phosphoric acid and polyphosphoric acids (5.4%)**			**71**
Mozambique	**Aluminium unwrought, not alloyed (65.9%)**	**Aluminium unwrought, alloyed (5.1%)**	**Tobacco, unmanufactured, partly or wholly stemmed or stripped (4.6%)**	**3**
Namibia	Diamonds non-industrial unworked or simply sawn, cleaved or bruted (39.5%)	Zinc not alloyed unwrought containing by weight 99.99% or more of zinc (15.3%)	Natural uranium&its compoundsmixtures cntg natural uranium/its compds (9.8%)	5
Niger	Natural uranium&its compoundsmixtures cntg natural uranium/its compds (58.9%)	Petroleum oils&oils obtained from bituminous minerals,o/than crude etc (30.9%)		2
Nigeria	**Petroleum oils and oils obtained from bituminous minerals, crude (89.6%)**	**Natural gas, liquefied (5.0%)**		**1**
Rwanda	Coffee, not roasted, not decaffeinated (53.7%)	Niobium, tantalum and vanadium ores and concentrates (18.2%)	Black tea (fermented) & partly fermented tea in packages exceedg 3 kg (9.2%)	3
São Tomé and Principe	Cocoa beans, whole or broken, raw or roasted (39.5%)	Motorcycles with reciprocatg piston engine displacg > 50 cc to 250 cc (20.0%)	Motorcycles with reciprocatg piston engine displacg > 500 cc to 800 cc (13.1%)	4
Senegal	**Ground-nut oil, crude (8.8%)**	**Phosphoric acid and polyphosphoric acids (8.8%)**	**Fish nes, fresh or chilled excl heading No 03.04, livers and roes (7.4%)**	**23**
Seychelles	Tunas,skipjack&Atl bonito,prepard/preservd,whole/in pieces,ex mincd (49.2%)	Tunas, yellowfin, frozen excluding heading No 03.04, livers and roes (12.2%)	Petroleum oils&oils obtained from bituminous minerals,o/than crude etc (11.0%)	4

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Table 7 - **Exports, 2006** *(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**	
Sierra Leone	Diamonds non-industrial unworked or simply sawn, cleaved or bruted (42.9%)	Aluminium ores and concentrates (11.6%)	Cocoa beans, whole or broken, raw or roasted (8.0%)	6
Somalia	Goats, live (27.3%)	Bovine, live pure-bred breeding (12.9%)	Wood charcoal (including shell or nut charcoal) (9.3%)	9
South Africa	**Platinum unwrought or in powder form (9.4%)**	**Diamonds non-industrial unworked or simply sawn, cleaved or bruted (5.9%)**	**Gold in unwrought forms non-monetary (5.7%)**	**74**
Sudan	Petroleum oils and oils obtained from bituminous minerals, crude (89.3%)			1
Swaziland	Raw sugar, cane (14.3%)	Gas turbines nes of a power exceeding 5000 KW (9.2%)	Mixtures of odoriferous substances for the food or drink industries (8.6%)	25
Tanzania	**Tobacco, unmanufactured, partly or wholly stemmed or stripped (7.6%)**	**Fish fillets and other fish meat, minced or not, fresh or chilled (6.9%)**	**Cotton, not carded or combed (6.7%)**	**21**
Togo	Cocoa beans, whole or broken, raw or roasted (29.6%)	Natural calcium phosphates, aluminum calcium phosphates etc, ground (11.6%)	Cement clinkers (9.8%)	8
Tunisia	**Petroleum oils and oils obtained from bituminous minerals, crude (8.7%)**	**Mens/boys trousers and shorts, of cotton, not knitted (6.2%)**	**Olive oil, virgin (5.4%)**	**77**
Uganda	**Coffee, not roasted, not decaffeinated (33.3%)**	**Fish fillets and other fish meat, minced or not, fresh or chilled (23.4%)**	**Fish fillets frozen (5.8%)**	**6**
Zambia	**Copper cathodes and sections of cathodes unwrought (66.2%)**	**Copper ores and concentrates (5.8%)**	**Wire of refined copper of which the max cross sectional dimension > 6mm (4.7%)**	**3**
Zimbabwe	**Nickel unwrought, not alloyed (16.8%)**	**Tobacco, unmanufactured, partly or wholly stemmed or stripped (10.0%)**	**Ferro-chromium containing by weight more than 4% of carbon (9.1%)**	**17**
Africa	**Petroleum oils and oils obtained from bituminous minerals, crude (51.9%) [19.3%]**	**Petroleum oils and oils obtained from bituminous minerals, other than crude etc (4.1%) [4.5%]**	**Natural gas, liquefied (3.5%) [35.2%]**	**24**

Note: * Products are reported when accounting for more than 4 per cent of total exports.
** Figures in [ ] represent the share of Africa in the World export for each product.

Sources: PC-TAS 2002-2006 (Harmonized system, Rev.1) International Trade Center UNCTAD/WTO - UN Statistics Division.

StatLink http://dx.doi.org/10.1787/323726566154

Table 8 - **Diversification and Competitiveness**

	Diversification index					Annual export growth nominal (%)	Competitiveness Indicator 2002-06 (%)	
	2002	2003	2004	2005	2006	2002-06	Sectoral effect	Global competitiveness effect
Algeria	**3.7**	**3.2**	**2.4**	**2.5**	**2.3**	**45.6**	**24.2**	**-3.4**
Angola	**1.2**	**1.1**	**1.1**	**1.1**	**1.1**	**75.9**	**15.4**	**35.7**
Benin	**3.7**	**4.1**	**3.8**	**4.0**	**5.3**	**13.0**	**-10.5**	**-1.2**
Botswana	**1.3**	**1.3**	**1.4**	**1.3**	**1.6**	**21.4**	**-19.6**	**14.9**
Burkina Faso	**2.8**	**2.2**	**2.4**	**1.5**	**1.5**	**23.5**	**-13.5**	**12.4**
Burundi	3.3	1.6	2.2	1.3	3.0	13.1	-6.4	-5.2
Cameroun	**4.8**	**4.5**	**3.9**	**4.1**	**2.9**	**34.5**	**4.2**	**5.6**
Cape Verde	**6.2**	**11.9**	**11.6**	**7.9**	**8.6**	**36.3**	**-13.4**	**24.9**
Central African Republic	2.2	5.2	5.3	4.5	3.9	-9.8	-21.4	-13.1
Chad	**1.7**	**2.2**	**1.4**	**1.7**	**1.2**	**929.6**	**-14.7**	**919.7**
Comoros	3.2	1.7	2.4	4.7	5.5	-4.4	-49.4	20.3
Congo	**1.5**	**1.6**	**1.5**	**1.4**	**1.3**	**81.0**	**14.8**	**41.5**
Congo, Dem. Rep.	**2.2**	**3.3**	**3.9**	**4.3**	**6.3**	**1.0**	**-7.6**	**-16.1**
Côte d'Ivoire	**6.3**	**4.6**	**6.7**	**6.5**	**6.9**	**7.1**	**-9.2**	**-8.4**
Djibouti	18.6	9.2	8.4	21.1	22.9	56.0	1.3	30.0
Egypt	**18.9**	**17.3**	**17.8**	**20.3**	**13.2**	**61.9**	**5.2**	**32.0**
Equatorial Guinea	**1.2**	**1.2**	**1.1**	**1.2**	**1.2**	**83.7**	**4.2**	**54.8**
Eritrea	12.5	19.7	16.4	13.7	17.1	28.5	-14.4	18.2
Ethiopia	**4.2**	**4.4**	**4.0**	**3.9**	**4.6**	**46.1**	**-6.1**	**27.5**
Gabon	**1.8**	**1.7**	**1.8**	**1.7**	**1.9**	**13.6**	**7.3**	**-18.4**
Gambia	6.9	6.6	9.0	4.9	4.1	4.3	-20.3	-0.1
Ghana	**6.5**	**4.5**	**4.6**	**4.9**	**4.3**	**14.7**	**-9.4**	**-0.6**
Guinea	3.8	4.0	3.6	3.4	4.3	17.5	-2.2	-5.1
Guinea Bissau	2.8	2.1	2.2	1.3	1.3	-8.8	-22.1	-11.4
Kenya	**20.1**	**15.4**	**15.7**	**16.0**	**18.5**	**18.5**	**-2.7**	**-3.5**
Lesotho	7.0	7.2	6.6	7.0	7.5	11.7	-21.0	2.9
Liberia	**2.4**	**3.1**	**2.7**	**2.5**	**3.2**	**-10.2**	**158.2**	**-193.1**

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Table 8 - **Diversification and Competitiveness** *(cont.)*

	Diversification index					Annual export growth nominal (%)	Competitiveness Indicator 2002-06 (%)	
	2002	2003	2004	2005	2006	2002-06	Sectoral effect	Global competitiveness effect
Libya	**1.5**	**1.4**	**1.3**	**1.3**	**1.3**	**63.3**	**17.6**	**20.9**
Madagascar	10.5	10.0	15.0	19.3	19.3	9.1	-21.4	5.8
Malawi	**2.5**	**3.2**	**3.7**	**2.8**	**2.7**	**6.0**	**-20.6**	**1.9**
Mali	**1.6**	**1.4**	**1.2**	**1.5**	**1.7**	**13.9**	**-9.2**	**-1.6**
Mauritania	4.2	4.5	4.2	4.1	3.9	47.0	2.1	20.2
Mauritius	**13.6**	**12.3**	**10.4**	**11.9**	**12.1**	**3.8**	**-6.0**	**-14.9**
Morocco	**64.5**	**62.6**	**63.2**	**60.4**	**69.3**	**15.7**	**-5.3**	**-3.7**
Mozambique	**3.5**	**2.8**	**2.6**	**2.5**	**2.3**	**37.0**	**-7.8**	**20.1**
Namibia	**8.3**	**11.0**	**7.7**	**6.0**	**5.0**	**53.7**	**-5.3**	**45.8**
Niger	**2.2**	**1.7**	**3.1**	**1.6**	**1.4**	**47.5**	**7.1**	**15.7**
Nigeria	**1.3**	**1.3**	**1.3**	**1.3**	**1.2**	**69.3**	**23.5**	**21.1**
Rwanda	2.7	2.5	1.8	3.2	3.0	-1.1	-0.5	-25.3
São Tomé and Principe	3.4	2.1	4.1	3.0	4.4	15.9	-18.8	9.9
Senegal	**14.5**	**15.5**	**15.3**	**7.3**	**26.0**	**-3.5**	**-10.0**	**-18.3**
Seychelles	3.7	3.1	4.0	5.0	3.6	4.5	-12.9	-7.3
Sierra Leone	8.5	3.6	2.9	2.6	4.7	17.9	-6.9	0.1
Somalia	7.9	10.5	8.1	7.4	8.6	19.1	-11.3	5.7
South Africa	**45.1**	**35.8**	**34.4**	**41.8**	**38.4**	**19.9**	**2.1**	**-6.8**
Sudan	1.7	1.6	1.5	1.3	1.3	47.5	8.2	14.6
Swaziland	14.5	13.2	13.4	19.7	19.5	17.8	-6.1	-0.9
Tanzania	**20.8**	**23.3**	**18.7**	**21.2**	**26.4**	**24.5**	**-0.3**	**0.1**
Togo	9.3	8.6	7.0	10.4	7.7	8.7	-0.7	-15.3
Tunisia	**43.4**	**39.3**	**38.1**	**40.3**	**43.0**	**19.1**	**-7.9**	**2.4**
Uganda	**6.3**	**7.0**	**6.1**	**5.9**	**5.6**	**10.0**	**-7.7**	**-7.0**
Zambia	**5.2**	**4.9**	**3.7**	**3.3**	**2.2**	**71.0**	**23.1**	**23.2**
Zimbabwe	8.0	9.3	11.4	14.2	14.9	6.4	-5.7	-12.6
Africa	**8.2**	**5.7**	**4.7**	**4.3**	**3.6**	**38.6**	**28.3**	**-14.4**

Sources: PC-TAS 2002-2006 International Trade Center UNCTAD/WTO - UN Statistics Division (Harmonized system, Rev.1).

StatLink http://dx.doi.org/10.1787/323735643848

Table 9 - International Prices of Exports, 2001-07

	Unit	2001	2002	2003	2004	2005	2006	2007
Aluminum	($/mt)	1 444.00	1 349.91	1 431.29	1 715.54	1 898.31	2 569.90	2 638.18
Banana (US)	($/mt)	583.30	528.58	374.79	524.58	602.84	677.24	675.81
Coal (US)	($/mt)	44.86	40.02	...	...	...	...	...
Cocoa	(cents/kg)	106.90	177.79	175.09	154.98	153.81	159.19	195.23
Coffee (Arabica)	(cents/kg)	137.30	135.66	141.54	177.40	253.22	252.21	272.37
Coffee (Robusta)	(cents/kg)	60.70	66.18	81.45	79.30	111.45	148.93	190.92
Copper	($/mt)	1 578.00	1 559.48	1 779.14	2 865.88	3 678.88	6 722.13	7 118.23
Cotton	(c/kg)	105.80	101.92	139.91	136.57	121.70	126.66	139.52
Fish Meal	($/mt)	486.70	605.92	610.71	648.58	730.96	1 166.33	1 177.25
Gold	($/toz)	271.00	309.97	363.51	409.21	444.84	604.34	696.72
Groundnut oil	($/mt)	680.30	687.08	1 243.17	1 161.00	1 060.44	970.23	1 352.08
Iron ore	(c/dmtu)	30.03	29.31	31.95	37.90	65.00	77.35	84.70
Lead	(c/kg)	47.60	45.27	51.50	88.65	97.64	128.97	258.00

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Table 9 - **International Prices of Exports, 2001-07** *(cont.)*

	Unit	2001	2002	2003	2004	2005	2006	2007
Logs Cameroon	($/CM)	266.10	...	...	...	...	318.48	381.32
Maize	($/mt)	89.60	99.27	105.37	111.80	98.67	121.85	163.66
Oil (crude)	($/bbl)	24.35	24.97	28.85	38.30	54.43	65.39	72.70
Palm oil	($/mt)	285.70	390.25	443.25	471.33	422.08	478.35	780.25
Phosphate (rock)	($/mt)	41.80	40.38	38.00	40.98	42.00	44.21	70.93
Rubber (Malaysia)	(cents/kg)	60.00	77.06	105.60	...	...	...	...
Sugar (EEC)	(cents/kg)	52.86	54.92	59.72	66.97	66.54	64.56	68.09
Sugar (free market)	(c/kg)	19.04	15.18	15.63	15.80	21.79	32.59	22.22
Sugar (US)	(cents/kg)	47.04	46.14	47.37	45.47	46.93	48.76	45.77
Tea (Avg. 3 auctions)	(c/kg)	159.80	150.60	151.66	168.56	164.71	187.21	203.61
Tea (Mombasa)	(c/kg)	151.70	149.21	154.36	155.42	147.75	195.23	166.49
Tobacco	($/mt)	3 011.00	2 744.50	2 646.10	2 740.20	2 790.00	2 740.00	2 917.00

Source: World Bank, *Global Commodity Price Prospects*, March 2008.

StatLink http://dx.doi.org/10.1787/323742018328

Table 10 - **Foreign Direct Investment, 2001-06** (USD million)

	FDI inflows						FDI outflows						FDI inflows / GFCF			Inward FDI Potential Index
	2001	2002	2003	2004	2005	2006	2001	2002	2003	2004	2005	2006	2004	2005	2006	2006
Algeria	**1196**	**1065**	**634**	**882**	**1081**	**1795**	**9**	**100**	**14**	**258**	**57**	**35**	**4.3**	**4.7**	**6.9**	**61**
Angola	**2146**	**1672**	**3505**	**1449**	**-1303**	**-1140**	**-38**	**29**	**24**	**35**	**219**	**93**	**80.3**	**-52.7**	**-22.3**	**79**
Benin	**44**	**14**	**45**	**64**	**53**	**63**	**2**	**1**	**0**	**-1**	**0**	**-1**	**8.6**	**6.6**	**7.8**	**136**
Botswana	**31**	**405**	**419**	**392**	**281**	**274**	**381**	**43**	**206**	**-29**	**56**	**21**	**19.7**	**14.1**	**14.2**	**71**
Burkina Faso	**6**	**15**	**29**	**14**	**34**	**26**	**1**	**2**	**2**	**-9**	**0**	**-2**	**1.2**	**2.7**	**1.9**	**127**
Burundi	0	..	0	0	1	290	0	0	0	..	..	0	0.1	0.7	194.8	...
Cameroon	**73**	**602**	**383**	**319**	**225**	**309**	**35**	**-33**	**4**	**0**	**0**	**0**	**11.1**	**7.5**	**9.4**	**115**
Cape Verde	**17**	**10**	**16**	**20**	**76**	**122**	**1**	**0**	**..**	**0**	**0**	**0**	**5.9**	**20.2**	**26.9**	**...**
Central African Republic	5	4	19	25	29	24	0	1	0	0	0	0	31.0	23.5	18.4	...
Chad	**460**	**924**	**713**	**495**	**613**	**700**	**0**	**0**	**0**	**..**	**..**	**0**	**46.1**	**51.5**	**54.6**	...
Comoros	1	0	1	1	1	1	0	0	0	0	0	0	2.0	2.8	2.1	...
Congo	**71**	**131**	**321**	**-13**	**724**	**344**	**6**	**6**	**2**	**5**	**4**	**3**	**-1.3**	**56.2**	**19.8**	99
Congo, Dem. Rep.	**82**	**117**	**158**	**10**	**-79**	**180**	**1**	**-2**	**0**	**0**	**0**	**0**	**1.2**	**-8.0**	**15.8**	140
Côte d'Ivoire	**273**	**213**	**165**	**283**	**312**	**253**	**-5**	**-4**	**23**	**-26**	**-7**	**-6**	**18.5**	**19.5**	**14.8**	**134**
Djibouti	3	4	14	39	22	108	0	0	0	0	0	0	26.9	16.5	48.0	...
Egypt	**510**	**647**	**237**	**2157**	**5376**	**10043**	**12**	**28**	**21**	**159**	**92**	**148**	**16.4**	**33.4**	**49.9**	**81**
Equatorial Guinea	**941**	**323**	**1444**	**1651**	**1873**	**1656**	**4**	**0**	**0**	**0**	**0**	**0**	**75.7**	**65.9**	**47.6**	**...**
Eritrea	12	20	22	-8	-3	4	0	0	0	0	0	0	-5.8	-1.7	1.8	...
Ethiopia	**349**	**255**	**465**	**545**	**221**	**364**	**0**	**0**	**0**	**0**	**0**	**0**	**26.9**	**9.5**	**13.9**	**131**
Gabon	**-89**	**39**	**263**	**219**	**321**	**268**	**4**	**-23**	**-21**	**-25**	**-23**	**-23**	**12.4**	**16.3**	**12.2**	**102**
Gambia	35	43	15	49	45	70	0	0	0	0	0	0	66.1	55.0	78.0	114
Ghana	**89**	**59**	**137**	**139**	**145**	**435**	**10**	**-2**	**11**	**-1**	**0**	**0**	**5.5**	**4.7**	**11.1**	**110**
Guinea	2	30	83	98	102	108	5	0	0	-1	-5	0	21.9	22.3	25.0	137
Guinea Bissau	0	4	4	2	9	42	0	1	1	-8	1	-4	4.7	19.8	111.9	...
Kenya	**5**	**28**	**82**	**46**	**21**	**51**	**0**	**7**	**2**	**4**	**10**	**24**	**1.8**	**0.6**	**1.2**	**124**
Lesotho	28	27	42	53	57	57	0	0	0	0	0	0	12.9	14.7	15.8	**...**
Liberia	**8**	**3**	**372**	**237**	**-479**	**-82**	**-292**	**403**	**173**	**304**	**437**	**346**	**..**	**..**	**..**	**...**

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Table 10 - **Foreign Direct Investment, 2001-06** (USD million) *(cont.)*

	FDI inflows						FDI outflows						FDI inflows / GFCF			Inward FDI Potential Index
	2001	2002	2003	2004	2005	2006	2001	2002	2003	2004	2005	2006	2004	2005	2006	2006
Libya	**-113**	**145**	**143**	**357**	**1038**	**1734**	**-175**	**-136**	**63**	**-286**	**128**	**141**	**7.1**	**16.7**	**21.4**	**40**
Madagascar	**93**	**61**	**95**	**95**	**86**	**230**	**1**	**0**	**-5**	**0**	**0**	**0**	**9.0**	**7.6**	**16.9**	**133**
Malawi	**60**	**6**	**7**	**22**	**27**	**30**	**5**	**0**	**0**	**2**	**1**	**1**	**3.6**	**4.8**	**4.7**	**138**
Mali	**122**	**244**	**132**	**101**	**224**	**185**	**17**	**2**	**1**	**1**	**-1**	**1**	**10.5**	**24.2**	**16.1**	**118**
Mauritania	77	67	102	392	864	-3	0	0	-1	4	2	0	55.4	80.1	-0.6	...
Mauritius	**-28**	**32**	**63**	**14**	**42**	**105**	**3**	**9**	**-6**	**32**	**48**	**10**	**1.1**	**3.1**	**8.2**	**...**
Morocco	**2875**	**534**	**2429**	**1070**	**2946**	**2898**	**100**	**54**	**20**	**32**	**174**	**468**	**7.1**	**17.5**	**15.4**	**92**
Mozambique	**255**	**347**	**337**	**245**	**108**	**154**	**0**	**0**	**0**	**0**	**0**	**0**	**18.3**	**7.4**	**8.0**	**98**
Namibia	**365**	**182**	**149**	**226**	**348**	**327**	**-13**	**-5**	**-10**	**-22**	**-13**	**-12**	**15.6**	**21.3**	**17.6**	**87**
Niger	**23**	**2**	**11**	**20**	**30**	**20**	**-4**	**-2**	**0**	**7**	**-4**	**2**	**4.0**	**4.3**	**2.9**	**129**
Nigeria	**1277**	**2040**	**2171**	**2127**	**3403**	**5445**	**94**	**172**	**167**	**261**	**200**	**228**	**13.2**	**16.3**	**21.4**	**83**
Rwanda	**4**	**3**	**5**	**8**	**11**	**15**	**0**	**0**	**0**	**0**	**0**	**0**	**2.1**	**2.2**	**2.8**	**130**
São Tomé and Principe	3	3	1	-2	-1	0	0	0	0	0	0	0	-6.9	-2.4	-0.9	...
Senegal	**32**	**78**	**52**	**77**	**45**	**58**	**-7**	**34**	**3**	**13**	**-8**	**5**	**3.6**	**1.9**	**2.3**	**116**
Seychelles	65	48	58	38	86	146	9	9	8	8	7	8	42.7	39.3	57.5	...
Sierra Leone	10	10	9	61	59	43	0	0	1	0	-8	3	53.1	27.6	19.5	125
Somalia	0	0	-1	-5	24	96	0	0	0	0	0	0	-1.1	5.0	17.7	...
South Africa	**6789**	**757**	**734**	**799**	**6251**	**-323**	**-3180**	**-399**	**565**	**1352**	**930**	**6674**	**2.3**	**15.2**	**-0.7**	**73**
Sudan	574	713	1349	1511	2305	3541	0	0	0	0	0	9	40.6	43.7	46.4	122
Swaziland	29	92	-61	71	-50	36	-18	-1	16	-1	-24	2	16.1	-10.6	8.0	...
Tanzania	**389**	**388**	**308**	**331**	**448**	**377**	**1**	**0**	**2**	**0**	**0**	**0**	**14.0**	**16.2**	**12.7**	**121**
Togo	64	53	34	59	77	57	-7	2	-6	-13	-15	-20	25.0	32.1	19.7	128
Tunisia	**486**	**821**	**584**	**639**	**782**	**3312**	**6**	**7**	**5**	**4**	**13**	**33**	**9.9**	**12.1**	**45.6**	**68**
Uganda	**151**	**185**	**202**	**222**	**257**	**307**	**1**	**0**	**2**	**0**	**0**	**0**	**14.8**	**14.1**	**14.2**	**117**
Zambia	**72**	**82**	**172**	**364**	**380**	**350**	**0**	**0**	**0**	**0**	**0**	**0**	**29.1**	**23.2**	**14.2**	**132**
Zimbabwe	4	26	4	9	103	40	4	3	0	0	1	0	3.6	51.3	5.2	**141**
Africa	**19978**	**13570**	**18677**	**18018**	**29648**	**35544**	**-3028**	**305**	**1286**	**2059**	**2272**	**8186**	**11.4**	**16.0**	**16.1**	...

* The potential Index is based on 12 economic and policy variables. See note on methodology for further details.
Source: UNCTAD, FDI Online Database, March 2008.

StatLink http://dx.doi.org/10.1787/323775121781

Table 11 - **Aid Flows*, 2001-06** (USD million)

	ODA net total, All donors						ODA net total, DAC countries						ODA net total, Multilateral					
	2001	2002	2003	2004	2005	2006	2001	2002	2003	2004	2005	2006	2001	2002	2003	2004	2005	2006
Algeria	**224**	**328**	**234**	**314**	**371**	**209**	**63**	**123**	**169**	**235**	**289**	**205**	**107**	**63**	**68**	**80**	**70**	**-4**
Angola	**283**	**414**	**493**	**1 145**	**437**	**171**	**179**	**286**	**372**	**1 016**	**261**	**-55**	**104**	**129**	**122**	**131**	**176**	**124**
Benin	**272**	**216**	**295**	**386**	**346**	**375**	**144**	**140**	**196**	**210**	**208**	**228**	**126**	**73**	**100**	**177**	**139**	**147**
Botswana	**29**	**37**	**28**	**47**	**48**	**65**	**24**	**37**	**27**	**32**	**30**	**36**	**3**	**2**	**2**	**17**	**19**	**30**
Burkina Faso	**390**	**471**	**507**	**624**	**681**	**871**	**221**	**230**	**266**	**331**	**339**	**386**	**155**	**196**	**238**	**288**	**334**	**475**
Burundi	137	172	227	362	365	415	55	85	121	186	181	222	82	87	106	176	184	192
Cameroon	**480**	**656**	**895**	**773**	**417**	**1 684**	**351**	**436**	**752**	**572**	**336**	**1 505**	**131**	**220**	**143**	**200**	**79**	**173**
Cape Verde	**77**	**92**	**143**	**143**	**162**	**138**	**49**	**43**	**90**	**91**	**104**	**99**	**29**	**50**	**53**	**52**	**55**	**38**
Central African Republic	66	60	51	110	96	134	48	40	32	55	62	65	18	20	19	55	33	69
Chad	**185**	**228**	**247**	**329**	**382**	**284**	**73**	**67**	**96**	**163**	**166**	**153**	**112**	**159**	**151**	**163**	**212**	**128**
Comoros	27	32	24	25	25	30	10	11	11	14	17	20	16	17	13	12	8	10
Congo	**74**	**57**	**69**	**115**	**1 444**	**254**	**30**	**41**	**34**	**48**	**1 360**	**169**	**45**	**15**	**35**	**68**	**85**	**84**
Congo, Dem. Rep.	**243**	**1 175**	**5 416**	**1 824**	**1 827**	**2 056**	**143**	**351**	**5 009**	**1 165**	**1 037**	**1 500**	**100**	**824**	**406**	**659**	**793**	**556**
Côte d'Ivoire	**169**	**1 068**	**254**	**161**	**110**	**251**	**159**	**831**	**281**	**197**	**142**	**199**	**10**	**236**	**-28**	**-36**	**-32**	**52**
Djibouti	58	78	79	64	76	117	28	37	37	39	54	89	30	39	39	27	23	26
Egypt	**1 256**	**1 237**	**987**	**1 456**	**995**	**873**	**1 090**	**1 124**	**775**	**1 176**	**663**	**537**	**104**	**83**	**84**	**260**	**241**	**287**
Equatorial Guinea	**13**	**20**	**21**	**30**	**38**	**27**	**13**	**14**	**18**	**23**	**30**	**19**	**1**	**7**	**3**	**6**	**9**	**8**
Eritrea	281	230	316	264	355	129	151	121	185	177	226	63	127	96	131	91	132	67
Ethiopia	**1 104**	**1 297**	**1 594**	**1 806**	**1 910**	**1 947**	**367**	**489**	**1 033**	**1 025**	**1 185**	**1 024**	**709**	**774**	**528**	**744**	**696**	**898**
Gabon	**9**	**72**	**-11**	**40**	**52**	**31**	**-8**	**49**	**-41**	**24**	**30**	**32**	**17**	**22**	**30**	**16**	**22**	**-1**
Gambia	53	60	63	55	61	74	13	18	20	12	15	25	38	40	40	43	46	43
Ghana	**641**	**648**	**950**	**1 375**	**1 125**	**1 176**	**387**	**405**	**471**	**913**	**603**	**595**	**251**	**238**	**465**	**452**	**504**	**580**
Guinea	281	249	240	272	199	164	122	126	135	178	129	103	160	117	105	93	59	58
Guinea-Bissau	59	59	145	77	79	82	30	26	98	29	39	39	29	34	48	48	40	43
Kenya	**462**	**391**	**521**	**654**	**767**	**943**	**270**	**288**	**320**	**471**	**510**	**761**	**186**	**93**	**199**	**184**	**244**	**166**
Lesotho	56	76	79	96	69	72	29	30	33	35	40	38	28	48	47	61	30	34
Liberia	**38**	**52**	**107**	**213**	**233**	**269**	**16**	**27**	**70**	**163**	**145**	**187**	**23**	**25**	**36**	**50**	**87**	**81**

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Table 11 - **Aid Flows*, 2001-06** (USD million) *(cont.)*

	ODA net total, All donors						ODA net total, DAC countries						ODA net total, Multilateral					
	2001	2002	2003	2004	2005	2006	2001	2002	2003	2004	2005	2006	2001	2002	2003	2004	2005	2006
Libya**	**0**	**0**	**0**	**0**	**24**	**37**	**0**	**0**	**0**	**0**	**17**	**33**	**0**	**0**	**0**	**0**	**3**	**3**
Madagascar	**374**	**369**	**539**	**1 248**	**914**	**754**	**146**	**126**	**225**	**685**	**501**	**266**	**229**	**245**	**315**	**564**	**414**	**485**
Malawi	**401**	**376**	**513**	**501**	**578**	**669**	**193**	**225**	**309**	**308**	**325**	**398**	**197**	**142**	**201**	**192**	**251**	**259**
Mali	**351**	**466**	**543**	**568**	**699**	**825**	**209**	**257**	**272**	**328**	**377**	**398**	**130**	**155**	**272**	**241**	**315**	**418**
Mauritania	267	344	238	181	196	188	81	147	136	83	123	94	187	199	105	97	72	93
Mauritius	**21**	**24**	**-15**	**32**	**34**	**19**	**8**	**4**	**-18**	**15**	**22**	**9**	**6**	**20**	**3**	**20**	**11**	**12**
Morocco	**518**	**486**	**539**	**707**	**694**	**1 046**	**342**	**217**	**336**	**394**	**288**	**567**	**142**	**135**	**157**	**244**	**316**	**362**
Mozambique	**931**	**2 201**	**1 037**	**1 235**	**1 277**	**1 611**	**720**	**1 661**	**697**	**731**	**760**	**938**	**207**	**537**	**337**	**500**	**515**	**669**
Namibia	**109**	**134**	**146**	**173**	**115**	**145**	**77**	**85**	**110**	**124**	**88**	**106**	**31**	**47**	**33**	**34**	**23**	**38**
Niger	**256**	**297**	**457**	**541**	**511**	**401**	**114**	**114**	**245**	**306**	**254**	**235**	**141**	**180**	**212**	**235**	**256**	**166**
Nigeria	**168**	**294**	**308**	**578**	**6 416**	**11 434**	**108**	**215**	**200**	**315**	**5 945**	**10 820**	**62**	**81**	**109**	**264**	**471**	**613**
Rwanda	**299**	**354**	**335**	**486**	**571**	**585**	**149**	**199**	**213**	**217**	**286**	**321**	**150**	**155**	**121**	**269**	**285**	**263**
São Tomé and Principe	38	26	38	33	32	22	22	19	25	22	18	18	16	7	12	12	13	3
Senegal	**413**	**445**	**447**	**1 037**	**672**	**825**	**224**	**243**	**314**	**755**	**445**	**509**	**189**	**191**	**136**	**284**	**227**	**304**
Seychelles	13	8	9	10	15	14	8	4	5	6	8	7	5	4	3	3	7	7
Sierra Leone	343	353	304	354	344	364	167	225	208	163	131	199	174	125	92	190	214	164
Somalia	148	191	174	200	237	392	88	102	114	140	146	263	45	44	60	60	91	125
South Africa	**428**	**505**	**641**	**628**	**680**	**718**	**313**	**375**	**477**	**459**	**466**	**561**	**113**	**128**	**163**	**168**	**213**	**157**
Sudan	181	343	613	992	1 832	2 058	108	232	332	848	1 460	1 518	63	60	278	119	323	453
Swaziland	29	22	34	22	46	35	4	7	13	7	21	12	22	12	20	14	26	23
Tanzania	**1 264**	**1 236**	**1 704**	**1 751**	**1 481**	**1 825**	**939**	**909**	**966**	**1 029**	**860**	**992**	**330**	**331**	**738**	**720**	**609**	**832**
Togo	43	51	50	64	83	79	28	39	46	52	59	55	11	9	2	12	23	24
Tunisia	**377**	**265**	**298**	**328**	**365**	**432**	**184**	**145**	**208**	**231**	**269**	**287**	**193**	**77**	**95**	**95**	**103**	**154**
Uganda	**790**	**710**	**976**	**1 194**	**1 177**	**1 551**	**386**	**466**	**587**	**684**	**691**	**938**	**402**	**238**	**388**	**508**	**485**	**609**
Zambia	**349**	**639**	**589**	**1 125**	**935**	**1 425**	**274**	**360**	**592**	**746**	**823**	**1 115**	**74**	**277**	**-8**	**377**	**110**	**308**
Zimbabwe	162	199	186	186	376	280	149	178	161	166	187	200	17	21	25	20	189	80
Africa Unspecified	1 196	1 554	2 107	2 405	2 179	2 831	1 045	1 341	1 758	1 944	1 819	2 411	137	174	345	460	359	379
Africa Total	**16 435**	**21 367**	**26 784**	**29 341**	**35 156**	**43 402**	**10 146**	**13 367**	**19 142**	**19 334**	**24 589**	**31 515**	**6 011**	**7 301**	**7 400**	**9 819**	**10 216**	**11 368**

Note: ODA : Official Development Assistance.
DAC : Development Assistance Committee of OECD.
* Net disbursements.
** Libya belonged to the recipient countries of Official Aid (OA) from 2000 to 2004 and was re-included in the new list of ODA recipients in 2005.

Source: OECD Development Assistance Committee 2008.

StatLink http://dx.doi.org/10.1787/323812553421

Table 12 - **External Debt Indicators**

Country	Debt outstanding, at year end: Total (USD million) 2006	Of which: Multilateral 2006	Bilateral (as % of total) 2006	Private 2006	Total debt outstanding (as % of GDP) 2006	2007	2008	2009	Debt Service (as % of Exports of goods and services) 2006	2007	2008	2009
Algeria	**5 603**	**3.9**	**96.1**	**0.0**	**4.8**	**4.5**	**3.8**	**3.6**	**23.8**	**3.0**	**2.8**	**2.8**
Angola	**9 364**	**4.2**	**95.8**	**0.0**	**20.7**	**13.2**	**11.2**	**11.1**	**8.7**	**8.3**	**3.3**	**4.0**
Benin	**1 051**	**50.1**	**49.9**	**0.0**	**22.3**	**21.3**	**20.8**	**21.2**	**5.5**	**5.0**	**4.3**	**3.9**
Botswana	**1 285**	**29.0**	**0.2**	**70.8**	**12.3**	**10.5**	**11.1**	**11.5**	**16.3**	**15.5**	**16.6**	**17.3**
Burkina Faso	**539**	**68.3**	**31.7**	**0.0**	**9.0**	**33.9**	**40.9**	**48.2**	**5.7**	**5.3**	**4.3**	**4.5**
Burundi	1 478	79.6	20.4	0.0	162.2	149.9	33.8	32.1	49.0	51.3	31.6	3.6
Cameroon	**909**	**15.7**	**84.3**	**0.0**	**5.1**	**4.8**	**5.2**	**6.0**	**11.4**	**11.8**	**11.9**	**12.3**
Cape Verde	713	68.7	6.6	24.7	63.1	52.1	47.0	45.3	11.7	10.7	10.6	10.3
Central African Republic	1 102	59.3	40.7	0.0	74.0	68.9	64.5	60.7	0.0	0.0	…	…
Chad	**1 732**	**82.8**	**17.2**	**0.0**	**27.5**	**34.9**	**30.1**	**31.5**	**2.1**	**2.1**	**2.5**	**2.4**
Comoros	281	76.8	23.2	0.0	69.9	55.9	50.1	13.5	7.5	20.8	12.6	247.4
Congo	**6 048**	**20.4**	**79.6**	**0.0**	**78.2**	**55.0**	**44.4**	**28.1**	**12.9**	**10.9**	**5.6**	**5.2**
Congo, Dem. Rep.	**5 250**	**29.3**	70.7	**0.0**	**61.4**	**60.5**	**58.7**	**54.3**	**9.3**	**11.9**	**8.5**	**8.4**
Côte d'Ivoire	**19 296**	**24.1**	**75.9**	**0.0**	**109.9**	**104.6**	**95.8**	**89.2**	**10.1**	**16.1**	**16.7**	**23.9**
Djibouti	428	69.0	31.0	0.0	55.6	56.4	62.8	69.9	8.1	6.0	4.8	3.8
Egypt	**30 884**	**13.3**	**81.5**	**5.2**	**28.8**	**23.6**	**20.1**	**23.1**	**10.0**	**6.6**	**6.3**	**7.9**
Equatorial Guinea	**157**	**37.1**	**62.9**	**0.0**	**1.8**	**1.3**	**1.1**	**1.0**	**1.2**	**0.4**	**0.1**	**0.1**
Eritrea	633	70.2	29.8	0.0	54.5	46.8	39.8	33.9	42.3	41.4	43.2	44.0
Ethiopia	**5 650**	**47.8**	**52.2**	**0.0**	**40.2**	**10.9**	**12.1**	**15.2**	**12.0**	**6.5**	**4.7**	**4.6**
Gabon	**3 257**	**9.9**	**90.1**	**0.0**	**34.1**	**24.5**	**17.3**	**13.3**	**10.2**	**11.0**	**10.3**	**9.9**
Gambia	647	78.6	10.3	11.1	187.6	81.6	83.7	86.4	34.7	31.4	24.8	25.3
Ghana	**4 777**	**38.9**	**21.4**	**39.7**	**37.0**	**47.3**	**49.0**	**51.5**	**11.3**	**3.8**	**3.9**	**4.5**
Guinea	3 129	55.1	44.9	0.0	99.7	63.4	62.9	60.0	13.3	13.3	13.0	11.3
Guinea-Bissau	993	66.3	33.7	0.0	322.5	286.3	267.1	114.3	9.5	11.5	13.6	34.3
Kenya	**5 000**	**52.6**	**41.7**	**5.7**	**22.0**	**15.2**	**14.5**	**14.7**	**7.7**	**6.8**	**4.6**	**4.1**
Lesotho	626	81.7	18.3	0.0	41.9	43.2	40.3	38.5	6.1	4.9	4.4	4.2
Liberia	605	15.9	84.1	0.0	98.6	78.0	59.6	48.8	…	…	…	…

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Table 12 - **External Debt Indicators** *(cont.)*

Country	Total (USD million) 2006	Debt outstanding, at year end: Multilateral 2006	Of which: Bilateral (as % of total) 2006	Private 2006	Total debt outstanding (as % of GDP) 2006	2007	2008	2009	Debt Service (as % of Exports of goods and services) 2006	2007	2008	2009
Libya	**5 574**	**...**	**...**	**98.0**	**11.1**	**13.3**	**10.5**	**10.1**	...	...	...	...
Madagascar	**1 778**	**60.4**	**39.6**	**0.0**	**32.2**	**28.8**	**28.0**	**29.2**	**5.3**	**1.9**	**1.6**	**1.6**
Malawi	4 530	49.7	50.3	0.0	191.0	183.3	180.1	173.0	11.3	5.9	6.3	5.8
Mali	**1 650**	**47.7**	**52.3**	**0.0**	**26.9**	**28.5**	**29.5**	**31.6**	**4.1**	**3.6**	**3.2**	**3.5**
Mauritania	2 575	45.5	46.9	7.6	94.9	97.2	95.5	93.5	57.8	2.4	2.3	2.4
Mauritius	**928**	**10.7**	**75.1**	**14.2**	**14.3**	**13.3**	**12.8**	**12.4**	**8.4**	**5.6**	**4.3**	**3.8**
Morocco	**15 686**	**35.9**	**51.7**	**12.4**	**23.9**	**20.3**	**18.3**	**17.2**	**10.4**	**11.9**	**9.8**	**7.3**
Mozambique	**2 394**	**33.2**	**66.8**	**0.0**	**34.5**	**26.0**	**22.6**	**24.2**	**17.2**	**16.5**	**16.4**	**16.2**
Namibia	1 383	...	...	72.4	19.9	18.8	18.9	19.0	2.6	2.6	2.6	2.7
Niger	**518**	**63.4**	**36.6**	**0.0**	**14.6**	**17.5**	**18.1**	**19.7**	**5.8**	**1.4**	**2.7**	**2.8**
Nigeria	**3 544**	**37.1**	**62.9**	**0.0**	**3.1**	**2.7**	**2.3**	**2.5**	**4.5**	**3.1**	**2.4**	**2.5**
Rwanda	**363**	**80.0**	**20.0**	**0.0**	**14.6**	**13.5**	**14.7**	**15.4**	**3.4**	**1.4**	**1.4**	**1.4**
São Tomé and Principe	326	57.2	42.8	0.0	264.5	105.8	96.8	88.0	47.9	12.4	11.1	10.3
Senegal	**4 093**	**42.5**	**0.0**	**57.5**	**44.5**	**43.9**	**43.3**	**43.8**	**16.2**	**8.0**	**7.0**	**7.1**
Seychelles	578	4.6	95.4	0.0	74.5	90.0	105.1	103.0	13.4	7.5	6.7	6.4
Sierra Leone	1 404	61.4	38.6	0.0	98.9	54.0	52.0	48.8	5.7	3.6	1.2	1.1
Somalia	2 836	27.5	72.5	0.0	...	...	...	...	...	...	...	...
South Africa	**57 058**	**1.0**	**45.8**	**53.2**	**22.2**	**21.7**	**20.2**	**18.8**	**8.4**	**9.0**	**8.6**	**8.5**
Sudan	28 224	14.2	85.8	0.0	75.4	63.9	57.5	51.8	5.1	5.1	4.6	3.6
Swaziland	437	59.2	26.1	14.7	16.5	16.8	17.1	17.6	1.2	1.2	1.2	1.3
Tanzania	**8 559**	**35.2**	**48.0**	**16.8**	**60.3**	**28.3**	**28.2**	**28.3**	**4.9**	**1.7**	**2.4**	**2.2**
Togo	1 820	53.0	47.0	0.0	82.4	73.0	68.7	65.3	0.3	0.0	3.2	2.2
Tunisia	**18 733**	**31.2**	**42.7**	**26.1**	**61.1**	**53.3**	**50.5**	**49.0**	**19.0**	**13.1**	**11.7**	**11.8**
Uganda	**3 920**	**67.9**	**32.1**	**0.0**	**40.8**	**14.8**	**16.3**	**17.0**	**27.8**	**4.0**	**7.4**	**7.0**
Zambia	**533**	**28.4**	**71.6**	**0.0**	**4.9**	**5.9**	**6.4**	**7.2**	**1.6**	**1.0**	**0.9**	**0.9**
Zimbabwe	5 288	33.0	34.4	32.6	95.5	34.4	...	...	10.5	9.0	...	...
Africa	**286 170**	**23.0**	**57.9**	**19.1**	**26.2**	**22.7**	**19.9**	**19.3**	**9.9**	**6.3**	**5.3**	**5.5**

Sources: AfDB Statistics Department; IMF, *World Economic Outlook* Database, October 2007; GDF Online Database, World Bank.

StatLink http://dx.doi.org/10.1787/323820467078

Table 13 - **Demographic Indicators**

	Total population (thousands) 2007	Urban population (% of total) 2007	Sex ratio (males per 100 females) 2007	Population growth rate (%) 2000-05	Population growth rate (%) 2005-10	Infant mortality rate (per 1000) 2005-10	Total fertility rate 2005-10	Mortality under age 5 (per 1000) 2005-10	Distribution by age (%) 0-14	Distribution by age (%) 15-64 2007	Distribution by age (%) 65+
Algeria	**33 858**	**61.1**	**101.9**	**1.5**	**1.5**	**31.1**	**2.4**	**33**	**28.3**	**67.1**	**4.6**
Angola	**17 024**	**38.4**	**97.3**	**2.8**	**2.8**	**131.9**	**6.4**	**231**	**46.1**	**51.5**	**2.4**
Benin	**9 033**	**47.3**	**101.7**	**3.2**	**3.1**	**98.0**	**5.4**	**146**	**43.7**	**53.6**	**2.7**
Botswana	**1 882**	**49.8**	**98.9**	**1.3**	**1.2**	**46.5**	**2.9**	**68**	**34.6**	**61.9**	**3.5**
Burkina Faso	**14 784**	**18.4**	**100.2**	**3.2**	**2.9**	**104.4**	**6.0**	**181**	**45.8**	**51.1**	**3.0**
Burundi	8 508	10.8	95.9	2.9	3.9	99.4	6.8	169	44.4	53.0	2.5
Cameroon	**18 549**	**49.5**	**99.9**	**2.3**	**2.1**	**87.5**	**4.3**	**144**	**41.1**	**55.3**	**3.5**
Cape Verde	**530**	**59.2**	**92.7**	**2.4**	**2.3**	**24.6**	**3.4**	**29**	**38.5**	**57.4**	**4.1**
Central African Republic	4 343	42.9	95.3	1.7	1.8	96.8	4.6	163	42.3	53.9	3.8
Chad	**10 781**	**25.5**	**98.8**	**3.7**	**3.0**	**119.2**	**6.2**	**189**	**46.2**	**50.9**	**2.9**
Comoros	839	37.6	100.7	2.7	2.5	48.4	4.3	63	41.5	55.7	2.7
Congo	**3 768**	**62.2**	**98.4**	**2.5**	**2.1**	**70.3**	**4.5**	**102**	**41.8**	**55.0**	**3.2**
Congo, Dem. Rep.	**62 636**	**33.2**	**98.1**	**2.8**	**3.2**	**113.5**	**6.7**	**196**	**47.3**	**50.1**	**2.6**
Côte d'Ivoire	**19 262**	**45.5**	**103.0**	**1.8**	**1.8**	**116.9**	**4.5**	**183**	**41.0**	**55.7**	**3.2**
Djibouti	833	84.0	99.9	2.2	1.7	85.3	3.9	126	37.3	59.6	3.1
Egypt	**75 498**	**43.3**	**100.2**	**1.8**	**1.8**	**29.3**	**2.9**	**34**	**32.7**	**62.4**	**4.9**
Equatorial Guinea	**507**	**53.7**	**98.0**	**2.3**	**2.4**	**92.3**	**5.4**	**155**	**42.2**	**53.7**	**4.1**
Eritrea	4 851	21.1	96.4	4.1	3.4	55.3	5.0	77	42.9	54.7	2.4
Ethiopia	**83 099**	**16.4**	**99.0**	**2.6**	**2.5**	**86.9**	**5.3**	**145**	**43.8**	**53.2**	**2.9**
Gabon	**1 331**	**92.6**	**100.1**	**1.8**	**1.5**	**53.8**	**3.1**	**86**	**34.9**	**60.5**	**4.6**
Gambia	1 709	24.5	100.3	3.2	2.7	74.2	4.7	128	40.8	55.3	3.9
Ghana	**23 478**	**46.3**	**102.8**	**2.3**	**2.0**	**56.6**	**3.8**	**90**	**38.2**	**58.1**	**3.7**
Guinea	9 370	39.8	101.9	1.9	2.1	102.5	5.4	156	43.1	53.7	3.1
Guinea Bissau	1 695	36.9	97.7	3.0	3.0	112.7	7.1	195	47.7	49.3	3.0
Kenya	**37 538**	**42.1**	**99.4**	**2.6**	**2.6**	**64.4**	**5.0**	**104**	**42.7**	**54.7**	**2.6**
Lesotho	2 008	16.6	89.1	1.1	0.7	64.6	3.4	98	39.9	55.4	4.7
Liberia	**3 750**	**45.2**	**100.0**	**2.8**	**4.2**	**132.5**	**6.8**	**205**	**47.2**	**50.7**	**2.2**

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Table 13 - **Demographic Indicators** *(cont.)*

	Total population (thousands) 2007	Urban population (% of total) 2007	Sex ratio (males per 100 females) 2007	Population growth rate (%) 2000-05	Population growth rate (%) 2005-10	Infant mortality rate (per 1000) 2005-10	Total fertility rate 2005-10	Mortality under age 5 (per 1000) 2005-10	Distribution by age (%) 0-14 2007	Distribution by age (%) 15-64 2007	Distribution by age (%) 65+ 2007
Libya	**6 160**	**86.4**	**107.4**	**2.0**	**2.0**	**18.0**	**2.7**	**20**	**30.2**	**65.8**	**4.0**
Madagascar	**19 683**	**27.5**	**98.9**	**2.9**	**2.7**	**65.5**	**4.8**	**106**	**43.3**	**53.5**	**3.2**
Malawi	**13 925**	**17.4**	**98.9**	**2.7**	**2.6**	**89.4**	**5.6**	**132**	**46.9**	**50.1**	**3.0**
Mali	**12 337**	**40.7**	**94.9**	**2.9**	**3.0**	**128.5**	**6.5**	**200**	**47.6**	**48.9**	**3.5**
Mauritania	3 124	69.2	102.5	2.9	2.6	63.0	4.4	92	39.8	56.6	3.6
Mauritius*	**1 262**	**44.5**	**98.4**	**0.9**	**0.8**	**14.0**	**1.9**	**17**	**23.6**	**69.7**	**6.8**
Morocco	**31 224**	**62.3**	**96.7**	**1.1**	**1.2**	**30.6**	**2.4**	**36**	**29.2**	**65.5**	**5.3**
Mozambique	**21 397**	**38.6**	**94.3**	**2.5**	**2.0**	**95.9**	**5.1**	**164**	**44.4**	**52.4**	**3.2**
Namibia	2 074	34.6	97.4	1.6	1.3	42.3	3.2	66	37.5	59.0	3.5
Niger	**14 226**	**25.6**	**102.9**	**3.5**	**3.5**	**110.8**	**7.2**	**188**	**48.0**	**48.8**	**3.2**
Nigeria	**148 093**	**46.1**	**99.9**	**2.5**	**2.3**	**109.5**	**5.3**	**187**	**43.8**	**53.2**	**2.9**
Rwanda	**9 725**	**24.7**	**93.2**	**3.3**	**2.6**	**112.4**	**5.9**	**188**	**42.9**	**54.7**	**2.4**
São Tomé and Principe	158	39.7	98.2	1.7	1.6	72.3	3.9	95	41.2	54.6	4.2
Senegal	**12 379**	**51.8**	**99.1**	**2.6**	**2.5**	**65.7**	**4.7**	**115**	**41.6**	**54.1**	**4.3**
Seychelles	87	...	...	1.2	0.6	...	...	...	...	...	...
Sierra Leone	5 866	41.2	97.0	4.1	2.4	160.3	6.5	278	42.9	53.8	3.3
Somalia	8 699	37.4	98.5	3.0	3.0	116.3	6.0	193	44.3	53.1	2.6
South Africa	**48 577**	**57.8**	**96.7**	**1.2**	**0.6**	**44.8**	**2.6**	**66**	**31.8**	**63.7**	**4.5**
Sudan	38 560	41.7	101.4	2.1	2.2	64.9	4.2	105	40.0	56.4	3.6
Swaziland	1 141	21.8	93.6	1.4	0.7	71.0	3.4	114	38.7	58.0	3.3
Tanzania	**40 454**	**38.8**	**99.0**	**2.5**	**2.5**	**72.6**	**5.2**	**118**	**44.3**	**52.7**	**3.0**
Togo	6 585	37.0	97.9	3.0	2.7	88.6	4.8	126	42.8	54.1	3.1
Tunisia	**10 327**	**65.0**	**101.4**	**1.1**	**1.1**	**19.8**	**1.9**	**22**	**24.7**	**68.9**	**6.3**
Uganda	**30 884**	**12.7**	**100.1**	**3.1**	**3.2**	**76.9**	**6.5**	**127**	**49.1**	**48.4**	**2.4**
Zambia	**11 922**	**37.7**	**99.3**	**1.9**	**1.9**	**92.7**	**5.2**	**157**	**45.5**	**51.5**	**2.9**
Zimbabwe	13 349	36.3	98.9	0.8	0.9	58.0	3.2	94	38.5	58.0	3.6
Africa	**963 680**	**39.8**	**99.3**	**2.3**	**2.3**	**85.3**	**4.7**	**140**	**41.0**	**56.4**	**3.4**

Note: * Including Agalega, Rodrigues and Saint Brandon.
Sources: United Nations, Department of Economic and Social Affairs, Population Division, *World Population Prospects, The 2006 Revision.*

StatLink http://dx.doi.org/10.1787/323836800367

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 USD1	Below USD2	Survey year	Index	Lowest 10%	Highest 10%
Algeria	**1988**	**16.6**	**7.3**	**12.2**	**2000**	**0.9**	**...**	**2000**	**36.9**	**2.8**	**26.8**
Angola	**2001**	**94.3**	**57.0**	**68.0**	**...**	**...**	**...**	**...**	**...**	**...**	**...**
Benin	**2003**	**52.3**	**19.9**	**46.4**	**2003[a]**	**30.9**	**73.7**	**2003[a]**	**36.5**	**3.1**	**29.0**
Botswana	**2003**	...	...	**30.3**	**2003**	**23.4**	**...**	**2003**	**57.3**	**0.7**	**56.6**
Burkina Faso	**2003**	**52.3**	**19.9**	**46.4**	**2003**	**27.2**	**71.8**	**2003**	**40.0**	**2.8**	**32.2**
Burundi	2006	37.0	...	36.2	2006	47.7	87.6	2006	50.0	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	**2002**	**55.1**	**25.0**	**36.7**	**...**	**...**	**...**	**2002**	**59.0**	**3.0**	**50.0**
Central African Republic	2003	...	...	50.2	2003	50.2	...	1993	61.3	0.7	47.7
Chad	**1996**	**67.0**	**63.0**	**64.0**	**...**	**...**	**...**	**...**	**...**	**...**	**...**
Comoros	...	...	...	...	...	...	...	...	33.9	...	...
Congo	**2005**	**57.7**	**55.4**	**50.1**	**...**	**...**	**...**	**2005**	**41.6**	**...**	**...**
Congo, Dem. Rep.	**2004-05**	**75.72**	**61.49**	**71.3**	**...**	**...**	**...**	**...**	**...**	**...**	**...**
Côte d'Ivoire	**2002**	**49.0**	**24.0**	**38.4**	**2002[a]**	**14.8**	**48.8**	**2002**	**44.6**	**5.1**	**34.0**
Djibouti	2002	...	...	42.1	...	...	...	...	38.6	...	...
Egypt	**2004-05**	**...**	**...**	**40.6**	**1999-00[a]**	**3.1**	**43.9**	**2000**	**34.4**	**3.7**	**29.5**
Equatorial Guinea	**2006**	**...**	**...**	**76.8**	**...**	**...**	**...**	**...**	**...**	**...**	**...**
Eritrea	1993-94	...	...	53.0	...	...	...	...	...	...	...
Ethiopia	**1999-00**	**45.0**	**37.0**	**44.2**	**1999-00[a]**	**23.0**	**77.8**	**2000**	**30.0**	**3.9**	**25.5**
Gabon	**2005**	**45.0**	**30.0**	**33.0**	**1994**	**23.0**	**...**	**2005**	**42.1**	**2.6**	**33.5**
Gambia	2003	...	...	57.9	1998[a]	59.3	82.9	2003	48.4	1.8	37.0
Ghana	**1998-99**	**51.6**	**22.8**	**42.6**	**1998-99[a]**	**44.8**	**78.5**	**2001**	**41.0**	**2.1**	**30.0**
Guinea	1994	...	...	40.0	1991	26.3	50.2	2006	38.6	2.6	32.0
Guinea Bissau	2002	...	...	20.8	1991	88.2	96.7	1993	47.0	2.1	39.3
Kenya	**2005-06**	**49.1**	**33.7**	**45.9**	**1997[a]**	**22.8**	**58.3**	**2000**	**42.5**	**2.5**	**33.9**
Lesotho	2002-03	**...**	**...**	56.6	1995[a]	36.4	56.1	2002-03	52.0	0.5	48.3
Liberia	**2002**	**...**	**...**	**76.2**	**...**	**...**	**...**	**...**	**...**	**...**	**...**

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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 USD1	Below USD2	Survey year	Index	Lowest 10%	Highest 10%
Libya	**2001**	**...**	**...**	**14.0**	**...**	**...**	**...**	**...**	**...**	**...**	**...**
Madagascar	**2006**	**72.3**	**50.3**	**67.5**	**2004**	**74.0**	**85.1**	**2001-04**	**47.5**	**1.9**	**36.6**
Malawi	2006	47.0	25.0	45.0	2004	20.8	62.9	2004	39.0	1.9	42.2
Mali	**2005**	**...**	**...**	**47.5**	**1994**	**72.8**	**90.6**	**2001**	**40.1**	**1.8**	**40.4**
Mauritania	2000	61.2	25.4	46.3	2000[a]	25.9	63.1	2000	39.0	2.5	29.5
Mauritius	**...**	**...**	**...**	**...**	**...**	**...**	**...**	**2006**	**38.9**	**...**	**...**
Morocco	**2004**	**22**	**7.9**	**14.2**	**1999[a]**	**<2**	**14.3**	**1999**	**39.5**	**2.6**	**30.9**
Mozambique	**2002-03**	**55.3**	**51.5**	**54.1**	**1996[a]**	**37.9**	**78.4**	**2003**	**42.0**	**2.5**	**31.7**
Namibia	2004	...	...	28.0	2004	32.8	55.8	2003-04	60.0	0.5	64.5
Niger	**1993**	**66.0**	**52.0**	**63.0**	**2004**	**63.8**	**85.3**	**2004**	**41.5**	**0.8**	**35.4**
Nigeria	**2006**	**...**	**...**	**54.4**	**2003**	**70.8**	**92.4**	**2003[a]**	**50.6**	**1.9**	**33.2**
Rwanda	**2005-06**	**62.5**	**41.5**	**56.9**	**2005-06**	**57.0**	**83.7**	**2005-06**	**51.0**	**4.2**	**24.2**
São Tomé and Principe	2001	...	...	53.8	...	...	...	...	...	...	...
Senegal	**2001**	**...**	**...**	**53.9**	**2001**	**17.0**	**56.2**	**2001**	**41.3**	**2.6**	**33.5**
Seychelles	...	...	...	...	...	...	...	...	...	...	...
Sierra Leone	**2003**	**...**	**...**	**70.0**	2004	57.0	74.5	2004	62.9	0.5	43.6
Somalia	...	...	...	...	...	...	...	...	...	...	...
South Africa	**2006**	**...**	**...**	**43.2**	**2000[a]**	**10.7**	**34.1**	**2000**	**57.8**	**1.4**	**44.7**
Sudan	...	...	...	...	...	...	...	...	...	...	...
Swaziland	1995	...	...	40.0	2001-01[a]	47.7	77.8	2001	50.4	1.0	50.2
Tanzania	**2000-01**	**38.7**	**...**	**35.7**	**1993**	**57.8**	**89.9**	**2000–01[a]**	**38.2**	**2.9**	**26.9**
Togo	1995	...	...	72.2	...	...	...	...	...	...	...
Tunisia	**2005**	**...**	**...**	**3.8**	**2000[a]**	**<2**	**6.6**	**2000[a]**	**39.8**	**2.3**	**31.5**
Uganda	**1999-200**	**37.4**	**9.6**	**33.8**	**2005-06**	**31.5**	**...**	**2005-06**	**41.2**	**2.3**	**34.9**
Zambia	**2004**	**78.0**	**53.0**	**68.0**	**2004**	**63.8**	**87.2**	**2004**	**51.0**	**2.4**	**33.7**
Zimbabwe	1995-96	48.0	7.9	34.9	2004	61.9	...	2004	50.1	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 Consumption base.
b Income base.

Sources: Domestic authorities and World Bank (2007), *World Development Report. Country DHS.*

StatLink http://dx.doi.org/10.1787/323877761514

Table 15 - **Access to Services**

	Telecommunications				Access to electricity				Water supply coverage (%)			Sanitation coverage (%)		
	Main telephone line per 100 inhabitants		Mobile lines per 100 inhabitants		Final consumption (GWh)		Distribution losses (GWh)		Total	Urban	Rural	Total	Urban	Rural
	2000	2006	2000	2006	2000	2005	2000	2005	2004			2004		
Algeria	**5.79**	**8.52**	**0.28**	**62.95**	**18 592**	**26 656**	**4 105**	**4 475**	**85**	**88**	**80**	**92**	**99**	**82**
Angola	**0.49**	**0.62**	**0.2**	**14.33**	**1 157**	**2 128**	**211**	**384**	**53**	**75**	**40**	**31**	**56**	**16**
Benin	**0.81**	**0.89**	**0.87**	**12.13**	**399**	**589**	**59**	**113**	**48**	**57**	**41**	**40**	**64**	**19**
Botswana	**8.27**	**7.78**	**12.17**	**46.78**	**1 959**	**2 494**	**164**	**144**	**95**	**100**	**90**	**42**	**57**	**25**
Burkina Faso	**0.47**	**0.7**	**0.22**	**7.46**	**...**	**...**	**...**	**...**	**63**	**70**	**60**	**11**	**14**	**10**
Burundi	0.3	0.41	0.24	2.03	...	...	...	...	79	92	77	36	47	35
Cameroun	**0.63**	**0.79**	**0.68**	**18.89**	**2 719**	**3 490**	**761**	**655**	**66**	**86**	**44**	**51**	**58**	**43**
Cape Verde	**12.57**	**13.8**	**4.54**	**20.99**	**...**	**...**	**...**	**...**	**80**	**86**	**73**	**43**	**61**	**19**
Central African Republic	0.26	0.29	0.14	2.48	...	...	...	...	75	93	61	27	47	12
Chad	**0.14**	**0.13**	**0.07**	**4.65**	**...**	**...**	**...**	**...**	**42**	**41**	**43**	**9**	**24**	**4**
Comoros	0.98	2.33	...	4.50	...	...	...	...	86	92	82	33	41	29
Congo	**0.75**	**0.4**	**2.38**	**12.25**	**260**	**445**	**180**	**198**	**58**	**84**	**27**	**27**	**28**	**25**
Congo, Dem. Rep.	**...**	**0.02**	**...**	**7.44**	**2 442**	**2 851**	**228**	**275**	**22**	**37**	**12**	**9**	**8**	**10**
Côte d'Ivoire	**1.78**	**1.41**	**3.2**	**22.03**	**2 757**	**3 046**	**699**	**1 008**	**84**	**97**	**74**	**37**	**46**	**29**
Djibouti	1.54	1.56	...	6.37	...	...	...	...	73	76	59	82	88	50
Egypt	**8.64**	**14.33**	**2.14**	**23.86**	**64 330**	**87 505**	**10 750**	**17 184**	**98**	**99**	**97**	**70**	**86**	**58**
Equatorial Guinea	**1.35**	**1.99**	**1.1**	**19.26**	**...**	**...**	**...**	**...**	**43**	**45**	**42**	**53**	**60**	**46**
Eritrea	0.84	0.82	...	1.36	173	232	38	46	60	74	57	9	32	3
Ethiopia	**0.37**	**0.91**	**...**	**1.09**	**1 419**	**2 334**	**167**	**287**	**39**	**83**	**31**	**12**	**50**	**4**
Gabon	**3.18**	**2.59**	**9.79**	**54.39**	**989**	**1 177**	**234**	**279**	**88**	**95**	**47**	**36**	**37**	**30**
Gambia	2.65	2.98	0.45	25.99	...	...	...	...	82	95	77	53	72	46
Ghana	**1.08**	**1.58**	**0.66**	**23.09**	**6 055**	**5 955**	**1 616**	**975**	**56**	**61**	**52**	**35**	**40**	**31**
Guinea	0.32	0.33	0.56	2.36	...	...	...	...	50	78	35	18	31	11
Guinea Bissau	0.93	0.42	...	9.22	...	...	...	...	59	79	49	35	57	23
Kenya	**0.95**	**0.84**	**0.42**	**20.91**	**3 408**	**4 912**	**867**	**1 066**	**62**	**89**	**46**	**48**	**56**	**43**
Lesotho	1.24	2.97	1.21	19.99	...	...	...	...	79	92	76	37	61	32
Liberia	**0.21**	**0.21**	**0.05**	**4.87**	**...**	**...**	**...**	**...**	**61**	**72**	**52**	**27**	**49**	**7**

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Table 15 - **Access to Services** *(cont.)*

	Telecommunications				Access to electricity				Water supply coverage (%)			Sanitation coverage (%)		
	Main telephone line per 100 inhabitants		Mobile lines per 100 inhabitants		Final consumption (GWh)		Distribution losses (GWh)		Total	Urban	Rural	Total	Urban	Rural
	2000	2006	2000	2006	2000	2005	2000	2005		2004			2004	
Libya	**10.79**	**8.09**	**0.71**	**65.81**	**10 132**	**16 865**	**3 592**	**2 973**	**-**	**-**	**-**	**97**	**97**	**96**
Madagascar	**0.34**	**0.68**	**0.39**	**5.47**	**...**	**...**	**...**	**...**	**31**	**67**	**16**	**56**	**75**	**49**
Malawi	**0.45**	**0.8**	**0.47**	**3.33**	**...**	**...**	**...**	**...**	**67**	**96**	**62**	**46**	**66**	**42**
Mali	**0.38**	**0.59**	**0.1**	**10.87**	**...**	**...**	**...**	**...**	**50**	**78**	**36**	**46**	**59**	**39**
Mauritania	0.74	1.1	0.6	33.57	...	...	...	...	40	30	49	36	55	20
Mauritius	**23.53**	**28.45**	**15.08**	**61.50**	**...**	**...**	**...**	**...**	**100**	**100**	**100**	**94**	**95**	**94**
Morocco	**4.96**	**4.12**	**8.16**	**52.07**	**12 838**	**17 629**	**2 122**	**4 048**	**81**	**99**	**56**	**73**	**88**	**52**
Mozambique	**0.5**	**0.33**	**0.3**	**11.60**	**1 013**	**9 143**	**243**	**1 629**	**40**	**37**	**41**	**36**	**38**	**35**
Namibia	**6.19**	**6.84**	**4.61**	**24.37**	**2 386**	**2 884**	**260**	**314**	**87**	**98**	**81**	**25**	**50**	**13**
Niger	**0.19**	**0.17**	**...**	**3.35**	**...**	**...**	**...**	**...**	**59**	**64**	**57**	**18**	**79**	**5**
Nigeria	**0.49**	**1.26**	**...**	**24.05**	**8 688**	**17 286**	**5 618**	**5 644**	**48**	**67**	**31**	**44**	**53**	**36**
Rwanda	**0.23**	**0.18**	**0.5**	**3.40**	**...**	**...**	**...**	**...**	**46**	**66**	**44**	**8**	**8**	**8**
São Tomé and Principe	3.3	4.74	...	11.51	...	...	...	...	79	89	73	25	32	20
Senegal	**2.16**	**2.37**	**2.63**	**24.99**	**1 337**	**1 699**	**236**	**767**	**75**	**90**	**64**	**33**	**57**	**17**
Seychelles	26.72	25.44	33.63	86.52	...	...	...	...	88	100	75	...	...	100
Sierra Leone	0.42	0.49	0.26	2.21	...	...	...	...	57	75	46	39	53	30
Somalia	0.36	1.22	1.14	6.08	...	...	...	...	29	32	27	26	48	14
South Africa	**10.88**	**9.97**	**18.28**	**83.33**	**162 516**	**198 306**	**17 053**	**15 281**	**88**	**99**	**73**	**65**	**79**	**46**
Sudan	1.24	1.72	0.07	12.66	2 058	3 461	376	646	70	78	64	34	50	24
Swaziland	3.16	4.27	3.27	24.29	...	...	...	...	62	87	54	48	59	44
Tanzania	**0.5**	**0.4**	**0.32**	**14.78**	**1 913**	**2 256**	**555**	**817**	**52**	**85**	**42**	**90**	**90**	**90**
Togo	0.92	1.3	1.08	11.23	521	585	36	86	52	80	36	35	71	15
Tunisia	**9.99**	**12.42**	**1.25**	**71.88**	**8 979**	**11 228**	**1 117**	**1 681**	**93**	**99**	**82**	**85**	**96**	**65**
Uganda	**0.25**	**0.36**	**0.52**	**6.73**	**...**	**...**	**...**	**...**	**66**	**67**	**61**	**60**	**71**	**58**
Zambia	**0.78**	**0.79**	**0.92**	**14.02**	**6 039**	**8 012**	**249**	**417**	**62**	**86**	**37**	**27**	**41**	**13**
Zimbabwe	2.19	2.56	2.34	6.49	10 494	12 143	1 422	742	81	98	72	53	63	47
Africa	**2.52**	**3.11**	**2**	**21.77**	**345 789**	**457 346**	**53 377**	**62 643**	**62**	**83**	**50**	**44**	**58**	**34**

Sources: Telecommunications: International telecommunication Union - online database. 2006.
Electricity: International Energy Agency - online database. 2006
Water supply coverage and sanitation coverage: WHO and UNICEF. 2006. Joint Reporting Form and WHO regional offices reports; October 2006
Data for Benin, Burkina, DRC, Ethiopia, Ghana, Kenya, Madagascar. Malawi, Mauritania, Mozambique, Niger, Rwanda, Senegal, Tanzania, Uganda and Zambia are from *Getting Africa on track to meet the MDGs on water and sanitation. a Status Review of Sixteen African Countries, 2006.* Report on a regional initiative by AMCOW, AfDB, EUWI, WSP and UNDP.

StatLink http://dx.doi.org/10.1787/324016124745

Table 16 - **Basic Health Indicators**

	Life expectancy at birth (years)			Undernourishment prevalence (%)	Food availability (Kcal/person/day)	Total health expenditure as % of GDP	Total health expenditure Per capita** (USD)	Total health expenditure Distribution Public (%)	Total health expenditure Distribution Private (%)	Health personnel (per 100 000) Survey year	Physicians	Nurses
	2007	With AIDS 2005-10	Without AIDS 2005-10	2002-04	2004		2004					
Algeria	**72.3**	**...**	**...**	**4**	**3 114**	**3.6**	**93.9**	**72.5**	**27.5**	**2005**	**92.9**	**238.2**
Angola	**42.7**	**41.9**	**45.7**	**35**	**2 178**	**1.9**	**25.5**	**79.4**	**20.6**	**2005**	**16.5**	**245.4**
Benin	**56.7**	**55.9**	**59.1**	**12**	**2 652**	**4.9**	**24.2**	**51.2**	**48.8**	**2005**	**11.4**	**39.3**
Botswana	**50.7**	**33.9**	**70.0**	**32**	**2 084**	**6.4**	**328.6**	**62.9**	**37.1**	**2005**	**36.2**	**231.0**
Burkina Faso	**52.3**	**49.3**	**54.5**	**15**	**2 529**	**6.1**	**24.2**	**54.8**	**45.2**	**2006**	**2.1**	**25.9**
Burundi	49.6	45.6	52.5	66	1 682	3.2	3.0	26.2	73.8	2005	6.5	75.9
Cameroon	**50.4**	**46.3**	**54.4**	**26**	**2 212**	**5.2**	**50.7**	**28.0**	**72.0**	**2005**	**18.4**	**43.9**
Cape Verde	**71.7**	**...**	**...**	**...**	**3 058**	**5.2**	**97.8**	**75.8**	**24.2**	**2006**	**41.8**	**90.8**
Central African Republic	44.7	39.5	54.5	44	2 004	4.1	13.2	36.8	63.2	2005	4.5	28.8
Chad	**50.7**	**44.3**	**49.5**	**35**	**2 137**	**4.2**	**19.6**	**36.9**	**63.1**	**2005**	**3.4**	**23.8**
Comoros	65.2	...	...	60	1 787	2.8	13.2	56.9	43.1	2005	14.8	75.9
Congo	**55.3**	**53.5**	**61.0**	**33**	**2 130**	**2.5**	**27.6**	**49.2**	**50.8**	**2005**	**21.6**	**118.9**
Congo, Dem. Rep.	**46.5**	**44.7**	**49.3**	**74**	**1 560**	**4.0**	**4.7**	**28.1**	**71.9**	**2004**	**10.2**	***50.6***
Côte d'Ivoire	**48.3**	**46.2**	**55.2**	**13**	**2 637**	**3.8**	**33.0**	**23.8**	**76.2**	**2004**	**11.4**	**55.7**
Djibouti	54.8	53.9	57.5	24	2 350	6.3	53.1	69.2	30.8	2004	16.3	32.5
Egypt	**71.3**	**...**	**...**	**4**	**3 286**	**6.1**	**66.0**	**38.2**	**61.8**	**2007**	**227.3**	**283.3**
Equatorial Guinea	**51.6**	**41.5**	**54.1**	**...**	**...**	**1.6**	**168.2**	**77.1**	**22.9**	**2004**	**32.4**	**48.2**
Eritrea	58.0	56.0	59.9	75	1 465	4.5	9.9	39.2	60.8	2004	4.9	57.5
Ethiopia	**52.9**	**48.5**	**54.3**	**46**	**1 840**	**5.3**	**5.6**	**51.5**	**48.5**	**2004**	**1.5**	**13.7**
Gabon	**56.7**	**53.3**	**65.0**	**5**	**2 707**	**4.5**	**231.3**	**68.8**	**31.2**	**2004**	**31.1**	**549.1**
Gambia	59.4	57.7	59.5	29	2 178	6.8	18.5	27.1	72.9	2003	10.2	112.8
Ghana	**60.0**	**58.1**	**63.0**	**11**	**2 723**	**6.7**	**27.2**	**42.2**	**57.8**	**2004**	**14.7**	**89.3**
Guinea	56.0	54.4	59.4	24	2 426	5.3	21.8	13.2	86.8	2004	11.2	53.9
Guinea Bissau	46.4	45.5	49.6	39	2 001	4.8	8.7	27.3	72.7	2004	12.1	66.9
Kenya	**54.1**	**50.3**	**61.4**	**31**	**2 149**	**4.1**	**20.1**	**42.7**	**57.3**	**2007**	**27.6**	**121.9**
Lesotho	42.6	34.3	65.6	13	2 495	6.5	49.4	84.2	15.8	2003	4.6	...
Liberia	**45.7**	**42.5**	**48.4**	**50**	**1 923**	**5.6**	**8.6**	**63.9**	**36.1**	**2004**	**3.1**	**18.3**

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Table 16 - **Basic Health Indicators** *(cont.)*

	Life expectancy at birth (years)			Undernourishment prevalence (%)	Food availability (Kcal/person/day)	Total health expenditure as % of GDP	Total health expenditure Per capita** (USD)	Total health expenditure Distribution Public (%)	Total health expenditure Distribution Private (%)	Health personnel (per 100 000) Survey year	Physicians	Nurses
	2007	With AIDS 2005-10	Without AIDS 2005-10	2002-04	2004		2004					
Libya	**74.0**	**...**	**...**	**3**	**3 476**	**3.8**	**195.4**	**74.9**	**25.1**	**2002**	**120.0**	**353.4**
Madagascar	**59.4**	**56.2**	**58.8**	**38**	**2 070**	**3.0**	**7.3**	**59.1**	**40.9**	**2004**	**28.7**	**31.2**
Malawi	**48.3**	**41.1**	**58.8**	**35**	**2 077**	**12.9**	**19.3**	**74.7**	**25.3**	**2004**	**2.1**	**56.3**
Mali	**54.5**	**49.3**	**51.8**	**29**	**2 163**	**6.6**	**23.8**	**49.2**	**50.8**	**2004**	**9.3**	**58.0**
Mauritania	64.2	...	...	10	2 640	2.9	14.5	69.4	30.6	2004	10.9	65.7
Mauritius*	**72.8**	**...**	**...**	**5**	**2 999**	**4.3**	**222.3**	**54.7**	**45.3**	**2006**	**111.9**	**245.3**
Morocco	**71.2**	**...**	**...**	**6**	**3 158**	**5.1**	**82.2**	**34.3**	**65.7**	**2004**	**55.6**	**88.9**
Mozambique	**42.1**	**41.8**	**54.9**	**44**	**2 057**	**4.0**	**12.3**	**68.4**	**31.6**	**2004**	**2.6**	**19.7**
Namibia	52.9	45.9	70.0	24	2 174	6.8	189.8	69.0	31.0	2004	30.0	308.2
Niger	**56.9**	**45.4**	**47.0**	**32**	**2 121**	**4.2**	**8.6**	**52.5**	**47.5**	**2004**	**2.9**	**21.2**
Nigeria	**46.9**	**44.2**	**50.3**	**9**	**2 720**	**4.6**	**23.0**	**30.4**	**69.6**	**2003**	**25.9**	**156.2**
Rwanda	**46.2**	**44.6**	**49.4**	**33**	**2 173**	**7.5**	**15.5**	**56.8**	**43.2**	**2007**	**2.7**	**31.9**
São Tomé and Principe	65.5	...	...	10	2 525	11.5	47.8	86.2	13.8	2004	54.0	170.5
Senegal	**63.1**	**...**	**...**	**20**	**2 414**	**5.9**	**39.4**	**40.3**	**59.7**	**2004**	**5.2**	**28.7**
Seychelles	71.9	...	...	9	2 426	6.1	534.4	75.3	24.7	2004	142.6	747.4
Sierra Leone	42.6	41.9	43.8	51	1 849	3.3	6.6	59.0	41.0	2004	3.1	34.2
Somalia	48.2	...	...	...	...	...	...	...	...	1997	4.8	23.1
South Africa	**49.3**	**44.1**	**68.4**	**3**	**3 004**	**8.6**	**390.2**	**40.4**	**59.6**	**2007**	**75.3**	**329.3**
Sudan	58.6	56.9	60.6	26	2 311	4.1	24.7	35.4	64.6	2005	21.7	48.6
Swaziland	39.6	29.9	65.5	22	2 224	6.3	145.8	63.8	36.2	2004	15.3	612.9
Tanzania	**52.5**	**46.6**	**58.0**	**44**	**1 963**	**4.0**	**12.0**	**43.6**	**56.4**	**2007**	**4.8**	**102.4**
Togo	58.4	55.8	62.0	24	2 334	5.5	17.9	20.7	79.3	2004	3.7	35.3
Tunisia	**73.9**	**...**	**...**	**3**	**3 344**	**6.2**	**175.0**	**52.1**	**47.9**	**2006**	**99.7**	**301.6**
Uganda	**51.5**	**52.1**	**57.5**	**19**	**2 348**	**7.6**	**19.0**	**32.7**	**67.3**	**2004**	**7.9**	**57.9**
Zambia	**42.4**	**39.1**	**55.7**	**46**	**1 947**	**6.3**	**29.6**	**54.7**	**45.3**	**2004**	**11.2**	**168.7**
Zimbabwe	43.5	37.3	64.3	47	1 978	7.5	27.2	46.1	53.9	2004	16.0	71.8
Africa	**54.2**	**50.5**	**56.2**	**20**	**2 435**	**5.8**	**51.5**	**46.3**	**53.7**	**...**	**...**	**...**

Note: * Including Agalega, Rodrigues and Saint Brandon
** at average exchange rate
Undernourishment prevalence and food availability: FAO, *The State of Food Insecurity in the World 2006 and FAOSTAT, March 2008.*
Total health expenditure and public health expenditure: WHOSIS, including *World Health Statistics 2007.*

Source: Life expectancy at birth: United Nations, Department of Economic and Social Affairs, Population Division, *World Population Prospects, The 2006 Revision.*

StatLink http://dx.doi.org/10.1787/324034713350

Table 17 - **Major Diseases**

	Healthy life expectancy at birth (years)			People living with HIV/AIDS (000)	HIV/AIDS Adult prevalence (%)	AIDS orphans cumulative (000)	Malaria notified cases		Tuberculosis notified cases	Measles incidence (reported cases)	Vaccination (%)	
	Total	Male	Female				Survey year	Notified cases			MCV	DTP3
		2002			end-2005				2005	2006	2006	
Algeria	**60.6**	**59.7**	**61.6**	**19**	**0.1**	**...**	**2002**	**307**	**21 336**	**944**	**91**	**95**
Angola	**33.4**	**31.6**	**35.1**	**320**	**3.7**	**160**	**2002**	**1409 328**	**37 175**	**765**	**48**	**44**
Benin	**44.0**	**43.4**	**44.5**	**87**	**1.8***	**62**	**2001**	**779 041**	**3 270**	**176**	**89**	**93**
Botswana	**35.7**	**36.0**	**35.4**	**270**	**24.1**	**120**	**2003**	**22 418**	**10 058**	**6**	**90**	**97**
Burkina Faso	**35.6**	**34.9**	**36.3**	**150**	**2.0**	**120**	**2002**	**1451 125**	**3 484**	**125**	**88**	**95**
Burundi	35.1	33.4	36.8	150	3.3	120	2002	1808 588	6 585	784	75	74
Cameroon	**41.5**	**41.1**	**41.8**	**510**	**5.4**	**240**	**1998**	**664 413**	**21 499**	**196**	**73**	**81**
Cape Verde	**60.8**	**58.8**	**62.9**	**0**	**0.9***	**...**	**2000**	**143**	**292**	**...**	**65**	**72**
Central African Republic	37.4	37.0	37.7	250	10.8*	140	2003	95 644	3 210	3	35	40
Chad	**40.7**	**39.7**	**41.7**	**180**	**3.5**	**57**	**2001**	**386 197**	**6 311**	**1 594**	**23**	**20**
Comoros	54.6	53.9	55.3	<500	0.1	...	2001	3 718	111	85	66	69
Congo	**46.3**	**45.3**	**47.3**	**120**	**5.3**	**110**	**1998**	**17 122**	**9 853**	**126**	**66**	**79**
Congo, Dem. Rep.	**37.1**	**35.0**	**39.1**	**1 000**	**3.2**	**680**	**2003**	**4386 638**	**97 075**	**80 123**	**73**	**77**
Côte d'Ivoire	**39.5**	**37.6**	**41.3**	**750**	**7.1**	**450**	**2001**	**400 402**	**19 681**	**11**	**73**	**77**
Djibouti	42.9	42.5	43.2	15	3.1	6	2003	5 036	...	49	67	72
Egypt	**59.0**	**57.8**	**60.2**	**5**	**0.1**	**...**	**2003**	**45**	**...**	**953**	**98**	**98**
Equatorial Guinea	**45.5**	**44.7**	**46.3**	**9**	**3.2**	**5**	**1995**	**12 530**	**...**	**...**	**51**	**33**
Eritrea	50.0	49.3	50.8	59	2.4	36	2003	72 023	3 549	128	95	97
Ethiopia	**41.2**	**40.7**	**41.7**	**...**	**2.2**	**...**	**2003**	**565 273**	**124 262**	**1 451**	**63**	**72**
Gabon	**51.4**	**50.2**	**52.6**	**60**	**7.9**	**20**	**1998**	**80 247**	**2 512**	**90**	**55**	**38**
Gambia	49.5	48.5	50.5	20	2.4	4	1999	127 899	2 031	...	95	95
Ghana	**49.8**	**49.2**	**50.3**	**320**	**2.3**	**170**	**2003**	**3 552 869**	**12 124**	**420**	**85**	**84**
Guinea	44.8	43.9	45.6	85	1.5	28	2000	889 089	6 863	4	67	71
Guinea Bissau	40.5	39.6	41.5	32	3.8	11	2002	194 976	1 774	...	60	77
Kenya	**44.4**	**44.1**	**44.8**	**1 300**	**6.1**	**1 100**	**2002**	**124 197**	**102 680**	**1 847**	**77**	**80**
Lesotho	31.4	29.6	33.2	270	23.2	97	...	...	10 802	1	85	83
Liberia	**35.3**	**33.6**	**37.0**	**...**	**...**	**...**	**1998**	**777 754**	**3 432**	**20**	**94**	**88**

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Table 17 - **Major Diseases** *(cont.)*

	Healthy life expectancy at birth (years)			People living with HIV/AIDS (000)	HIV/AIDS Adult prevalence (%)	AIDS orphans cumulative (000)	Malaria notified cases		Tuberculosis notified cases	Measles incidence (reported cases)	Vaccination (%)	
	Total	Male	Female				Survey year	Notified cases			MCV	DTP3
		2002			end-2005				2005	2006	2006	
Libya	**63.7**	**62.3**	**65.0**	**...**	**...**	**...**	**...**	**...**	**...**	**1**	**98**	**98**
Madagascar	**48.6**	**47.3**	**49.9**	**49**	**0.5**	**13**	**2003**	**2114 400**	**18 993**	**2**	**59**	**61**
Malawi	**34.9**	**35.0**	**34.8**	**940**	**14.1**	**550**	**2002**	**2853 317**	**25 491**	**1**	**85**	**99**
Mali	**37.9**	**37.5**	**38.3**	**130**	**1.7**	**94**	**2003**	**809 428**	**4 697**	**128**	**86**	**85**
Mauritania	44.5	42.8	46.3	12	0.7	7	2002	167 423	2 162	22	62	68
Mauritius	**62.4**	**60.3**	**64.6**	**4**	**0.6**	**...**	**2002**	**22**	**125**	**3**	99	**97**
Morocco	**60.2**	**59.5**	**60.9**	**19**	**0.1**	**...**	**2003**	**73**	**...**	**1 217**	**95**	**97**
Mozambique	**36.9**	**36.3**	**37.5**	**1 800**	**16.1**	**510**	**2003**	**5087 865**	**33 231**	**183**	**77**	**72**
Namibia	43.3	42.9	43.8	230	19.6	85	2003	444 081	14 920	3	63	74
Niger	**35.5**	**35.8**	**35.2**	**79**	**1.1***	**46**	**2002**	**681 707**	**7 873**	**59**	**47**	**39**
Nigeria	**41.5**	**41.3**	**41.8**	**2 900**	**3.9**	**930**	**2003**	**2608 479**	**62 598**	**704**	**68**	**55**
Rwanda	**38.3**	**36.4**	**40.2**	**190**	**3.1**	**210**	**2003**	**856 233**	**7 220**	**494**	**95**	**99**
São Tomé and Principe	54.4	54.2	54.7	61	0.0	...	2003	63 199	136	...	85	99
Senegal	**48.0**	**47.1**	**48.9**	**0**	**0.9**	**25**	**2000**	**1120 094**	**9 765**	**3**	**80**	**89**
Seychelles	61.2	57.4	64.9	48	...	...	...	...	14	10	99	99
Sierra Leone	28.6	27.2	29.9	44	1.6	31	1999	409 670	6 737	33	67	64
Somalia	36.8	36.1	37.5	0	0.9	23	2003	23 349	...	7	35	35
South Africa	**44.3**	**43.3**	**45.3**	**5 500**	**18.8***	**1 200**	**2003**	**13 446**	**270 178**	**...**	**85**	**99**
Sudan	48.5	47.2	49.9	350	1.6	...	2003	3 084 320	...	228	73	78
Swaziland	34.2	33.2	35.2	220	33.4	63	2003	36 664	8 062	...	57	68
Tanzania	**40.4**	**40.0**	**40.7**	**1 400**	**6.5**	**1 100**	**2003**	**10 712 526**	**61 022**	**2 362**	**93**	**90**
Togo	44.6	43.5	45.7	110	3.2	88	2001	431 826	2 537	26	83	87
Tunisia	**62.5**	**61.3**	**63.6**	**9**	**0.1**	**...**	**...**	**...**	**...**	**3**	**98**	**99**
Uganda	**42.7**	**41.7**	**43.7**	**1 000**	**6.7**	**1 000**	**2003**	**12343 411**	**41 040**	**5 736**	**89**	**80**
Zambia	**34.9**	**34.8**	**35.0**	**1 100**	**17.0**	**710**	**2001**	**2 010 185**	**49 576**	**459**	**84**	**80**
Zimbabwe	33.6	33.8	33.3	1 700	20.1*	1 100	2002	1252 668	50 454	212	90	90
Africa	**44.6**	**43.8**	**45.3**	**23 876**	**4.7**	**11 521**	**...**	**...**	**1 186 800**	**101 797**	**75**	**75**

Notes: DTP: Diphtheria, tetanus toxoids and pertussis antigen. MCV: Measles Contaning Vaccine.
Tuberculosis notified cases: WHO, 2008, Global Tuberculosis Database; Vaccination coverage and Measles incidence: WHOSIS, February 2008.
* : includes data from the 2006 MICs, DHS and HIV surveys and Department of Health Reports.

Sources: UNAIDS and WHO, Country epidemic updates December 2007; Malaria notified cases: WHO, Roll Back Malaria (RBM) February 2008 database.

StatLink http://dx.doi.org/10.1787/324107017050

Table 18 - **Basic Education Indicators**

	Estimated adult illiteracy rate, 2007 (%) (people over 15)			Estimated youth illiteracy rate, 2005-07 (%) (people between 15 and 24)			Public expenditure on education 2002-07 (% of GDP)
	Total	Male	Female	Total	Male	Female	
Algeria	**26.1**	**18.0**	**34.4**	**8.0**	**4.8**	**11.3**	**5.8**
Angola	**...**	**...**	**...**	**...**	**...**	**...**	**2.8**
Benin	**54.7**	**38.9**	**69.7**	**41.0**	**23.9**	**57.9**	**3.5**
Botswana	**17.2**	**20.1**	**14.5**	**9.6**	**13.1**	**6.1**	**9.7**
Burkina Faso	**69.6**	**59.3**	**79.8**	**59.7**	**49.0**	**70.7**	**4.2**
Burundi	43.9	38.6	48.9	30.6	30.8	30.3	5.1
Cameroon	**21.2**	**15.4**	**26.8**	**7.2**	**6.2**	**8.3**	**3.0**
Cape Verde	**20.6**	**12.5**	**27.4**	**9.3**	**7.0**	**11.6**	**6.8**
Central African Republic	43.4	32.4	53.6	26.0	19.8	32.0	3.2
Chad	**46.3**	**38.5**	**53.7**	**25.6**	**20.8**	**30.3**	**1.9**
Comoros	42.9	35.8	49.9	40.5	33.9	47.2	3.9
Congo	**12.6**	**7.7**	**17.1**	**1.5**	**1.1**	**2.0**	**1.9**
Congo, Dem. Rep.	**29.5**	**20.0**	**38.6**	**13.6**	**8.7**	**18.5**	**6.5**
Côte d'Ivoire	**44.5**	**34.9**	**54.5**	**33.7**	**26.0**	**41.3**	**4.6**
Djibouti	27.8	18.8	36.2	12.1	9.0	15.1	7.8
Egypt	**39.4**	**29.6**	**49.3**	**26.5**	**21.2**	**32.1**	**4.6**
Equatorial Guinea	**11.4**	**5.2**	**17.5**	**1.9**	**1.0**	**2.9**	**0.6**
Eritrea	37.8	27.0	48.3	25.5	16.7	34.4	5.3
Ethiopia	**52.5**	**45.7**	**59.3**	**39.0**	**34.2**	**43.7**	**6.0**
Gabon	**...**	**...**	**...**	...	...	...	**3.9**
Gambia	55.1	47.7	62.2	35.6	28.2	42.9	2.0
Ghana	**21.1**	**14.5**	**27.6**	**6.2**	**4.8**	**7.6**	**5.4**
Guinea	...	...	...	...	...	...	1.6
Guinea Bissau	52.5	37.7	66.7	35.0	22.9	47.1	5.2
Kenya	**11.8**	**7.6**	**16.1**	**3.3**	**3.0**	**3.6**	**8.1**
Lesotho	13.5	22.9	4.4	8.0	14.9	1.0	13.8
Liberia	**39.3**	**23.3**	**55.3**	**26.0**	**11.6**	**40.3**	**6.4**

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Table 18 - **Basic Education Indicators** *(cont.)*

	Estimated adult illiteracy rate, 2007 (%) (people over 15)			Estimated youth illiteracy rate, 2005-07 (%) (people between 15 and 24)			Public expenditure on education 2002-07 (% of GDP)
	Total	Male	Female	Total	Male	Female	
Libya	**14.6**	**5.9**	**24.0**	**2.3**	**0.2**	**4.5**	**2.7**
Madagascar	**27.8**	**22.0**	**33.5**	**16.6**	**14.0**	**19.3**	**3.2**
Malawi	**34.1**	**21.9**	**46.1**	**25.5**	**16.8**	**34.3**	**5.3**
Mali	**68.9**	**58.3**	**79.0**	**59.2**	**48.2**	**70.2**	**4.1**
Mauritania	56.4	46.8	65.7	49.3	42.1	56.5	2.3
Mauritius	**12.9**	**10.5**	**15.2**	**5.1**	**5.8**	**4.3**	**3.7**
Morocco	**44.9**	**33.2**	**56.5**	**27.2**	**20.5**	**34.0**	**6.8**
Mozambique	**47.0**	**32.1**	**61.4**	**33.7**	**21.2**	**46.2**	**3.7**
Namibia	13.4	13.5	13.3	6.8	8.4	5.1	6.9
Niger	**80.0**	**71.4**	**88.3**	**73.3**	**63.5**	**83.1**	**2.4**
Nigeria	**26.9**	**20.6**	**33.0**	**8.9**	**7.6**	**10.3**	**...**
Rwanda	**25.3**	**20.7**	**29.8**	**12.8**	**12.1**	**13.4**	**3.8**
São Tomé and Principe	...	...	...	...	...	...	...
Senegal	**56.0**	**46.6**	**65.1**	**43.8**	**35.9**	**51.7**	**5.4**
Seychelles	...	...	...	...	...	...	5.4
Sierra Leone	...	...	...	...	...	...	3.8
Somalia	...	...	...	...	...	...	...
South Africa	**12.2**	**11.6**	**12.7**	**7.5**	**7.5**	**7.5**	**4.6**
Sudan	34.9	25.5	44.3	18.1	14.5	21.8	1.7
Swaziland	16.0	15.3	16.6	7.5	8.4	6.7	6.2
Tanzania	**18.2**	**11.8**	**24.4**	**6.9**	**5.4**	**8.4**	**2.2**
Togo	34.2	20.9	47.2	19.6	10.0	29.1	2.6
Tunisia	**22.1**	**13.0**	**31.3**	**4.3**	**1.4**	**7.3**	**5.2**
Uganda	**26.8**	**18.3**	**35.2**	**17.7**	**12.3**	**23.0**	**5.2**
Zambia	**16.5**	**11.5**	**21.4**	**9.4**	**7.6**	**11.2**	**2.0**
Zimbabwe	7.2	4.2	10.1	1.8	0.7	2.9	4.6
Africa	**33.3**	**25.6**	**40.8**	**20.2**	**16.1**	**24.2**	**4.7**

Source: UNESCO Institute for Statistics (UIS) Database, February 2008.

StatLink http://dx.doi.org/10.1787/324125036081

Table 19 - **School Enrolment**

	Primary School, 2005-07							Secondary School, 2005-07				Enrolment ratio in technical and vocational programmes (%) 2005		
	Gross enrolment ratio			Net enrolment ratio			Pupil/ teacher ratio	Gross enrolment ratio			Pupil/ teacher ratio			
	Total	Male	Female	Total	Male	Female		Total	Male	Female		Total secondary	Lower secondary	Upper secondary
Algeria	**112.0**	**116.0**	**107.0**	**96.5**	**97.7**	**95.4**	**25.4**	**83.2**	**80.3**	**86.3**	**20.8**	**12****	**8****	**21****
Angola	**...**	**...**	**...**	**...**	**...**	**...**	**...**	**...**	**...**	**...**	**...**	**...**	**...**	**...**
Benin	**95.7**	**106.2**	**84.8**	**77.7**	**85.7**	**69.4**	**46.8**	**32.5**	**41.3**	**23.4**	**23.9**	**13****	**3****	**43****
Botswana	**108.0**	**109.0**	**107.0**	**86.2**	**86.4**	**86.1**	**25.3**	**74.9**	**73.2**	**76.7**	**13.7**	**7****	**.[-1]**	**21**[-1]**
Burkina Faso	**56.0**	**62.0**	**50.0**	**44.0**	**49.0**	**39.0**	**47.2**	**13.8**	**16.2**	**11.4**	**31.3**	**8**	**3**	**26**
Burundi	82.0	88.0	76.0	58.0	61.0	55.0	48.7	13.3	15.2	11.3	18.9	8**	3**	26**
Cameroon	**109.0**	**117.0**	**100.0**	**...**	**...**	**...**	**48.2**	**41.4**	**46.0**	**36.8**	**24.7**	**32***	**22****	**51****
Cape Verde	**108.0**	**111.0**	**105.0**	**90.0**	**91.0**	**89.0**	**26.0**	**67.7**	**65.3**	**70.1**	**23.1**	**5**	**3**	**10**
Central African Republic	54.0	65.0	43.2	45.1	52.4	37.9	...	...	...	...	...	...	...	...
Chad	**75.6**	**90.1**	**61.0**	**...**	**...**	**...**	**63.2**	**15.2**	**22.7**	**7.5**	**34.2**	**1****	**0 ****	**5****
Comoros	85.4	90.7	79.9	...	...	...	35.0	35.1	40.0	30.2	13.8	0**	.**	1**
Congo	**107.6**	**111.0**	**101.8**	**53.0**	**48.0**	**58.0**	**82.8**	**42.9**	**46.7**	**39.1**	**34.3**	**18**[-1]**	**10[-1]**	**47**[-1]**
Congo, Dem. Rep.	**...**	**...**	**...**	**...**	**...**	**...**	**34.3**	**22.0**	**27.8**	**16.1**	**14.5**	**...**	**...**	**...**
Côte d'Ivoire	**70.6**	**78.9**	**62.2**	**...**	**...**	**...**	**42.4**	**...**	**...**	**...**	**29.4**	**27**[-2]**	**16**[-2]**	**36**[-2]**
Djibouti	42.0	45.7	37.3	34.4	37.9	30.9	34.6	22.8	27.3	18.1	27.9	8	3	19
Egypt	**101.6**	**104.8**	**98.2**	**93.7**	**96.2**	**91.1**	**25.6**	**86.2**	**89.5**	**82.6**	**16.6**	**27**	**3**	**57**
Equatorial Guinea	**122.0**	**125.0**	**119.0**	**...**	**...**	**...**	**32.0**	**...**	**...**	**...**	**...**	**...**	**...**	**...**
Eritrea	66.3	73.4	59.1	48.6	52.4	44.8	47.5	30.3	38.2	22.5	51.3	1	.	2
Ethiopia	**97.8**	**103.9**	**91.7**	**66.4**	**68.9**	**64.0**	**72.3**	**34.4**	**40.7**	**28.0**	**54.2**	**2[+1]**	**.[+1]**	**9[+1]**
Gabon	**152.0**	**153.0**	**152.0**	**...**	**...**	**...**	**36.0**	**...**	**...**	**...**	**...**	**...**	**...**	**...**
Gambia	77.0	75.0	80.0	64.0	62.0	66.0	35.3	45.0	49.0	40.9	41.7	1**-2	.-2	2**-2
Ghana	**91.8**	**92.5**	**91.1**	**63.6**	**63.4**	**63.9**	**35.4**	**45.9**	**49.5**	**42.1**	**19.7**	**2[+1]**	**.[+1]**	**9[+1]**
Guinea	86.0	95.8	80.5	69.0	75.0	63.0	44.9	31.2	40.8	21.2	35.6	2**	.	7**
Guinea Bissau	...	...	...	...	...	...	44.1	...	...	...	...	...	...	...
Kenya	**108.0**	**110.0**	**106.0**	**75.8**	**75.5**	**76.1**	**39.5**	**48.2**	**49.4**	**47.1**	**31.6**	**1****	**0**	**2****
Lesotho	114.1	114.2	114.0	75.2	73.1	77.4	41.6	37.4	33.0	41.7	26.6	1	1	3
Liberia	**...**	**...**	**...**	**...**	**...**	**...**	**38.3**	**...**	**...**	**...**	**...**	**...**	**...**	**...**

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Table 19 - **School Enrolment** *(cont.)*

	Primary School, 2005-07							Secondary School, 2005-07				Enrolment ratio in technical and vocational programmes (%)		
	Gross enrolment ratio			Net enrolment ratio			Pupil/ teacher ratio	Gross enrolment ratio			Pupil/ teacher ratio	2005		
	Total	Male	Female	Total	Male	Female		Total	Male	Female		Total secondary	Lower secondary	Upper secondary
Libya	**103.8**	**104.4**	**103.1**	**...**	**...**	**...**	**4.8**	**109.7**	**99.7**	**120.0**	**4.8**	**22****	**0 ****	**49****
Madagascar	**139.5**	**142.2**	**136.8**	**93.0**	**93.0**	**93.0**	**53.6**	**...**	**...**	**...**	**...**	**...**	**...**	**...**
Malawi	**120.0**	**118.5**	**121.6**	**92.8**	**90.5**	**95.1**	**...**	**27.6**	**30.4**	**24.8**	**...**	**.**	**.**	**.**
Mali	**77.0**	**87.0**	**67.0**	**59.0**	**67.0**	**52.0**	**54.4**	**27.1**	**33.9**	**20.3**	**...**	**10**	**.**	**37**
Mauritania	99.1	96.3	102.0	76.7	74.7	78.8	40.3	20.8	21.9	19.6	31.0	4	2	6
Mauritius	**102.1**	**102.0**	**102.2**	**95.0**	**94.2**	**95.7**	**22.3**	**88.4**	**88.9**	**88.0**	**17.2**	**14****	**15**	**12****
Morocco	**106.8**	**112.7**	**100.7**	**87.5**	**90.1**	**84.7**	**27.1**	**49.2**	**53.4**	**44.8**	**18.7**	**6****	**3****	**12****
Mozambique	**102.0**	**110.7**	**93.4**	**76.6**	**80.3**	**72.9**	**66.3**	**13.2**	**15.7**	**10.8**	**32.2**	**8**	**8**	**11**
Namibia	106.3	106.3	106.3	76.5	74.2	78.8	30.8	56.3	52.7	59.9	25.1	**0**	**0**	**0**
Niger	**50.6**	**57.0**	**42.0**	**42.0**	**49.0**	**36.6**	**43.7**	**9.7**	**11.9**	**7.6**	**30.9**	**3**	**.**	**15**
Nigeria	**96.0**	**105.0**	**87.0**	**63.4**	**68.1**	**58.6**	**37.2**	**32.4**	**35.6**	**29.2**	**40.2**	**0**	**0**	**...**
Rwanda	**119.0**	**118.0**	**120.0**	**73.0**	**72.0**	**75.0**	**62.0**	**13.4**	**14.2**	**12.7**	**26.3**	**36****	**24****	**56****
São Tomé and Principe	128.0	130.0	126.0	96.0	97.1	95.0	30.8	45.3	43.7	46.9	21.7	1	.	3
Senegal	**79.8**	**80.5**	**78.0**	**70.7**	**71.4**	**70.1**	**41.7**	**22.1**	**25.3**	**18.8**	**26.4**	**1****	**.**	**5****
Seychelles	115.6	115.0	116.2	...	...	...	13.7	105.4	105.7	105.0	12.8	.	.	.
Sierra Leone	...	...	...	...	...	...	37.3	...	...	...	...	...	...	...
Somalia	...	...	...	...	...	...	...	...	...	...	...	...	...	...
South Africa	**103.0**	**107.7**	**103.4**	**88.3**	**88.4**	**88.2**	**35.6**	**94.7**	**91.5**	**97.9**	**30.8**	**6^{-1}**	**.$^{-1}$**	**10^{-1}**
Sudan	56.7	60.6	52.7	...	...	...	29.0	32.7	33.8	31.6	21.5	1	0	3
Swaziland	102.3	105.8	98.7	76.3	75.8	76.8	32.3	44.6	45.4	43.8	18.1	0**	0**	.**
Tanzania	**110.3**	**111.7**	**108.8**	**98.0**	**93.0**	**97.2**	**52.4**	**...**	**...**	**...**	**...**	**5****	**1****	**21****
Togo	102.4	107.6	91.0	78.0	83.0	72.0	33.6	40.4	53.7	27.1	29.6	4**	1**	18**
Tunisia	**110.0**	**111.0**	**108.0**	**97.0**	**96.6**	**97.5**	**20.0**	**83.2**	**79.3**	**87.4**	**17.2**	**8**	**10**	**6**
Uganda	**118.0**	**118.0**	**118.0**	**...**	**...**	**...**	**51.7**	**18.3**	**20.3**	**16.4**	**20.9**	**4****	**1****	**18****
Zambia	**114.6**	**117.8**	**111.4**	**92.0**	**91.2**	**92.9**	**51.1**	**30.4**	**33.4**	**27.3**	**34.0**	**...**	**...**	**...**
Zimbabwe	...	...	...	...	...	...	38.6	...	...	...	22.0	2**	.	5**
Africa	**96.4**	**101.7**	**92.1**	**75.9**	**77.2**	**72.4**	**40.1**	**44.5**	**47.4**	**41.8**	**26.2**	**.$^{-2}$**	**.$^{-2}$**	**.$^{-2}$**

Note: * National estimation; ** UIS estimation; . Not applicable; +n Data refer to n years after the reference year; -n Data refer to n years before the reference year.
Sources: ADB Statistics Department ; UNESCO Institute for Statistics (UIS) Database. March 2007; various domestic authorities.

StatLink http://dx.doi.org/10.1787/324248710742

Table 20 - **Employment and Remittances***

	Year	Unemployment rate			Participation rate (>15) 2006	Inactivity rate (>15) 2006			Worker remittances (USD million)				
		Total	Men	Women		Total	Men	Women	2001	2002	2003	2004	2005
Algeria	**2007**	**13.8**	**11.8**	**14.4**	**58.6**	**41.4**	**19.6**	**63.4**	**670**	**1 070**	**1 750**	**2 460**	**1 950**
Angola	**2006**	**25.2**	**...**	**...**	**82.4**	**17.6**	**8.5**	**26.3**	**...**	**...**	**...**	**...**	**...**
Benin	**...**	**...**	**...**	**...**	**69.9**	**30.1**	**13.9**	**46.4**	**84**	**76.2**	**55.4**	**63**	**63**
Botswana	**2003**	**23.8**	**21.4**	**26.3**	**57.6**	**42.4**	**30.4**	**54.1**	**26**	**27**	**39**	**93**	**125**
Burkina Faso	**1998**	**2.4**	**2.3**	**2.6**	**83.4**	**16.6**	**10.6**	**22.4**	**50**	**50**	**50**	**50**	**50**
Burundi	1990	...	92.7	7.3	6.7	8.0	...	...	...	...	...	...	...
Cameroun	**2001**	**7.5**	**8.2**	**6.7**	**65.7**	**34.3**	**20.1**	**48.2**	**11**	**11**	**11**	**11**	**11**
Cape Verde	**...**	**...**	**...**	**...**	**53.5**	**46.5**	**24.1**	**66.0**	**81**	**85**	**92**	**113**	**137**
Central African Republic	...	...	...	...	79.6	20.4	10.6	29.5	...	...	...	...	...
Chad	**1993**	**0.69**	**1.1**	**0.3**	**71.6**	**28.4**	**22.5**	**34.1**	**...**	**...**	**...**	**...**	**...**
Comoros	...	...	...	...	72.4	27.6	12.7	42.2	12	12	12	12	12
Congo	**...**	**...**	**...**	**...**	**72.0**	**28.0**	**12.3**	**43.2**	**12**	**10**	**13**	**15**	**11**
Congo, Dem. Rep.	**2007**	**8.9**	**...**	**...**	**75.7**	**24.3**	**9.4**	**38.6**	**...**	**...**	**...**	**...**	**...**
Côte d'Ivoire	**1998**	**4.1**	**...**	**...**	**64.4**	**35.6**	**11.3**	**61.2**	**116**	**120**	**142**	**159**	**160**
Djibouti	**1991**	**43.5**	**41.9**	**46.7**	67.9	32.1	17.0	47.0	...	...	...	...	...
Egypt	**2006/07**	**9.1**	**6.8**	**24.0**	**46.5**	**53.5**	**26.8**	**79.9**	**2 911**	**2 893**	**2 961**	**3 341**	**5 017**
Equatorial Guinea	**...**	**...**	**...**	**...**	**70.6**	**29.4**	**9.0**	**48.9**	**...**	**...**	**...**	**...**	**...**
Eritrea	1984		73.6	26.4	9.7	41.8	...	...	...	...	...	...	...
Ethiopia	**2005**	**5.4**	**2.7**	**8.2**	**79.9**	**20.1**	**10.8**	**29.1**	**18**	**33**	**46**	**134**	**174**
Gabon	**1993**	**18.0**	**19.3**	**16.4**	**72.5**	**27.5**	**16.7**	**38.2**	**5**	**3**	**6**	**6**	**6**
Gambia	...	...	...	...	72.5	27.5	13.9	41.0	7	7	6.5	6.2	5.8
Ghana	**1999**	**10.1**	**9.4**	**10.1**	**72.8**	**27.2**	**24.7**	**29.7**	**46**	**44**	**65**	**82**	**99**
Guinea	1994	3.09	4.6	1.7	83.6	16.4	12.6	20.3	9	15	111	42	42
Guinea Bissau	...	...	...	...	76.5	23.5	7.4	38.9	10	18	23	28	28
Kenya	**1999**	**9.8**	**...**	**79.4**	**20.6**	**10.5**	**30.4**	**516.78**	**395.34**	**494.34**	**371**	**524**	**...**
Lesotho	1997	39.29	30.7	47.1	58.4	41.6	26.5	53.9	209	194	287	355	327
Liberia	**...**	**...**	**...**	**...**	**68.9**	**31.1**	**16.6**	**45.5**	**...**	**...**	**...**	**...**	**...**

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Table 20 - **Employment and Remittances*** *(cont.)*

	Year	Unemployment rate			Participation rate (>15) 2006	Inactivity rate (>15) 2006			Worker remittances (USD million)				
		Total	Men	Women		Total	Men	Women	2001	2002	2003	2004	2005
Libya	**2006**	**14.8**	**...**	**...**	**59.3**	**40.7**	**18.0**	**65.5**	**10**	**7**	**8**	**10**	**15**
Madagascar	**2003**	**5.0**	**3.8**	**6.2**	**82.5**	**17.5**	**13.8**	**21.1**	**11**	**17**	**16**	**11**	**11**
Malawi	**1998**	**0.89**	**1.2**	**0.6**	**87.5**	**12.5**	**10.5**	**14.4**	**1**	**1**	**1**	**1**	**1**
Mali	**2004**	**8.8**	**7.2**	**10.9**	**76.9**	**23.1**	**17.7**	**28.0**	**88**	**137**	**154**	**155**	**177**
Mauritania	...	...	...	...	69.3	30.7	15.8	45.6	2	2	2	2	2
Mauritius	**2007**	**8.8**	**5.6**	**15.6**	**60.6**	**39.4**	**21.2**	**57.2**	**215**	**215**	**215**	**215**	**215**
Morocco	**2005**	**11.0**	**10.8**	**11.5**	**52.8**	**47.2**	**19.7**	**73.2**	**3 261**	**2 877**	**3 614**	**4220.8**	**4 589**
Mozambique	**...**	**...**	**...**	**...**	**83.8**	**16.2**	**17.0**	**15.4**	**42**	**53**	**70**	**58**	**57**
Namibia	**2001**	**31.1**	**26.8**	**35.9**	**54.4**	**45.6**	**37.2**	**53.5**	**9**	**7**	**12**	**16**	**16**
Niger	**2005**	**16.0**	**12.0**	**25**	**83.0**	**17.0**	**4.9**	**29.1**	**22**	**19**	**25.5**	**60**	**60**
Nigeria	**...**	**...**	**...**	**...**	**65.1**	**34.9**	**14.8**	**54.5**	**1166.6**	**1208.9**	**1062.8**	**2272.7**	**3 329**
Rwanda	**1996**	**0.6**	**0.9**	**0.4**	**81.4**	**18.6**	**16.4**	**20.5**	**8**	**7**	**9**	**10**	**21**
São Tomé and Principe	2000	14.39	12.5	17.8	51.5	48.5	25.3	70.7	1	1	1	1	1
Senegal	**...**	**...**	**...**	**...**	**68.1**	**31.9**	**19.0**	**44.4**	**305**	**344**	**511**	**633**	**633**
Seychelles	**1992**	34.59	27.7	41.1	...	...	2	2	5	7	11	...	...
Sierra Leone	**...**	**...**	**...**	**...**	74.7	25.3	5.8	43.9	7	22	26	24.7	2
Somalia	**...**	**...**	**...**	**...**	76.6	23.4	5.2	40.9	...	...	...	...	...
South Africa	**2005**	**26.7**	**26.8**	**26.6**	**62.0**	**38.0**	**20.8**	**54.2**	**297**	**288**	**435**	**523**	**658**
Sudan	**...**	**...**		47.4	52.6	28.8	76.4	740	978	1 224	1 403	1 016	
Swaziland	1997	25.2	20.0	26.0	52.1	47.9	25.2	68.1	74	62	88	89	81
Tanzania	**2001**	**5.09**	**4.4**	**5.8**	**88.0**	**12.0**	**9.9**	**13.9**	**15**	**12**	**9.1**	**10.9**	**16**
Togo	**...**	**...**	**...**	**...**	69.8	30.2	10.1	49.7	69	104	148	179	179
Tunisia	**2005**	**14.2**	**13.1**	**17.3**	**52.1**	**47.9**	**25.1**	**70.8**	**927**	**1 071**	**1 250**	**1 432**	**1 393**
Uganda	**2003**	**3.2**	**2.5**	**3.9**	**78.4**	**16.9**	**13.7**	**20.0**	**342**	**421**	**306**	**368**	**450**
Zambia	**1998**	**12.0**	**13.0**	**12.0**	**74.3**	**21.6**	**9.0**	**34.0**	**...**	**...**	**...**	**...**	**...**
Zimbabwe	2002	8.19	10.4	6.1	73.8	25.7	15.3	35.9	...	...	...	...	...
Africa									**12 408**	**12 910**	**15 415**	**19 099**	**21 727**

* See note on methodology for definitions.

Source: Employment: ILO, KILM database, March 2007, Various Domestic Authorities.
Workers remittances: World Bank, *Global Devopment Finance 2007.*

StatLink http://dx.doi.org/10.1787/324264317513

Table 21 - **Corruption Perception Index**

	2001		2002		2003		2004		2005		2006		2007	
	Index	Country Rank / 91	Index	Country Rank / 102	Index	Country Rank / 133	Index	Country Rank / 145	Index	Country Rank / 158	Index	Country Rank / 163	Index	Country Rank / 179
Algeria	...	...	...	...	2.6	88	2.7	97	2.8	97	3.1	84	3	99
Angola	...	...	1.7	98	1.8	124	2	133	2	151	2.2	142	2.2	147
Benin	...	...	...	...	...	...	3.2	77	2.9	88	2.5	121	2.7	118
Botswana	6	26	6.4	24	5.7	30	6	31	5.9	32	5.6	37	5.4	38
Burkina Faso	...	...	...	...	...	...	...	...	3.4	70	3.2	79	2.9	105
Burundi	...	...	...	...	...	...	...	...	2.3	130	2.4	130	2.5	131
Cameroon	2	84	2.2	89	1.8	124	2.1	129	2.2	137	2.3	138	2.4	138
Cape Verde	...	...	...	...	...	...	...	...	...	...	...	...	4.9	49
Central African Republic	...	...	...	...	...	...	...	...	...	...	2.4	130	2	162
Chad	...	...	...	...	...	...	1.7	142	1.7	158	2	156	1.8	172
Comoros	...	...	...	...	...	...	...	...	...	...	...	...	2.6	123
Congo	...	...	...	...	2.2	113	2.3	114	2.3	130	2.2	142	2.1	150
Congo, Dem. Rep.	...	...	...	...	...	...	2	133	2.1	144	2	156	1.9	168
Côte d´Ivoire	2.4	77	2.7	71	2.1	118	2	133	1.9	152	2.1	151	2.1	150
Djibouti	...	...	...	...	...	...	...	...	...	...	...	...	2.9	105
Egypt	3.6	54	3.4	62	3.3	70	3.2	77	3.4	70	3.3	70	2.9	105
Equatorial Guinea	...	...	...	...	...	...	...	...	1.9	152	2.1	151	1.9	168
Eritrea	...	...	...	...	...	...	2.6	102	2.6	107	2.9	93	2.8	111
Ethiopia	...	...	3.5	59	2.5	92	2.3	114	2.2	137	2.4	130	2.4	138
Gabon	...	...	...	...	...	...	3.3	74	2.9	88	3	90	3.3	84
Gambia	...	...	...	...	2.5	92	2.8	90	2.7	103	2.5	121	2.3	143
Ghana	3.4	59	3.9	50	3.3	70	3.6	64	3.5	65	3.3	70	3.7	69
Guinea	...	...	...	...	...	...	...	...	...	...	1.9	160	1.9	168
Guinea Bissau	...	...	...	...	...	...	...	...	...	...	...	...	2.2	147
Kenya	2	84	1.9	96	1.9	122	2.1	129	2.1	144	2.2	142	2.1	150
Lesotho	...	...	...	...	...	...	...	...	3.4	70	3.2	79	3.3	84
Liberia	...	...	...	...	...	...	...	...	2.2	137	...	...	2.1	150

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Table 21 - **Corruption Perception Index** *(cont.)*

	2001		2002		2003		2004		2005		2006		2007	
	Index	Country Rank / 91	Index	Country Rank / 102	Index	Country Rank / 133	Index	Country Rank / 145	Index	Country Rank / 158	Index	Country Rank / 163	Index	Country Rank / 179
Libya	...	...	...	...	2.1	118	2.5	108	2.5	117	2.7	105	2.5	131
Madagascar	...	...	1.7	98	2.6	88	3.1	82	2.8	97	3.1	84	3.2	94
Malawi	3.2	61	2.9	68	2.8	83	2.8	90	2.8	97	2.7	105	2.7	118
Mali	...	...	...	...	3	78	3.2	77	2.9	88	2.8	99	2.7	118
Mauritania	...	...	...	...	...	...	...	...	...	...	3.1	84	2.6	123
Mauritius	4.5	40	4.5	40	4.4	48	4.1	54	4.2	51	5.1	42	4.7	53
Morocco	...	...	3.7	52	3.3	70	3.2	77	3.2	78	3.2	79	3.5	72
Mozambique	...	...	...	...	2.7	86	2.8	90	2.8	97	2.8	99	2.8	111
Namibia	5.4	30	5.7	28	4.7	41	4.1	54	4.3	47	4.1	55	4.5	57
Niger	...	...	...	...	...	...	2.2	122	2.4	126	2.3	138	2.6	123
Nigeria	1	90	1.6	101	1.4	132	1.6	144	1.9	152	2.2	142	2.2	147
Rwanda	...	...	...	...	...	...	...	...	3.1	83	2.5	121	2.8	111
São Tomé and Principe	...	...	...	...	...	...	...	...	...	...	...	...	2.7	118
Senegal	2.9	65	3.1	66	3.2	76	3	85	3.2	78	3.3	70	3.6	71
Seychelles	...	...	...	...	...	...	4.4	48	4	55	3.6	63	4.5	57
Sierra Leone	...	...	...	...	2.2	113	2.3	114	2.4	126	2.2	142	2.1	150
Somalia	...	...	...	...	...	...	...	...	2.1	144	...	...	1.4	179
South Africa	4.8	38	4.8	36	4.4	48	4.6	44	4.5	46	4.6	51	5.1	43
Sudan	...	...	...	...	2.3	106	2.2	122	2.1	144	2	156	1.8	172
Swaziland	...	...	...	...	...	...	...	...	2.7	103	2.5	121	3.3	84
Tanzania	2.2	82	2.7	71	2.5	92	2.8	90	2.9	88	2.9	93	3.2	94
Togo	...	...	...	...	...	...	...	...	...	...	2.4	130	2.3	143
Tunisia	5.3	31	4.8	36	4.9	39	5	39	4.9	43	4.6	51	4.2	61
Uganda	1.9	88	2.1	93	2.2	113	2.6	102	2.5	117	2.7	105	2.8	111
Zambia	2.6	75	2.6	77	2.5	92	2.6	102	2.6	107	2.6	111	2.6	123
Zimbabwe	2.9	65	2.7	71	2.3	106	2.3	114	2.6	107	2.4	130	2.1	150

Note: The Corruption Perception Index (CPI) Score relates to perceptions of the degree of corruption as seen by business people and country analysts, and ranges between 10 (highly clean).
Source: Transparency International.

StatLink http://dx.doi.org/10.1787/324264521254

Table 22 - **Political Troubles**

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Algeria	121.4	124.2	126.6	141.6	120.3	142.5	64.8	14.5	61.4	23.4	0.6	31.5
Angola	…	…	…	…	…	…	…	…	54.6	2.9	2.0	0.0
Benin	…	…	…	…	…	…	…	…	2.7	0.0	1.0	0.0
Botswana	0.0	0.0	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	2.0	0.5
Cameroon	23.7	54.7	1.3	1.5	2.2	1.0	0.6	0.8	2.0	3.3	3.4	0.0
Cape Verde	…	…	…	…	…	…	…	…	…	…	…	0.0
Chad	4.4	5.6	2.2	20.2	26.7	16.7	10.5	16.1	3.8	11.2	38.5	16.1
Congo	…	…	…	…	…	…	…	…	2.0	1.9	1.0	0.5
Congo, Dem. Rep.	…	…	…	…	…	…	…	…	21.7	21.9	32.4	31.5
Côte d'Ivoire	16.4	3.8	3.4	21.7	28.1	2.9	13.7	18.8	25.2	20.6	18.9	10.6
Egypt	22.9	43.6	0.0	1.0	7.8	7.2	2.0	5.4	8.5	13.5	6.8	0.5
Equatorial Guinea	1.9	0.0	1.9	0.0	0.0	0.0	0.0	1.0	1.0	0.0	0.0	0.0
Ethiopia	48.5	12.2	1.6	24.8	5.7	8.4	42.6	15.2	25.9	13.2	6.7	13.3
Gabon	10.0	1.0	2.5	0.9	0.0	0.0	1.5	0.0	0.5	6.6	2.4	3.0
Ghana	4.9	0.0	0.3	4.5	1.9	3.8	3.8	1.1	1.9	0.0	0.0	0.0
Kenya	14.8	25.5	34.1	0.0	0.0	11.6	1.9	6.8	4.5	12.4	5.7	66.2
Liberia	…	…	…	…	…	…	…	…	…	…	…	8.6
Libya	…	…	…	…	…	…	…	…	…	…	…	0.0
Madagascar	…	…	…	…	…	…	…	…	6.7	8.8	4.8	7.1
Mali	3.4	13.7	1.2	8.8	0.0	0.0	0.0	0.6	0.6	2.5	1.9	6.9
Mauritius	0.0	0.0	0.0	5.2	0.0	0.0	0.0	0.0	1.9	1.0	0.0	0.0
Malawi	…	…	…	…	…	…	…	…	…	5.7	5.4	2.7
Morocco	12.2	1.6	2.2	0.5	0.5	0.0	0.0	0.0	3.5	2.0	0.0	5.2
Mozambique	37.7	0.0	0.0	2.7	6.8	0.0	0.0	4.5	3.8	1.0	0.0	1.9
Namibia	3.5	0.0	0.0	7.6	3.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Niger	…	…	…	…	…	…	…	…	5.5	3.5	1.2	16.8
Nigeria	30.2	51.3	10.2	47.1	29.2	39.7	19.4	10.4	31.6	4.0	21.5	27.1
Rwanda	…	…	…	…	…	…	…	…	0.0	0.0	0.5	0.0
Senegal	0.3	19.6	2.7	5.6	5.7	5.9	7.7	6.7	9.1	4.7	4.3	6.3
South Africa	85.0	40.8	20.3	38.8	18.9	2.2	3.3	1.2	11.3	3.1	9.4	19.3
Tanzania	4.7	1.9	0.9	0.0	0.0	6.0	0.0	0.5	0.3	5.3	0.0	1.9
Tunisia	0.0	0.0	0.5	2.5	0.5	0.0	2.9	2.3	0.0	2.9	0.0	0.0
Uganda	81.3	15.3	10.5	9.6	0.0	23.9	14.3	17.2	41.1	8.8	7.6	22.3
Zambia	4.8	4.6	4.9	3.6	0.6	17.6	1.1	5.7	2.0	2.0	2.7	7.8
Zimbabwe	9.6	9.7	11.3	5.4	16.8	12.6	16.5	8.8	3.4	4.5	4.1	25.8

Note: See note on methodology.
Source: Authors' calculations based on *Marchés Tropicaux et Méditerranéens.*

StatLink http://*dx.doi.org/10.1787/324268640831*

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Table 23 - **Softening of the Regime**

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Algeria	1.3	3.6	0.8	1.9	0.7	0.0	3.0	2.2	3.8	1.9	1.1	0.4
Angola	…	…	…	…	…	…	…	…	1.2	0.7	1.9	2.0
Benin	…	…	…	…	…	…	…	…	0.6	0.2	0.6	0.4
Botswana	0.0	0.0	0.0	0.4	0.0	0.0	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	0.0	0.2
Cameroon	0.7	2.0	0.8	0.0	0.1	0.8	0.0	0.7	2.4	1.0	0.6	0.3
Cape Verde	…	…	…	…	…	…	…	…	…	…	…	0.0
Chad	4.5	4.0	0.0	1.8	0.5	1.1	2.7	1.5	0.2	0.4	0.4	1.5
Congo	…	…	…	…	…	…	…	…	0.8	1.1	0.1	1.7
Congo, Dem. Rep.	…	…	…	…	…	…	…	…	0.4	1.7	1.6	0.7
Côte d'Ivoire	1.5	2.1	1.0	1.1	2.6	3.9	1.8	6.9	6.0	3.6	1.3	4.9
Egypt	0.1	0.0	0.0	1.4	1.9	0.2	0.6	2.6	2.5	0.6	2.0	0.1
Equatorial Guinea	0.0	2.6	0.0	0.8	0.7	0.5	1.8	1.5	0.4	0.0	1.7	0.1
Ethiopia	0.1	0.1	0.8	0.0	0.1	1.6	0.0	0.0	0.4	1.9	1.9	2.5
Gabon	0.0	0.5	0.5	0.0	0.1	0.0	1.1	0.4	0.8	0.8	0.7	1.2
Ghana	0.9	0.1	0.0	0.0	1.1	0.2	0.0	0.0	0.4	0.0	0.0	0.0
Kenya	0.9	0.7	0.6	0.0	0.0	1.1	0.0	2.7	0.7	0.0	0.2	1.3
Liberia	…	…	…	…	…	…	…	…	…	…	…	0.5
Libya	…	…	…	…	…	…	…	…	…	…	…	1.6
Madagascar	…	…	…	…	…	…	…	…	2.9	0.2	0.4	0.5
Mali	1.4	2.3	0.9	1.7	1.4	0.1	1.3	0.0	0.2	0.0	0.0	0.8
Mauritius	0.0	0.1	0.0	0.0	0.0	0.0	0.0	1.0	0.1	0.0	0.0	0.0
Malawi	…	…	…	…	…	…	…	…	…	0.0	1.5	0.3
Morocco	0.9	0.6	0.6	0.0	2.1	0.0	0.9	1.0	3.0	1.2	2.1	0.7
Mozambique	0.1	0.0	0.0	0.0	0.7	1.5	0.7	0.1	0.1	0.0	0.0	0.0
Namibia	0.0	0.4	0.0	0.0	0.0	1.1	0.0	0.5	0.0	0.2	0.0	0.0
Niger	…	…	…	…	…	…	…	…	0.0	1.2	1.4	0.1
Nigeria	1.1	1.8	6.6	3.4	0.3	0.0	0.9	0.6	1.2	0.3	0.6	0.5
Rwanda	…	…	…	…	…	…	…	…	0.6	1.5	0.1	1.1
Senegal	0.5	0.7	0.0	2.4	1.1	1.6	0.1	0.0	2.6	1.2	0.7	0.8
South Africa	3.1	2.3	0.8	2.0	0.9	2.2	0.9	0.5	0.6	0.8	0.2	0.6
Tanzania	0.2	0.1	0.1	1.6	0.0	1.6	0.7	0.0	0.5	0.0	0.0	0.1
Tunisia	1.4	0.7	0.1	2.8	0.7	1.8	3.0	0.7	0.0	1.1	0.4	0.0
Uganda	0.0	0.4	0.4	0.6	0.7	0.1	0.4	0.9	0.6	0.6	2.2	1.6
Zambia	1.4	0.0	1.7	0.7	0.0	1.2	1.3	1.6	0.5	0.2	0.5	0.8
Zimbabwe	0.1	0.1	0.0	0.2	1.2	0.6	1.5	2.5	0.5	0.1	0.7	0.4

Note: See note on methodology.
Source: Authors' calculations based on *Marchés Tropicaux et Méditerranéens.*

StatLink http://dx.doi.org/10.1787/324273853507

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Table 24 - **Hardening of the Regime**

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Algeria	11.9	6.5	4.3	2.5	0.3	8.1	15.0	4.5	8.9	0.0	1.8	1.0
Angola	…	…	…	…	…	…	…	…	5.7	0.3	1.3	2.0
Benin	…	…	…	…	…	…	…	…	0.5	0.3	1.7	0.0
Botswana	0.3	0.5	0.0	0.6	0.0	0.0	0.0	0.0	1.0	0.3	0.0	1.7
Burkina Faso	0.8	1.9	0.6	4.5	1.6	1.1	2.7	2.4	2.8	0.5	0.3	0.5
Cameroon	7.4	5.9	1.9	1.6	1.0	3.3	0.9	2.2	2.5	0.0	2.5	2.2
Cape Verde	…	…	…	…	…	…	…	…	…	…	…	0.0
Chad	2.9	1.0	1.4	0.0	1.1	2.6	1.7	6.6	0.9	6.9	17.0	6.6
Congo	…	…	…	…	…	…	…	…	1.4	1.0	0.5	2.6
Congo, Dem. Rep.	…	…	…	…	…	…	…	…	4.9	10.4	21.4	18.3
Côte d'Ivoire	2.9	2.5	0.7	10.2	7.8	1.4	3.2	7.2	9.6	7.2	14.7	0.8
Egypt	9.4	6.8	5.5	2.0	7.7	3.9	11.5	4.8	4.0	11.9	5.6	21.1
Equatorial Guinea	0.0	1.2	5.0	0.0	0.0	0.9	5.7	0.5	8.1	0.0	1.4	0.9
Ethiopia	7.5	3.9	2.4	0.0	0.7	3.6	8.4	1.2	1.3	12.4	4.1	4.3
Gabon	1.0	5.1	0.7	2.1	0.4	0.0	0.5	1.3	3.6	7.8	2.7	0.5
Ghana	2.2	0.8	2.5	2.4	0.0	0.8	1.3	0.0	0.4	0.0	0.0	0.0
Kenya	3.9	11.0	3.6	0.0	0.0	0.7	1.2	2.0	2.3	2.6	3.6	39.3
Liberia	…	…	…	…	…	…	…	…	…	…	…	0.3
Libya	…	…	…	…	…	…	…	…	…	…	…	0.5
Madagascar	…	…	…	…	…	…	…	…	2.8	1.1	1.7	6.0
Mali	0.4	5.1	0.0	0.4	1.2	1.1	0.3	1.0	0.3	0.0	0.8	4.9
Mauritius	0.3	0.0	0.0	0.4	0.0	0.0	0.0	2.2	0.4	0.6	0.0	0.0
Malawi	…	…	…	…	…	…	…	…	…	3.4	8.2	3.1
Morocco	5.0	3.7	1.4	1.2	3.4	2.9	2.5	3.7	5.6	1.9	0.8	5.2
Mozambique	0.3	0.9	2.3	1.1	3.7	1.2	0.0	0.4	1.6	0.0	0.0	0.0
Namibia	0.0	0.3	0.0	1.2	1.6	0.3	0.3	0.8	0.3	0.0	0.3	0.0
Niger	…	…	…	…	…	…	…	…	1.6	3.1	1.6	9.3
Nigeria	125.5	9.1	5.8	4.2	4.5	2.8	2.4	3.5	12.4	2.6	4.0	10.5
Rwanda	…	…	…	…	…	…	…	…	4.0	0.0	0.0	0.0
Senegal	1.7	3.3	2.7	0.3	0.0	1.7	1.1	1.4	0.9	2.6	2.8	2.6
South Africa	18.6	14.3	6.1	4.5	1.9	1.2	1.8	1.7	4.0	4.5	2.2	4.1
Tanzania	1.3	0.4	0.5	0.0	0.3	0.4	0.0	0.5	0.0	1.5	0.0	0.0
Tunisia	3.9	1.5	1.5	2.4	1.4	3.3	2.9	1.6	6.4	2.7	0.5	0.7
Uganda	3.1	0.0	0.7	0.9	0.0	5.8	1.3	3.8	12.3	2.9	6.5	9.7
Zambia	5.5	8.5	3.9	3.0	1.1	4.7	5.2	1.5	2.4	1.2	1.4	1.6
Zimbabwe	4.0	3.7	7.7	5.1	4.8	12.5	17.5	15.5	16.3	13.4	10.1	23.0

Note: See note on methodology.
Source: Authors' calculations based on *Marchés Tropicaux et Méditerranéens.*

StatLink http://*dx.doi.org/10.1787/324328618234*

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OECD PUBLICATIONS, 2, rue André-Pascal, 75775 PARIS CEDEX 16
PRINTED IN FRANCE
(41 2008 03 1 P) ISBN 978-92-64-04585-9 – No 56165 2008