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African Economic Outlook 2013

SPECIAL THEME:

Structural Transformation and Natural Resources

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African Economic Outlook 2013

Structural Transformation and Natural Resources

AFRICAN DEVELOPMENT BANK GROUP

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DEVELOPMENT CENTRE OF THE ORGANISATION
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Foreword

At the dawn of the new millennium the *African Economic Outlook* (AEO) was born out of the recognition that the continent needed a high-quality, independent tool for policy makers and analysts, investors, journalists, academics and students to monitor Africa's economic development on a continuing basis. Because Africa is made up of so many different, fast-changing countries, such a tool would need to embrace the short-term performance of individual economies in their regional context; and, because development is multi-faceted, it would need to bring together the macroeconomic, structural and social dimensions. Over the years the partnership broadened, with the Economic Commission for Africa (ECA) and the United Nations Development Programme (UNDP) joining founding partners the African Development Bank (AfDB) and the OECD Development Centre, supported by the European Commission and the African, Caribbean and Pacific (ACP) states secretariat, as full AEO partners. Coverage has expanded from 22 countries to 53, with only Somalia yet to be included.

Today the AEO is the only annual report that monitors in detail the economic performance of 53 individual countries on the continent, using a strictly comparable analytical framework. This is made possible by the combination of the expertise, know-how and networks of the four AEO partner institutions: country notes are generated by AfDB researchers, country economists and statisticians in collaboration with experts from the OECD Development Centre, UNDP and ECA. They collect data and information from national statistics offices, ministries, investors, civil society actors and foreign partners to produce a comprehensive analysis of recent developments and undertake original two-year macroeconomic projections.

This report, the twelfth edition of the AEO, features in Part one an overview of Africa´s performance and prospects and in Part two an in-depth analysis of a special theme of particular importance for the continent: Structural Transformation and Natural Resources. Part three comprises two-page summaries of the 53 country notes. The report also includes a rich statistical annex. It is available in English, French and, in an abridged version, Portuguese.

The complete AEO, including full country notes, can be accessed free of charge on the common website of the AEO partners: www.africaneconomicoutlook.org/ as well as on the OECD iLibrary: http://dx.doi.org/10.1787/aeo-2013-en. This 2013 edition features two major innovations: the website can now be accessed easily from smartphones and tablet computers; and six regional volumes with full country notes are available from the website for Central, East, North, Southern and West Africa (in English and French), and for African Portuguese-speaking countries (in Portuguese).

Editorial

This twelfth edition of the *African Economic Outlook* report coincides with the 50th anniversary of the Organisation of African Unity, now the African Union. By drawing the big picture of the continent's economic performance, while capturing the diversity of its achievements and identifying challenges at national level, our report provides a timely analysis of the recent economic developments underpinning Africa's progress towards freedom, unity and better lives for Africans.

We find that over the last decade greater stability, sound macroeconomic policies, improved terms of trade and blossoming partnerships with emerging economies have widened the economic policy space of African policy makers: African nations are freer than ever to choose their own development paths. Indeed, the continent's economic outlook for 2013 and 2014 is promising, confirming its healthy resilience to internal and external shocks and its role as a growth pole in an ailing global economy. Africa´s economy is projected to grow by 4.8% in 2013 and accelerate further to 5.3% in 2014. The main sources of dynamism are expected to be the expansion of agricultural production, robust growth in services and a rise in oil production and mining. This relatively broad-based pattern of growth will be underpinned by the continued increase of external financial flows and a resurgence in domestic demand driven by consumption and investment.

Progress towards economic integration has, unfortunately, been slow. The vision for integration is clear and ambitious regional initiatives chart the right path: but the pace of implementation has been far too slow to unlock the continent's enormous potential and turn its recent episode of high growth into economic take-off. To compete successfully in the global economy, Africa still needs more bridges and roads, swifter trade procedures, higher levels of cross-border trade and investment and, last but not least, better institutions and bureaucracies skilled in public policy co-ordination.

Finally, while the steady economic progress of African economies has improved the lives of many, this edition of the *African Economic Outlook* argues that it is not enough: now is the time to step up the tempo. More equitable human development requires that African countries accelerate their economic transformation, so they can become more competitive and create more gainful jobs. Africa's natural wealth, including agriculture, can be the basis for such transformation, but only if the right policies are put in place. African countries need to invest consistently in human and physical capacity, manage revenues wisely, strengthen macroeconomic management, encourage intersector linkages, limit rent-seeking risks and boost trade.

We commend this report, which is based on our institutions' complementary expertise and networks. It is our wish that it will be useful in supporting policy and decisions among African governments and other stakeholders.

Donald Kaberuka
President, African Development Bank Group, Tunis

Angel Gurría
Secretary-General, Organisation for Economic Co-operation and Development, Paris

Helen Clark
Administrator, United Nations Development Programme, New York

Carlos Lopes
UN Under-Secretary-General and Executive Secretary of the Economic Commission for Africa, Addis Ababa

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The AEO team remembers fondly their UNDP colleague Sebastian Levine (1969-2013), who contributed to the 2012 and 2013 editions of the Outlook.

This book has...

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Executive summary

Macroeconomic prospects

Africa's GDP grew at 6.6% in 2012 from 3.5% in 2011. This acceleration was partly due to considerable rebound in Libya's GDP which in 2012 grew by 96%, after a sharp contraction of 60% in 2011 following the revolution. Netting out the Libyan effect, growth in Africa's real GDP was recorded at 4.2%. Thus, Libya's economic recovery added more than 2 percentage points to Africa's growth in 2012.

The medium-term economic outlook for Africa remains favourable despite some country specific challenges and headwinds from the global economy, in particular Europe's debt crisis and fiscal uncertainty in the United States. The projection assumes a gradual improvement in global economic conditions, consolidated domestic macroeconomic stability coupled with reign of peace in countries still plagued by political instability. Under these conditions, Africa's economy is projected to grow by 4.8% in 2013 and accelerate to 5.3 % in 2014. The main engines of growth are expected to be expansion in agricultural production, robust growth in services and, a rise in oil production and increased mining activity mainly in resource-rich countries. This relatively broad-based pattern of economic growth will be underpinned by resurgence in supply and domestic demand conditions, the latter driven by an increase in consumption and investment.

Furthermore, assuming that the risks in parts of the region are contained, West Africa is expected to continue to lead Africa's growth rally. Central Africa and East Africa are also expected to achieve robust growth. In Southern Africa growth will remain blighted by slow recovery in South Africa, the region's largest economy. In North Africa, the slow pace of transition to democracy is likely to continue to affect the economies of the region, despite strong recovery in Libya's oil production.

In 2012, Africa's monetary authorities had to contend with inflationary pressures stemming from higher food and fuel prices and, in some East African countries, rapid credit expansion and depreciation of exchange rates. Accordingly, average inflation in Africa increased to 9.1% from 8.5% the previous year, with Sudan's inflation topping at 36%. Therefore, in view of inflationary risks, the authorities in several countries pursued a delicate trade-off between supporting economic growth and controlling domestic inflation. In some countries, fiscal policy was used to boost demand, thus mitigating the adverse impact from the global economy. However, countries with limited fiscal space, continued with fiscal consolidation strategies to ensure debt sustainability. For 2013 and 2014, we expect some easing of inflationary pressures, largely due to relatively stable oil and food prices.

The main short-term challenge for the continent is to consolidate stable macroeconomic conditions in the face of a more volatile economic environment. In addition, institutions and regulations for private sector activity must be further improved. Addressing infrastructure bottlenecks, increasing access to key public services such as education, health and security would put countries on a durable high growth path while simultaneously paying heed to concerns of high poverty and widening income inequality.

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External financial flows

External financial flows to Africa have quadrupled since 2001 and reached a record high in 2012. After a decline in 2011, both foreign direct and portfolio investment recovered in 2012. In 2012, external financial flows represented an average of 18% of GDP for low-income countries (LICs), 11% of GDP in lower middle-income countries (LMICs) and 4% in upper middle-income countries (UMICs). Equally, remittances from Africa's migrants have been on the rise and have continued to be an important source of livelihood for many during adverse shocks and a lifeline particularly for the poor.

In contrast, half of African countries still rely on aid as the largest external source of financing their development needs. Official Development Assistance remains an important financing for the LICs (64% of the total external inflows) while LMICs rely more on remittances (55% of total financial inflows) and UMICs largely depend on portfolio inflows and foreign direct investment (FDI; 47% and 29%, respectively). While portfolio investment provides an opportunity to strengthen financial infrastructure and liquidity, it also poses a risk of sudden reversal of capital flows such as that witnessed in South Africa during the global financial crisis.

In 2013, FDI to Africa is projected to remain buoyant, increasing by over 10% in 2013, close to the levels recorded in 2008. The southern African region is expected to be the main recipient of FDI flows, with new resource-seeking investment expected in Angola, Mozambique and South Africa.

Trade policies and regional integration

The share of Africa's exports to its emerging trading partners continues to progressively increase, notably to China, but also India, Brazil and others. Yet, for the time being Europe and the United States continue to be Africa's main trading partners. Africa is also seeking to strengthen regional integration and recognises the need to speed up its implementation process. This should allow tackling specific challenges linked to the small size of many African economies. These include stiff competition in international markets and impaired bargaining power in international trade negotiations.

Africa's fragmentation, characterised by many small economies also poses another challenge. This has been worsened by poor institutional arrangements and insufficient co-ordination at national and sub-regional levels, which collectively undermine the role of regional integration communities in fostering trade and economic growth. Nonetheless, the initiative of the Tripartite Free Trade Area adopted by Heads of State and Government of COMESA, EAC and SADC can serve as a useful model for a new approach to regional integration.

Human development

Many countries in Africa have recorded improvements in human development as measured by the Human Development Index. However, progress has been slow. Income inequality is widening and education and health indicators are deteriorating in some parts of the continent. As a result and, in addition to resurging cycles of conflict and a restricted access to finance and other services, many people have remained trapped in poverty, depriving them the benefits implied by higher economic growth. Thus, African countries are faced with a "development challenge" – one of transforming renewable and non-renewable natural capital into national wealth – infrastructure, shared income and human capital.

Human development, in combination with access to infrastructure, finance and, information, communication and technology, is an important enabler of structural transformation in Africa. Specifically, human capability drives structural transformation by influencing both the rate of innovation and uptake of new technologies. Thus, more attention should be directed at improving the quality of education and health care systems and fostering job creation in order to narrow income inequalities.

Political and economic governance

Over the past few years, a number of countries have made notable progress with regard to improving the regulatory framework, business environment and strengthening democratic institutions. Multiparty elections are firmly taking root across Africa. However, progress continues to be slow with some countries still experiencing an erosion of democratic gains and a return to cycles of violence and political instability. For instance, recent political events in Central African Republic, Mali and Guinea-Bissau are reminders of the fragility of budding democracies.

The increased incidences of terrorist activities and organised crime have emerged as major threats to security in parts of Africa. Combined with lingering cross-border conflicts, these threats form pockets of instability in remote areas devoid of government control and oversight. In North Africa, popular protests continued in 2012 as citizens primarily pressed for further and deeper political reforms. In other parts of Africa, the protests were mainly associated with increasing cost of living and a call for better employment and social conditions. Building strong institutions including enabling citizens to engage with government and provide feedback on the quality of services and policies would also contribute to more effective use of natural resources for more equitable and sustainable development.

Regarding economic governance, progress has been made on a number of fronts, notably in improving business regulatory practices and removing bottlenecks for registration of new businesses. Rwanda continued to be the leading reformer in Africa. 17 other African, mainly low-income, countries have exhibited marked improvements in narrowing the divergence with Africa's good performers. Despite these achievements, African countries continue to be in the lower ranks relative to other regions. For instance, in a few countries, the business environment deteriorated as measures implemented added to the complexity and cost of doing business. .

Special theme: Structural transformation and natural resources in Africa

African economies today face the formidable challenge of creating gainful employment opportunities for millions of people not just by sustaining the pace of growth, but also by making it more inclusive. Structural transformation is fundamental to meeting this challenge and Africa's abundant natural resource wealth can provide the base.

Structural transformation entails the rise of new, more productive activities and the movement of resources and labour from traditional activities to these newer ones, raising overall productivity. Without the first, there is little that propels the economy forward. Without the second, productivity gains are not diffused to the rest of the economy. Reversing the previous trend of the 1990s, structural transformation in Africa has been positive over the last 10 years: overall productivity rose and labour moved to more productive activities. However, productivity growth was too slow and has not created enough jobs to lower poverty. In other words, Africa's inclusive growth deficit remains wide and faster structural transformation is fundamental to narrow this divergence.

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Given Africa's comparatively low skill-to-labour ratio, it needs mainly low-skilled jobs to make this happen. Manufacturing rather than services provides the basis for low-skilled jobs. However, in many countries the conditions are not yet in place. To get there, Africa must work on its strengths. The continent has a strong comparative advantage in natural resources, either in the form of energy, minerals or agriculture. These can be the drivers of structural transformation through linkages, employment, revenue and foreign investment, provided adequate business environment and supporting policies are in place. There is no inherent trade-off between commodity-based and labour-intensive industries: countries with diversified natural-resource sectors also exhibit more diversified manufacturing.

Unfortunately, this has not been recognised in the past attempts at accelerating industrialisation in Africa. Too often, the importance of learning processes for building productive capabilities had been ignored. Although natural resources have contributed no less than a third to Africa's growth during the last decade, much potential remains untapped. Large-scale agricultural transformation has yet to happen and much of the continent's natural wealth is still unexplored. But this is changing for the better: as exploration and production expand, Africa stands to gain more from its resources.

Getting it right requires the right policies. To this end the AEO 2013 develops a four-layer approach to harnessing natural resources for structural transformation.

1. Putting in place the right conditions for structural transformation is layer one. This includes basics such as infrastructure and education for strengthening skills, but also sufficiently large and competitive markets. Broad-based tax systems and accountable institutions that share power and keep rent-seeking at bay are equally essential.

2. Meeting the specific requirements of the primary sectors to fuel transformation constitutes layer two. All resource types need good land management to thrive. Resource-specific skills and research are fundamental to natural resource-based structural transformation. In addition, agriculture needs transport opportunities, fertilisers and more resistant plant varieties. Extractive resources need the right incentives for exploration and often specific infrastructure, especially energy.

3. The third layer is concerned with optimising the revenue from natural resources and investing it wisely. State ownership has not generally proven superior to private ownership for the optimisation of revenues from natural resources. Taxing rents through negotiation and legislation seems more effective, but many African states require support to do it well. Investment of resource revenues should tackle the bottlenecks to structural transformation in general and those specific to the development of the natural resource sectors (the first two layers). This requires strong investment management capacity and a stable expenditure framework, supported by transparency and citizen oversight. However, this is easier said than done: in the past many countries failed to manage their resource revenues well. Their lessons must be heeded. Natural resource exploitation also comes with environmental challenges that need strong management and foresight.

4. Finally, layer four is about promoting structural transformation with active policies, focusing on increasing agricultural productivity and building linkages to and from the extractive industries. Agricultural transformation has been the key to many economic success stories in Asia, Latin America and Europe. Africa can do a lot to start its own green revolution and push ahead the commercialisation of agriculture. Extractive industries, especially mining, provide many more opportunities than commonly thought. Linkages through the supply chain (backward linkages) hold potential for employment creation and for building new capabilities that can be the basis for new activities in a variety of sectors.

The policy toolkit for governments includes co-ordination of investments in training, infrastructure, logistics and research, policies geared at attracting FDI and local content regulations. International lead firms have an important role to play too, especially by adapting their procurement to sourcing locally, and supporting local suppliers to develop the necessary capacity.

Africa's natural wealth holds great potential for accelerating structural transformation and making growth more inclusive. The challenge for African countries is to adapt the layers presented here to their own context and focus on the sectors that hold promise for low-skilled jobs to open up opportunities for sustainable job and wealth creation.

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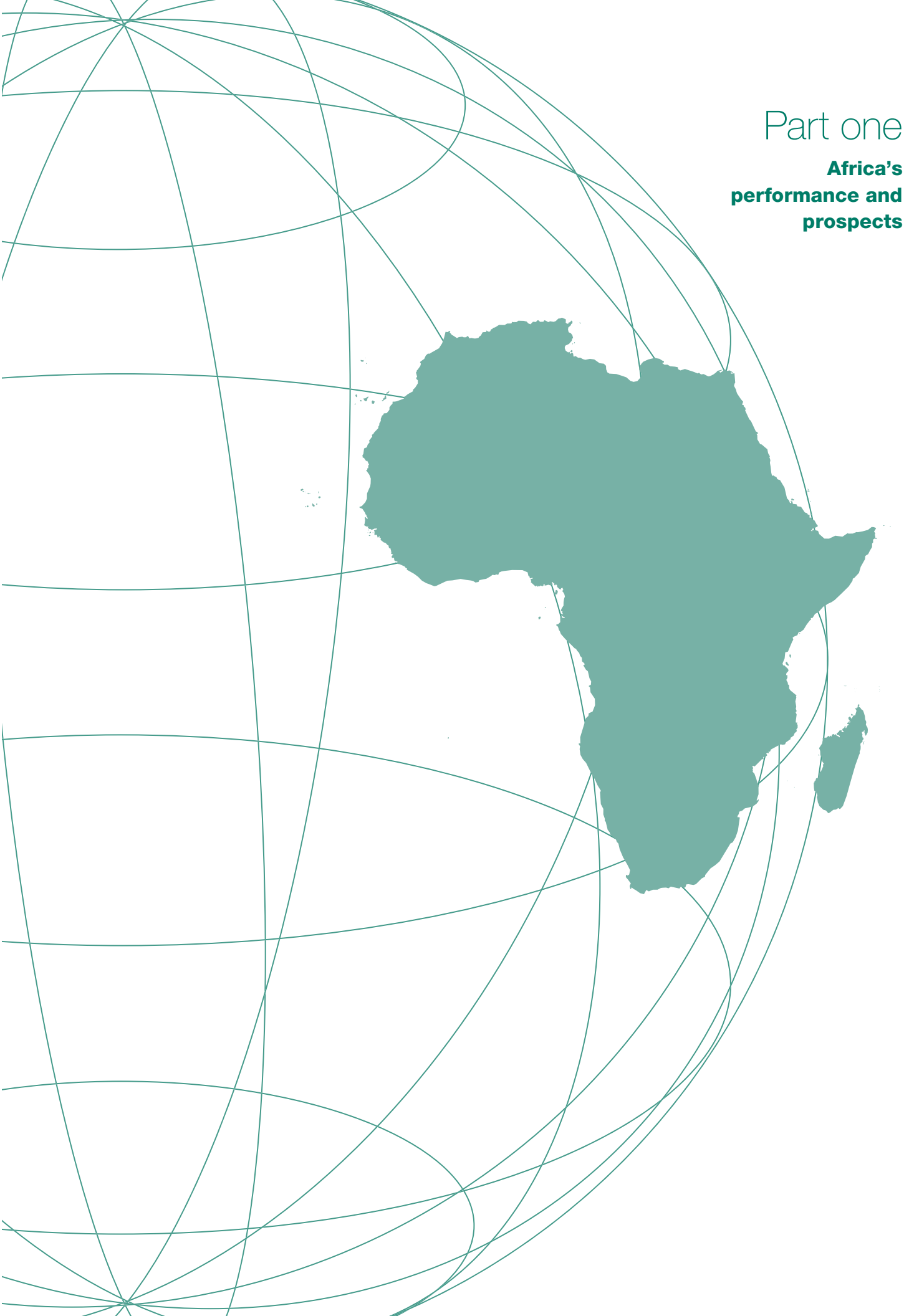

Part one

Africa's performance and prospects

Chapter 1

Macroeconomic prospects for Africa

The chapter examines the recent macroeconomic developments in Africa and provides a forecast for 2013 and 2014. This is based on detailed country analysis and projections as described in Part Three of this report. The chapter looks at the demand and supply conditions which are affecting Africa's growth. It also describes the development of commodity prices and inflationary pressures in African countries and discusses how monetary and fiscal policies have responded to the various challenges.

The economic outlook for Africa remains favourable despite headwinds from the global economy. Growth has remained relatively broad-based, with oil production, mining, agriculture, services and domestic demand as the main drivers, mitigating the adverse effects from global turbulences. But growth has remained subdued in several countries due to poor export performances and political and social tensions. On average, and excluding the distortions by volatile gross domestic product (GDP) developments in Libya, Africa's economic growth was 4.2% in 2012 and is projected to accelerate to 4.5% in 2013 and further to 5.2% in 2014. This forecast assumes a gradual improvement of global economic conditions.

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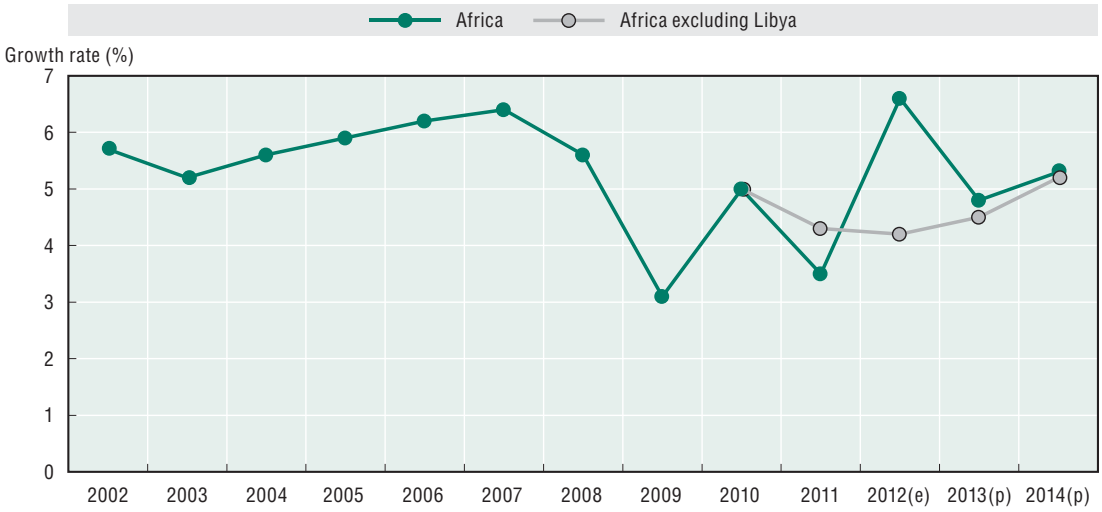
Africa's economy continues to show a high degree of resilience against global economic turbulences. However, the growth momentum has eased in countries with strong links to global markets and also in those where political and social tensions have increased. With a gradual recovery of the global economy, the continent's average growth of gross domestic product (GDP) is likely to amount to 4.8% in 2013 and 5.3% in 2014. In 2012 Africa's growth was higher at 6.6%. But this was due to the rebound of oil production in Libya. Excluding Libya, Africa's growth was 4.2% in 2012 and is projected to accelerate to 4.5% and 5.2% in 2013 and 2014 respectively (Figure 1.1).

Resource-rich countries continue to benefit from relatively high commodity prices although easing of global demand has reduced price levels. Good harvests have boosted agricultural production in many countries and also helped to mitigate adverse effects of high international food prices on consumers. Africa's oil exports increased significantly as Libya resumed production.

The outlook is subject to risks due to the fragile international environment and country-specific problems. Two years after the Arab revolutions, political and social tensions continue in Egypt, Libya and Tunisia. While output is gradually recovering in Egypt and Tunisia, and in Libya oil production is close to pre-revolution level, unemployment remains high in the region and political transition is slow and contentious. Some countries in northern and western Africa have also been adversely affected by the political and military conflict in Mali. In South Africa, growth was dampened by the global slowdown and labour unrest.

Figure 1.1. **Africa´s economic growth**



Note: e: estimates; p: projections.
Source: Authors' calculations.

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The weakness of the international environment also constrained African economies although short-term prospects appear favourable. The assessment of the economic situation by African participants in an international poll has deteriorated during 2011 and 2012. However, in the first quarter of 2013, for the first time since the end of 2010, both the assessment of the current situation and the prospects for the next six months have improved (Figure 1.2).

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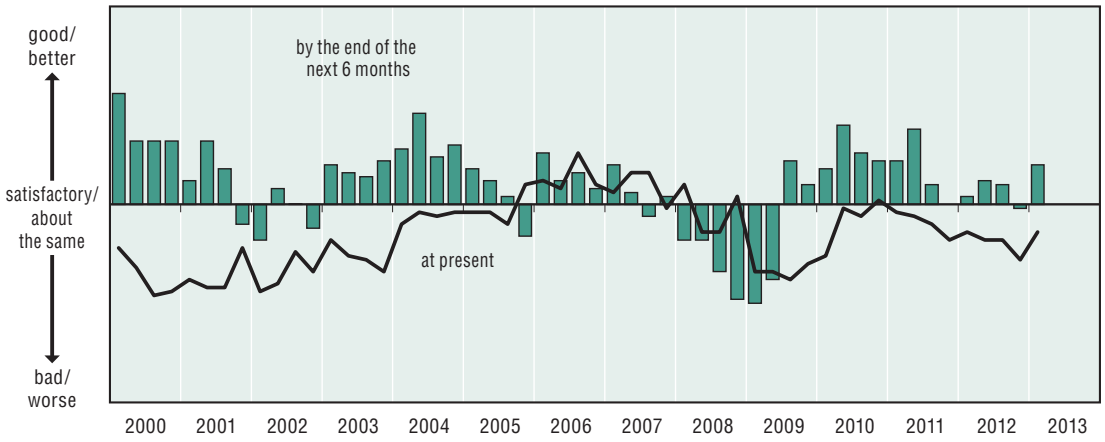
Figure 1.2. **Africa´s current economic situation and prospects for the next six months**



Sources: Ifo Institute for Economic Research and authors' calculations.
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A main reason for the deterioration of economic conditions during 2011 and 2012 was that export markets of African countries have weakened in advanced countries and – to a lesser extent – also in emerging countries (Box 1.1). While Africa's trade with emerging countries has gained in importance with increased share in total Africa's exports, advanced countries continue to be the most important export markets. In 2011, one-third of Africa's merchandise exports went to the European Union (down from 37% in 2006) and more than 11% to the United States against 16% in 2006, while exports to China increased to around 10% of total exports from around 6% in 2006 and exports to India rose to 6% in 2011 from around 4.5% in 2006. The exposure to developments in the various regions of the world is, however, quite different across the continent.

North African countries – like several other countries, which depend on European markets and have relatively high shares of total exports in GDP – are particularly exposed to the weakness of the European economy. In 2011, exporters in Tunisia, Libya, Botswana, Cape Verde and the Seychelles shipped around 70% or more of total exports to the European Union. In Algeria, Morocco, Cameroon, Ghana, Mauritius, Mozambique and Sierra Leone, export shares to Europe amounted to between 50% and 60%. In many other African countries, Europe remains the most important export destination despite its declining share. South Africa, whose major trading partner is the European Union, was affected by the crisis in the euro area. The volume of merchandise exports to the euro area declined sharply in the first half of 2012. While this trade had provided a positive contribution of 0.2 percentage points to GDP growth in the first half of 2011, its growth contribution in the corresponding period in 2012 was -0.6 percentage points; this contraction explains a good part of South Africa's poor growth performance during this period (OECD, 2012).

In several other countries, however, China has become the most important export market, notably in the Democratic Republic of the Congo (DRC), Congo Rep., Sudan, Angola, Mauritania and Zambia, while the United States is the most important export destination for Chad and Lesotho. In Guinea-Bissau, the bulk of exports (90%) go to India.

The detailed macroeconomic forecast for Africa and its regional groupings is presented in tables 1.4a and 1.4b at the end of this chapter.

Box 1.1. **Global economic conditions will improve only slowly**[1]

The recovery of the world economy in 2010 from the deep recession of 2009 was followed by more moderate growth in both 2011 and 2012. The main reasons for the ongoing weakness of the world economy were the deepening crisis in the euro area, sluggish growth in other main advanced economies, notably the United States and Japan, and more subdued growth in emerging countries such as China, India and Brazil. The permanent quantitative easing measures in the United States, Europe and Japan demonstrate how difficult it is to regain sustained growth after the financial crisis. But the risk that the global economy could fall into another recession has become smaller. Indeed leading economic indicators point to some improvement. However, there is growing concern that excessive liquidity created by stimulus measures in advanced countries could lead to new bubbles in asset markets and a fall of exchange rates below their market-based levels. This could in turn trigger competitive devaluations and new trade protectionism. The assumption of this *African Economic Outlook* is that such risks can be avoided and the global growth and world trade will accelerate gradually during the course of 2013/14. Our forecast for Africa assumes that world output growth will remain modest in 2013 at around 3.5% (after 2.9% in 2012) and accelerate to above 4% in 2014. World trade volume growth is projected to recover gradually from around 3% in 2012 to 4%-5% in 2013 and 6%-7% in 2014. However, these projections are lower than pre-crisis levels. From 2004 to 2007 annual growth of world output and world trade had been around 5% and around 9% respectively. The gradual recovery of world trade should benefit Africa's exporters.

The **euro area** fell into recession in 2012 with GDP declining by 0.4%. The preceding two-year recovery period was short-lived and tepid (with GDP rising by 1.9% in 2010 and 1.5% in 2011 after the decline by 4.3% in 2009). GDP is expected to stagnate in 2013 or decline slightly and positive growth of 1%-1.5% is only expected in 2014. Only then, six years after the downturn has started, will GDP have regained its 2008 level. The euro area continues to struggle with weak confidence due to the ongoing sovereign debt and banking crisis in several countries. This and the fiscal restraint are reducing domestic demand while weak global trade depresses export demand. The weak aggregate demand makes the task of reducing fiscal deficits more difficult. High-debt economies are also trying to regain growth by restoring competitiveness through lower wages (*i.e.* internal devaluation). While this should help growth in the longer term it reduces domestic demand in the short term. Within the euro area Greece suffers the deepest and longest recession. By the end of 2013 its GDP will be more than 25% below the level in 2007. The crisis in Greece has also affected the banking system in Cyprus, pushing the country to the brink of bankruptcy. Among the countries which have been most seriously hit by the debt crisis, Italy, Spain and Portugal were also in recession in 2012. The recession in these countries is likely to continue in 2013. However, in Ireland, which was also in crisis, the emergence from recession was faster and is now achieving moderate growth. In Germany, GDP increased in 2012 by close to 1% while in France and in the United Kingdom GDP stagnated or declined marginally. The period of low growth is projected to continue in these countries in the first half of 2013 with some acceleration in the second half of 2013 and in 2014.

The **US economy** has gradually recovered in 2012 driven mainly by private consumption and the turnaround in the housing market. Growth was, however, restrained by various temporary factors such as losses in agricultural production due to the drought and disruptions caused by Hurricane Sandy. The poor export performance and, towards the end of 2012, the risk of a large fiscal squeeze (the so-called fiscal cliff) dampened business confidence. While the largest part of the fiscal cliff has been averted by a compromise between the Democrats and the Republicans, the remaining fiscal drag remains substantial, as temporary stimulus measures expired at the beginning of March 2013. Further compromises between the political parties are needed to put fiscal policy on a sustained medium-term consolidation path without unduly restraining aggregate demand in the short term. It is expected that the recovery will remain

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sluggish with GDP growing by around 2%-2.5% in 2013 and 2.5%-2.75% in 2014. The Federal Reserve continues to boost the economy by keeping its policy interest rate at 0%-0.25% and to increase liquidity by buying bonds. The Fed stated that it would continue these policies until the labour market improves substantially.

In **Japan**, aggregate demand was boosted in the first half of 2012 by reconstruction spending in response to the great earthquake and tsunami in March 2011. However, after reconstruction spending waned and world trade weakened the recovery stalled. Growth of GDP is projected to decline to around 1% in both 2013 and 2014 from about 2% in 2012. The Bank of Japan is expected to continue with expansionary policy to boost economic growth.

In **China**, growth has slowed down in 2012 to below 8%, from 9.3% in 2011 and 10.4% in 2010. The deceleration was mainly due to a weakening of exports and of domestic demand as the government took measures to cool inflationary pressures. Nonetheless, at current growth rates, China's economy remains robust, parrying off earlier fears of a hard landing of the Chinese economy. While international forecasters are expecting for 2013 growth of 8%-8.5%, China's government in March 2013 set a lower growth target at 7.5%, unchanged from 2012. In future, the demand pattern is expected to gradually shift towards consumption and services rather than commodity-intensive production. This could reduce global demand for commodities, thereby adversely affecting African commodity exporters. Similarly, with rising domestic wage pressures, Chinese firms could look for more investment in manufacturing sectors abroad. This could also help African countries to diversify their economies.

India's growth declined in 2012 to around 5% from 6.9% in 2011 and 9.6% in 2010. The decline was attributed to a combination of weakening of world trade and domestic uncertainties. Weaker domestic demand and the depreciation of the exchange rate reduced imports and lowered the current account deficit. However, high inflation and the widening of the fiscal deficit limit the room for expansionary monetary and fiscal policies. It is expected that higher agricultural production together with positive effects of recent structural policies and improved external conditions could lead to higher growth of about 6.5% to 7% in 2013/14.

Latin America's growth slowed in 2012 to around 3%, after 4.3% in 2011 and 6% in 2010. The slowdown was caused by weaker export markets, including in China, and by country specific factors. The average rate of growth in Latin America is expected to gradually recover to 3.5% in 2013 and 4% in 2014 as world trade recovers and domestic weaknesses subside. In Brazil, the region's largest economy, growth contracted further in 2012 to around 1%, down from 2.7% in 2011 and 7.5% in 2010. The economy continued to suffer from domestic policy uncertainties, weak global conditions and a loss of competitiveness as capital inflows had led to an overvalued exchange rate. It is expected that strong monetary and fiscal stimulus coupled with supply-side reforms will gradually lift growth to 3.5% to 4% in 2013 and 2014.

A closer look at Africa's growth performance

With projected growth of 4.8% in 2013 and 5.3% in 2014, Africa's growth performance would continue to remain below average growth of around 6% in the three years preceding the 2009 global recession. However, this projected growth is slightly higher than the estimated current underlying trend growth of 4.5% (Box 1.2) but still lower than the 7% growth rate, which is widely regarded as sufficient to reduce poverty. With annual population growth of more than 2%, reducing poverty would require sustainable per capita growth of almost 5%. The average growth of per capita income is projected for 2013/14 to be less than 3%. However, the relationship between economic growth and poverty is complex and the quality of growth and income distribution is equally important. Furthermore, looking at growth

of GDP or GDP per capita also neglects terms of trade effects. When a country reaps terms of trade gains, *i.e.* if export prices rise faster than import prices, real disposable income is higher than measured by GDP. By contrast, when a country suffers terms-of-trade losses as its import prices rise faster than its export prices, real disposable income is lower than measured by GDP. Over the past ten years, Africa has on average achieved terms-of-trade gains mainly due to higher commodity prices. But some countries suffered significant terms of trade losses. If terms of trade effects are included, Africa's oil-exporting countries achieved above 7% growth on average over the past ten years, which – in theory – should have been sufficient to significantly reduce poverty (Box 1.3). However, despite some improvements in living conditions in some of these countries, poverty has often remained high: the benefits of high growth have not trickled down to the whole population. In other words, growth has not been inclusive. Africa's major challenge is not only to raise trend growth across the continent but also making growth more inclusive.

Box 1.2. **Africa's underlying trend growth**

Since the "lost" 1980s and early 1990s Africa's economic performance has improved significantly and the continent has started to catch–up. From 1996 to 2010, Africa's average annual GDP growth amounted to about to 5% and per capita GDP increased year by year by an average of 2.5%. As a result, in 2010 Africa's level of per capita income surpassed its 1995 level by 46%. The catching-up of African economies has been widespread with the exception of a few countries. But adverse external shocks, such as the recent global recession in 2009, and political events such as the "Arab Spring" in 2011, adversely affected the continent's average growth. In order to better assess Africa's underlying growth performance it is therefore necessary to calculate trend growth by eliminating short-term effects from annual growth. Using the Hodrick-Prescott filter approach, Leibfritz and Flaig (2013) find that from 1980 to the early 1990s Africa's trend growth rate was only 2.5%. From 1993 to 2006 there was a steady increase in the trend growth rate to about 5.25% and since then a slight decrease, triggered especially by relatively low growth rates in 2009 and 2011. The estimated value for Africa's trend growth rate in 2012 is about 4.5%. This rate of trend growth has been calculated by using a smoothing parameter λ of 30. Africa's actual GDP growth – excluding the Libya effect – of 4.2% in 2012 was therefore slightly lower than the underlying trend growth, while our projection in 2013 equals trend growth and the 2014 projection of above 5% exceeds trend growth.

According to these estimates, trend growth in **South Africa**, the largest economy in Africa, was slightly higher than 1% until the end of the Apartheid in 1993. The authors suggest that the end of apartheid had an immediate positive growth effect of about 1 percentage point, increasing trend growth from about 1% in 1993 to about 2% in 1994. Trend growth increased to 4% in 2005 but declined thereafter to slightly below 3% in 2012. In 2012 actual GDP growth was lower than trend growth but it is expected to be higher in 2014 implying a cyclical recovery. In **Egypt**, the second largest economy in Africa, trend growth in 2012 has been estimated at about 4%, down from about 5% in 2002. The revolution in 2011 and ongoing political uncertainty have reduced growth to around 2% in 2011 and 2012 and (as projected) in 2013, which is only half of the underlying growth path. But these recent political events make it very difficult to determine trend growth with some confidence. In **Nigeria**, the third largest economy, the current growth trend has been estimated at close to 7%, down from about 9% in the early 2000s. The projected growth in 2013 and 2014 is close to this trend.

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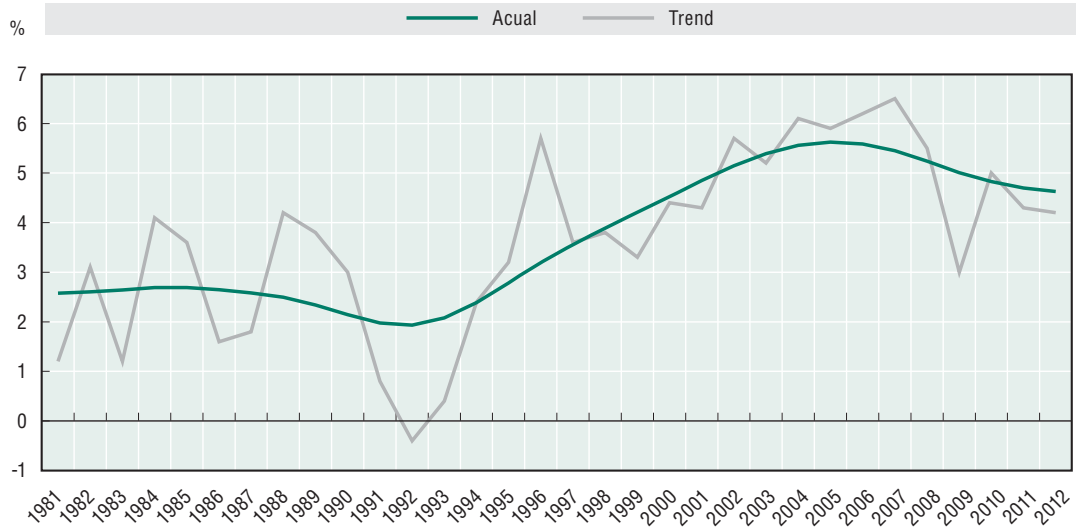
Figure 1.3. **Africa´s trend growth in %**



Note: 2011 and 2012 excluding Libya.
Source: Leibfritz and Flaig (2013).
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Box 1.3. **Terms-of-trade effects**

Over the period 2002 to 2011 Africa's annual average real GDP growth amounted to 5.3%. Compared with the 1990s, Africa's growth has doubled, which has led to a much more optimistic assessment of the continent's economic development. Looking at growth of real GDP does not, however, tell the whole story, in particular when terms of trade, *i.e.* export prices relative to import prices, change significantly, as has been the case in many African countries. While real GDP measures the output of goods and services produced by a country, the terms-of-trade-adjusted GDP, also called "command GDP", measures the purchasing power of this output, *i.e.* the income over which a country can dispose or command. In the 2000s, many African countries benefited not only from higher GDP growth but also from terms of trade gains due to rising commodity prices, which pushed growth of command GDP above GDP growth. In contrast, some oil and food importing countries suffered terms-of-trade losses as oil and food prices increased import prices more than export prices so that growth of command GDP was lower than growth of GDP.

Figures 1.4, 1.5 and 1.6 and Table 1.1 show growth of real GDP and of the terms-of-trade-adjusted GDP for Africa as a whole, for oil-exporting and oil-importing countries. In most years Africa achieved on average terms-of-trade gains so that growth of command GDP was higher than GDP growth. From 2002 to 2011 the terms-of-trade effect amounted on average to 0.9 percentage point raising growth of command GDP to 6.2% as compared with GDP growth of 5.3%.

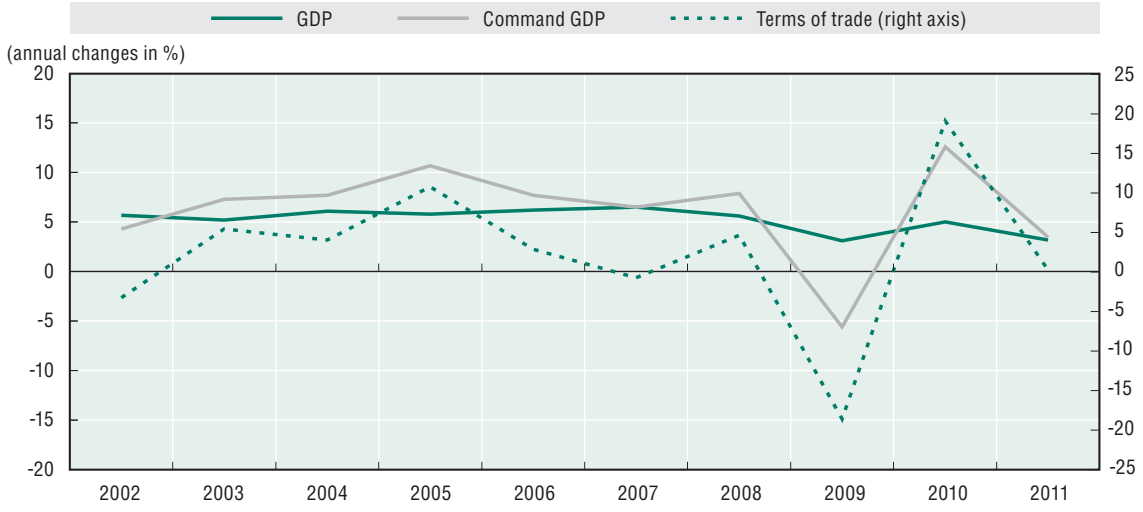
But terms-of-trade effects were rather volatile. In 2009 when prices of oil and non-oil commodities plummeted due to the global recession Africa suffered heavy terms of trade losses. As a result, command GDP declined by more than 5% while GDP still recorded positive growth of around 3%. When the global economy recovered in 2010 and commodity prices picked up again, Africa recorded large terms-of-trade gains and command GDP increased by more than 12%, more than double the rate of GDP growth of 5%. In 2011, terms of trade gains were small so that growth rates of GDP and command GDP were very close (3.2 and 3.4% respectively).

Both oil-exporting and oil-importing countries benefited on average from terms-of-trade gains in 2002-11. But – not surprisingly – oil-exporting countries benefited more than oil-importing countries. In oil-exporting countries terms-of-trade gains raised average growth of command GDP to 7.4%, 1.5 percentage points above GDP growth. In oil-importing countries the terms of trade effect was still positive but only half a percentage point thus raising growth of command GDP to 5% compared with GDP growth of 4.5%. Terms-of-trade effects were highly volatile in both oil-exporting and oil-importing countries. In 2009 oil-exporting countries suffered heavy terms-of-trade losses, due to the sharp fall in oil prices, leading to a decline of command GDP by almost 13%, while GDP growth was still positive (4.3%). By contrast, oil-importing countries benefited from small terms-of-trade gains as import prices fell more than export prices. As a result, growth of command GDP was somewhat higher (2.4%) than GDP growth (1.7%).

The terms-of-trade effect differed significantly between individual countries. In some resource-rich countries, terms-of-trade gains were particularly large while some resource-poor countries suffered terms-of-trade losses. These findings show that over the past ten years Africa reaped on average terms-of-trade gains so that its purchasing power increased more than suggested by output growth. In countries where this higher purchasing power has been distributed widely, living standards of the population increased more than suggested by GDP per capita growth. However, it is also possible, and not unlikely, that in many resource-rich countries higher export prices (which led to terms-of-trade gains) benefited mostly foreign-owned oil and mining companies and/or small economic and political elite while the general public did not or only slightly benefit from these gains.

Our findings suggest that the analysis of Africa's growth performance needs to be broadened to also include changes in terms of trade. Given past terms of trade gains, many African countries, notably those with resource wealth, had more scope for improving living standards of their populations than suggested by output growth. While some progress has been made in improving living conditions, there is much need and scope for making growth more inclusive. Given the volatility of commodity prices and the terms-of-trade, policies, which mitigate their effects on the economies, need to be strengthened (*e.g.* by buffer stocks and reserve building). Diversifying the economy by broadening the export portfolio and reducing fuel and food import dependency also makes countries more resilient against abrupt commodity price changes and adverse terms-of-trade shocks. It also improves conditions for sustainable growth in the long term.

Figure 1.4. **Africa: Growth of GDP, command GDP and terms of trade**



Source: Authors' calculations.

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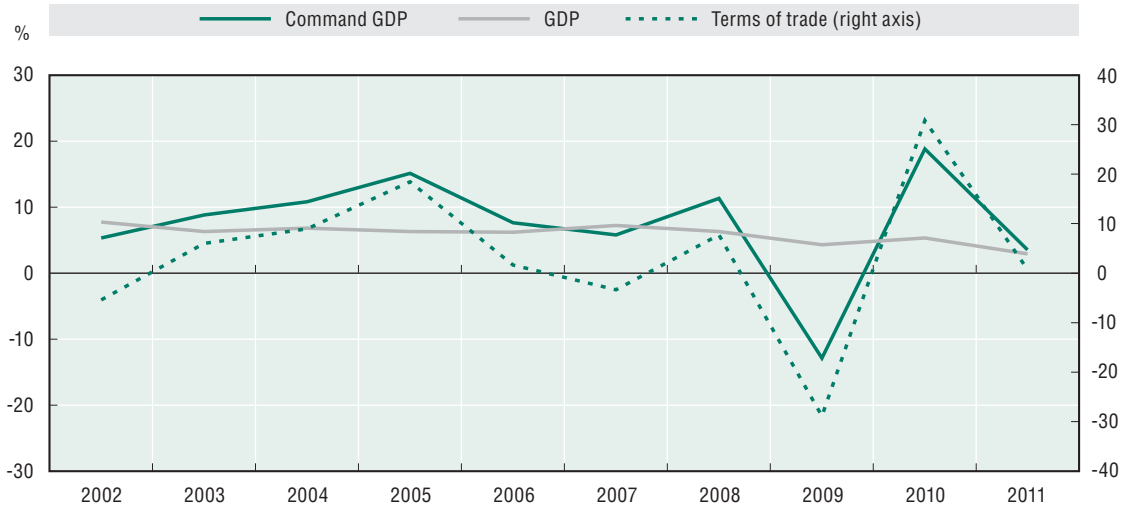
Figure 1.5. **Oil-exporting African countries: Growth of GDP, command GDP and terms of trade**



Source: Authors' calculations.

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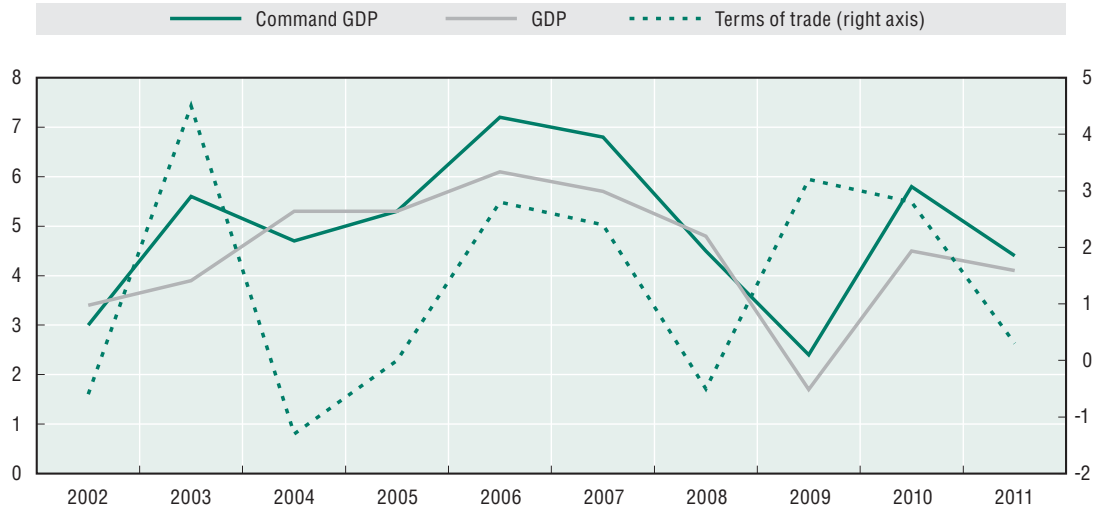
Figure 1.6. **Oil importing African countries: Growth of GDP, command GDP and terms of trade (changes in %)**



Source: Authors' calculations.

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Table 1.1. **Average annual growth of GDP and Command GDP in 2002-11 (%)**

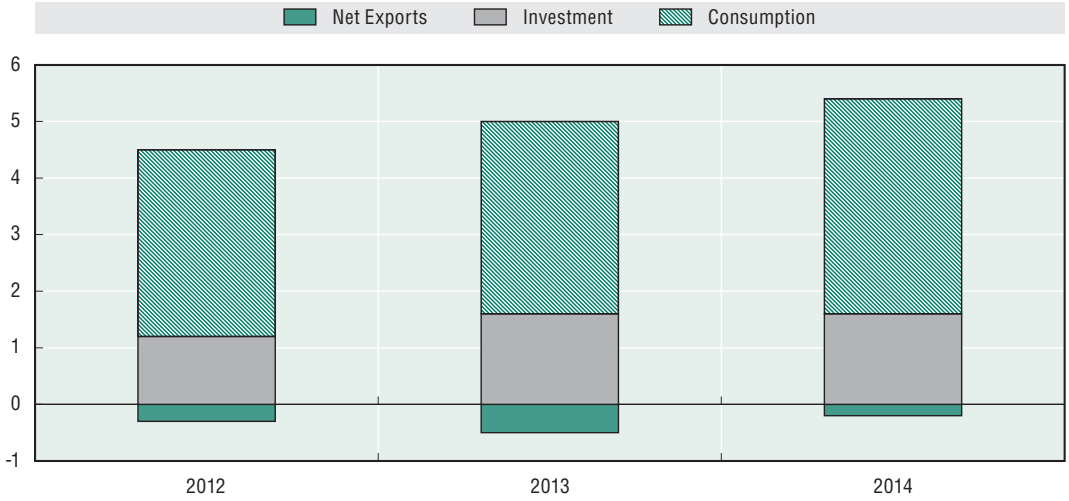
	GDP	Command GDP	Terms of trade effect
Africa	5.3	6.2	+ 0.9
Oil-exporting countries	5.9	7.4	+ 1.5
Oil-importing countries	4.5	5	+ 0.5

Source: Authors' calculations.

Africa's growth is supported by domestic activity while exports remain subdued

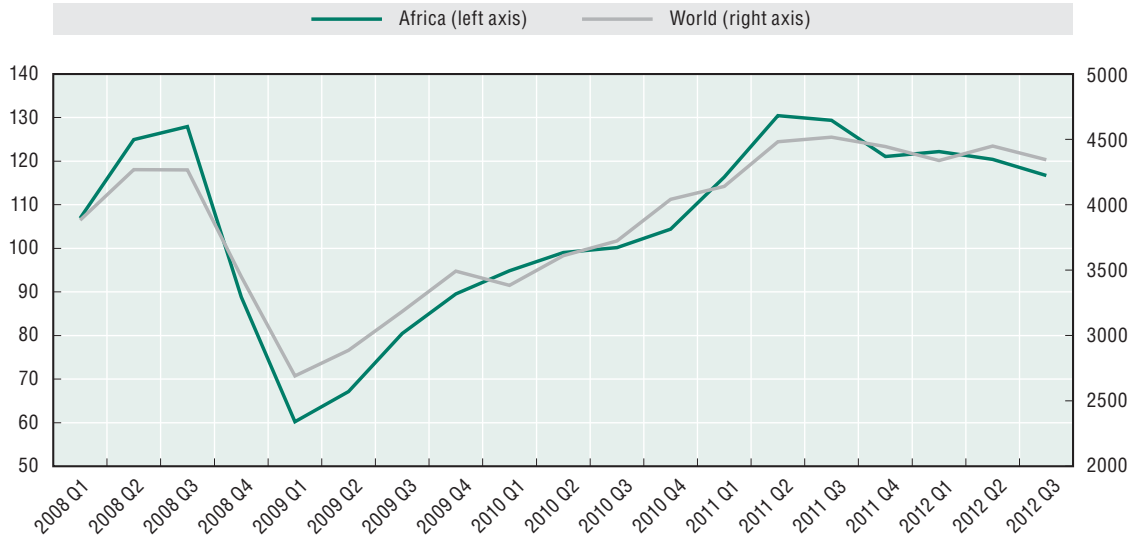
On the **demand side**, domestic demand was the main driving force in many African countries. But this could not fully offset the adverse effects from the weaker global environment on external demand. Domestic demand was often boosted through private consumption and investment, both public and private (Figures 1.7 and 1.8). Higher earnings in domestic sectors, record inflows of remittances and expanding consumer credits backed private consumption. Private investment was often related to oil production and mining and was supported by inflows of direct investment (for financial flows to Africa see Chapter 2). The ongoing weakness of the global economy has restrained Africa's export volumes and reduced some commodity prices but price levels of commodities have remained generally favourable for African exporters. In some parts of Africa, notably in North Africa, Mali, DRC and Nigeria, growth was constrained by political tensions and/or security problems.

Figure 1.7. **Contribution of demand components to Africa´s GDP growth (percentage points)**



Note: Excluding Libya.
Source: Authors' calculations.
StatLink http://dx.doi.org/10.1787/888932807018

Figure 1.8. **Development of African and world exports of goods (USD billion)**



Source: IMF Direction of Trade Statistics (DOTS).
StatLink http://dx.doi.org/10.1787/888932807037

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On the **supply side**, the main engines of growth were often agriculture and services, in several resource-rich countries rising production of oil and mining activity. Manufacturing activity played a role in a few countries. While many African countries have taken measures to diversify their economies progress has been low (see Part Two of this report on the degree of structural transformation in Africa).

Agriculture remains Africa's main source of employment with around 60% of its labour force employed in the sector. But its share in GDP is much smaller, accounting for an average of 25%, indicating its relatively low level of productivity and earnings. The size of the sector differs across the continent. In Burkina Faso, Burundi, Ethiopia, Guinea, Guinea-Bissau, Malawi, Mali, Mozambique, Niger and Rwanda, between 80% and 90% of the total workforce are engaged in agriculture. In some of these countries (Ethiopia, Guinea-Bissau, Mali and Niger) agriculture contributes 40% or more to GDP. And in a few other countries (Liberia, Central African Republic [CAR] and Sierra Leone) the agricultural sector contributes between around 50% and 70% to GDP (with employment shares of around 60% to 70%). However, in South Africa and in Mauritius employment in the agricultural sector is less than 10% of the labour force and the share of the sector in GDP is less than 5%.

In 2012, in many African countries agricultural production was boosted by favourable weather conditions. This helped to increase food supply for domestic consumption and to mitigate the impact of high global food prices. By increasing export volumes of agricultural products, such as cotton and coffee, farmers could partly offset the fall in export prices. But agricultural production was uneven across the continent and the sector remains vulnerable to adverse environmental and weather conditions and also to external demand shocks. In 2012, bad weather conditions reduced agricultural production in a number of countries, such as Cameroon, Gambia and Lesotho. Malawi was also hit by unfavourable weather, which reduced tobacco production, and this coupled with the collapse of tobacco prices, its main export product, led to a severe shortage of foreign exchange. In Kenya, the economic crisis in Europe reduced its horticultural exports to the European market.

The **service sector** has become a main engine of growth in many African countries. Traditional services, such as transport, trade, real estate and public administration, continued to play an important role in 2012 but with new technologies and financial deepening, information and telecommunication services as well as financial and insurance services continued to flourish. This trend is likely to continue. But in Mali, the service sector was hard hit by the political events with the Islamic groups occupying the northern regions until they were driven away by military forces in February-March 2013.

Tourism, another important source of employment, continued to increase in several countries, but was held back in others. Cape Verde, Seychelles, Gambia, Kenya and Uganda recorded increasing tourist arrivals. In Mauritius tourist arrivals declined as increasing arrivals from Asia and Africa could not fully compensate for the decline of tourists from Europe. In Egypt and Tunisia tourism recovered from a sharp fall in 2011 but remained below pre-revolution levels.

Oil and mining sectors have remained the main engines of growth in resource-rich countries such as in Angola, Gabon and particularly in Libya, which, after the revolution resumed production and exports. But in Nigeria, Africa's largest oil producer, the oil sector stagnated, while the non-oil sector was driving growth. In Chad, oil production was also held back mainly due to technical problems. By contrast, in Ghana and in Cameroon the new oil discoveries are now boosting growth. The mining sector was also an important driver of growth in several countries largely depending on mining, such as DRC, Namibia and Mozambique. But in South Africa, labour unrest in the mining sector crippled production

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and adversely affected the social climate in the whole country. In Botswana, the diamond sector was affected by lower global demand. Given the recent huge gas discoveries found along the coast of Tanzania and Mozambique, there is large potential for future foreign direct investment (FDI) inflows. East Africa is shifting from a natural resource-poor region to a resource-rich region.

The manufacturing sector in Africa is relatively small with an average contribution of only about 10% to GDP. However, the degree of industrialisation differs significantly across the continent and depends, among other conditions, on the stage of development and the availability of natural resources. Countries with low per capita income levels and those with high resource wealth tend to have very small manufacturing sectors, often around 5% of GDP or less.

With an abundant youth labour force, large agricultural sectors and abundant natural resources, Africa has large potential to develop labour-intensive manufacturing notably in sub-sectors with linkages to agriculture and extractive industries. But in the past, this potential was mostly not used. It has been found that manufacturing activity has to cope with many country-specific constraints, such as infrastructure bottlenecks including unreliable and expensive energy supply, lack of skilled labour, red tape, expensive investment financing and demand constraints due to fierce foreign competition. In resource-rich countries so-called Dutch-disease effects can also constrain the development of manufacturing. It has been found that due to low productivity unit labour costs are often relatively high. As a result of these constraints manufacturing firms have remained relatively small and provide low-quality products to domestic markets and offer relatively few productive jobs (see the thematic chapter in Part two; AfDB et al., 2012; World Bank, 2012; Clarke, 2012).

But there are also positive examples of dynamic African manufacturers entering international and regional markets by adopting new technologies and marketing, also helped by regional trade liberalisation. Furthermore, addressing the above-mentioned constraints could make the manufacturing sector an important engine of growth and job creation in Africa. With further rising cost pressures in China, African manufacturing firms could benefit more from FDI and become more competitive in the global market.

In recent years, manufacturing was generally not a main driver of growth in Africa. The relative size of manufacturing slightly declined between 2006 and 2011 by around 1 percentage point (both weighted and unweighted average). In a few countries the decline was more pronounced; in South Africa, the decline amounted to around 4 percentage points (from 17.5% to 13.4%) and in Ghana to more than 3 percentage points (from above 10% to below 7%). In Lesotho, the sector shrank by around 8 percentage points (from 21% to around 13% of GDP) and in Madagascar by 6 percentage points (from 14.6% to 8.7%). Zimbabwe suffered the largest decline of about 13 percentage points (from above 28% to around 15%). By contrast several countries, such as Tunisia, Tanzania, Uganda, Burundi and Angola, recorded increasing shares of manufacturing in GDP during this period.

However, in 2012 the manufacturing sector helped to boost growth in several countries. In South Africa, despite weak demand from the European market, the automotive sector recorded robust performance due to increased domestic demand. Morocco benefited from new investment in automotive and aviation industries. In Ethiopia industrial output continued to rise, supported by government policies. Niger and CAR also recorded strong growth in manufacturing related to extractive industries and in Congo Republic agrobusiness increased. However, in Tunisia and in Egypt manufacturing firms were adversely affected by lower demand from Europe and by political uncertainty.

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West Africa will be the fastest growing region in 2013/14

In 2012, growth performance varied widely across the continent. Oil-exporting countries achieved significantly higher GDP growth than oil importers, mainly as a result of a rebound of oil production in Libya. The better growth performance of oil exporters is likely to continue in 2013 and 2014 but the growth differential with oil-importing countries is becoming smaller.

West Africa is expected to continue its rapid growth with rates of 6.7% in 2013 and 7.4% in 2014. It has become the fastest growing region of the continent. Growth in the region is not only driven by oil and mineral sectors but also by agriculture and services and on the demand side often by consumption and investment. Nigeria is expected to continue growing by between 6.7% and 7.3% in 2013 and 2014 respectively. In Ghana and Côte d'Ivoire, average growth in 2013/14 is likely to exceed 8% and 9% respectively. In most countries of the region growth is expected to pick up in 2013/14, exceeding 5%. But in a few countries, such as Benin, Cape Verde and Guinea-Bissau, growth will remain more subdued.

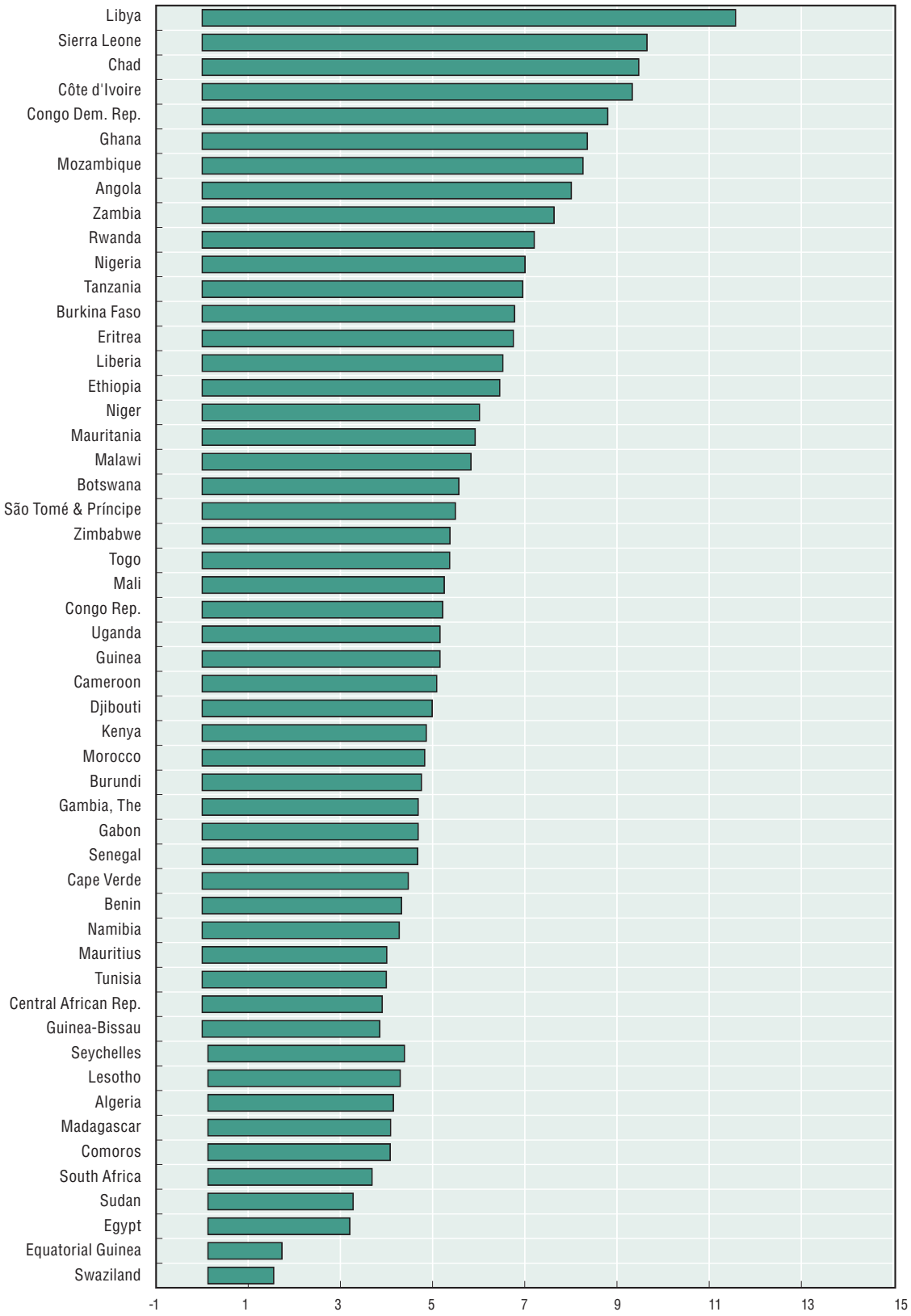
Due to the resumption of oil production and exports, Libya's GDP bounced back by 96% in 2012, boosting growth in **North Africa** to 9.5%, after the region's GDP had stagnated in 2011. Given political uncertainties and difficult international economic conditions in Egypt, growth is expected to remain subdued at 2% and accelerate to 3.5%, thus remaining below pre-revolution levels. After negative growth of around 2% in 2011, the Tunisian economy recovered in 2012, growing by above 3%. It is expected that the economy continues to grow by around 3.5% in 2013 but achieves higher growth of around 4.5% in 2014. Morocco and Mauritania continue to achieve solid growth in 2013/14 at average rates of 6% and almost 5% respectively. In Algeria growth is expected to accelerate from 2.5% in 2012 to above 3% in 2013 and to 4% in 2014.

In **East Africa**, most countries in the region, such as Rwanda, Tanzania, Ethiopia and Uganda, are on a solid growth path of between around 5% and 7% during the projection period. With the assumption of no major post-election turmoil in Kenya, growth is expected to amount to 4.5% in 2013 and to accelerate to above 5% in 2014. In Sudan, the economy has been heavily affected by the secession of South Sudan. In 2012, GDP contracted and for 2013 only moderate growth is projected and some acceleration in 2014.

In **Central Africa**, GDP is likely to continue to grow by 5.7% in 2013 and 5.4% in 2014 with above average growth in Chad and in DRC. In Chad, oil production and agriculture are the main drivers of growth. In DRC, mining, agriculture and construction are boosting growth. But sustainable growth also requires further progress in political stability and the security problem in the eastern part of the country has significantly affected economic activity in that region.

In **Southern Africa**, GDP is expected to grow by around 4% in 2013 and to accelerate to 4.6% in 2014. In Angola, Mozambique, Zambia and Botswana growth is likely to remain buoyant. Malawi is expected to emerge from its 2012 economic crisis and return to solid growth. In 2012, economic growth in South Africa was adversely affected by heavy strikes in the mining sector and the recession in the euro area. With improved global demand and supportive macroeconomic policies a gradual recovery is expected for 2013 and 2014. Zimbabwe continues to record positive growth rates of above 5%. But due to the economic crisis with declining production levels until 2009, by the end of 2014 real GDP will still be more than a quarter lower than in 2001. Swaziland's economic growth continues to be the lowest in the region and in Africa as a whole. Economic weakness is widespread across sectors although better weather conditions are likely to boost agriculture. Although after the fiscal crisis fiscal austerity measures have helped to improve the fiscal position they have depressed short-term demand. (For growth performances of African regions and individual countries see Table 1.2 and Figure 1.9.)

Figure 1.9. **Growth of GDP by country 2013/14 (annual average in %)**



Source: Authors' calculations.

StatLink http://dx.doi.org/10.1787/888932807056

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Table 1.2. **Growth by regions and country groupings (real GDP growth in percentage)**

	2011	2012 (e)	2013 (p)	2014 (p)
Africa	3.5	6.6	4.8	5.3
Central Africa	5.2	5.7	5.7	5.4
Eastern Africa	6.3	4.5	5.2	5.6
Northern Africa	-0.1	9.5	3.9	4.3
Southern Africa	4.0	3.7	4.1	4.6
Western Africa	6.8	6.6	6.7	7.4
Oil-exporting countries	2.8	8.7	5.2	5.6
Oil-importing countries	4.3	3.9	4.3	4.8
Memorandum item:				
Africa excl. Libya	4.3	4.2	4.5	5.2

Note: (e) estimates; (p) projections.
Source: Statistics Department, African Development Bank.

Despite some easing, commodity prices remain favourable for resource-rich countries

Since rebounding from their bottom reached during the 2009 global recession, primary commodity prices have been very volatile, affected by global macroeconomic and commodity-specific factors. After the peak in mid-2011 prices have softened due to weaknesses in the global economy and the deepening of the debt crisis in the euro area. Nonetheless, at current levels, commodity prices remain well elevated to support growth of resource-rich countries (Figures 1.10 and 1.11).

The **price of oil** averaged USD 105 a barrel in 2012, virtually unchanged from USD 104 in 2011. However, this was 70% higher than the price recorded during the global recession in 2009 and 8% above the 2008 average, prior to the global recession. After declining in the first half of 2012 due to concerns about the global outlook, prices rebounded later in the year following an embargo on Iran and the ongoing conflict in the Middle East, which affected supply. Prices softened after Saudi Arabia increased oil production in an attempt to mitigate the adverse impact of high oil prices on the global economy. The prospects of a continued shallow recovery of the global economy will continue to restrain oil demand but, with continued political tensions in the Middle East, uncertainty and volatility in the oil market are likely to continue. Our projection assumes that in 2013 the price of oil will remain close to the 2012 level and increase by 4%-5% in 2014.

This relatively high price level continues to benefit African oil exporters. In 2010, Africa accounted for 13% of global oil production, with Nigeria, Algeria, Libya and Angola being the largest producers in Africa. Other countries heavily dependent on oil include Chad, Equatorial Guinea, Congo Republic, Gabon and South Sudan, which keeps 75% of the oil revenue that previously accrued to Sudan before the secession. In Egypt and in Cameroon, oil exports account for about half of total merchandise exports. In Ghana commercial oil production started in December 2010 and in Uganda the new discoveries are expected to increase oil production in the future.

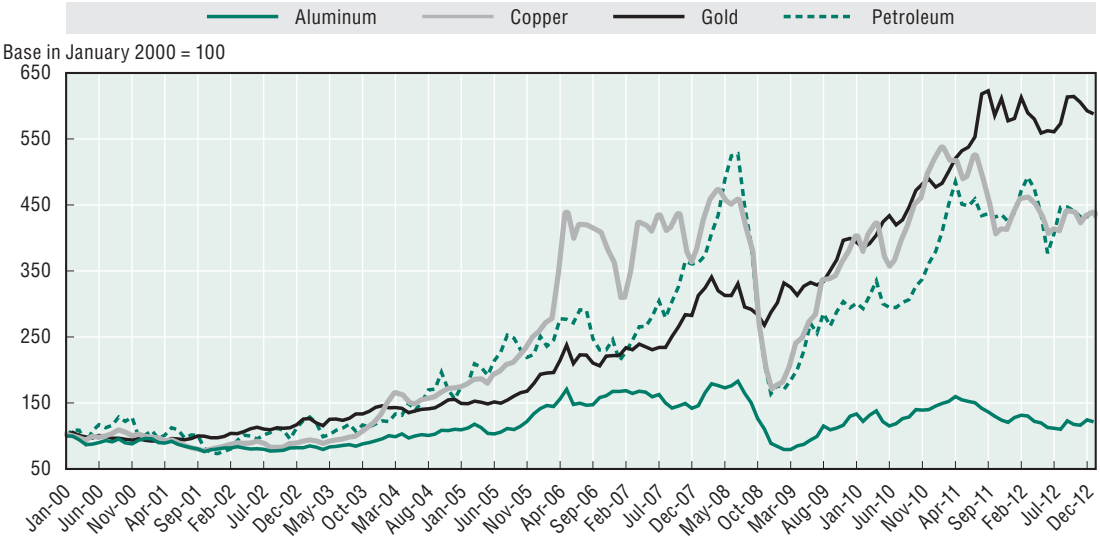
The **price of gold** remains equally volatile, reflecting fears about the debt crisis in Europe and inflation as gold is commonly serving as hedge. Africa accounts for almost a third of the world's gold production. South Africa is Africa's largest producer of gold, followed by Ghana. However, several other African countries (Mali, Burkina Faso, Guinea, Côte d'Ivoire, Mauritania, Niger, Senegal, Sierra Leone, Tanzania and Zimbabwe) also produce and export gold in sizeable quantities.

Prices of **other metals** have also softened but they are still relatively high to spur economic growth and generate foreign exchange in producing countries. The price of **copper** declined

significantly in late 2011 before rebounding at the start of 2012 driven by additional demand from China. However, by the end of the year, it softened again as demand from China slowed. Zambia is Africa's largest producer of copper and the world's seventh-largest producer and the country's economy largely depends on copper mining. DRC and South Africa are also major producers in Africa. Thus, uncertainty in the global copper market has significant implications on economic growth in these countries.

The price of **aluminium** continued to decline until mid-2012 before stabilising. South Africa and Mozambique are Africa's largest aluminium producers, followed by Egypt, Ghana, Nigeria and Cameroon.

Figure 1.10. **Commodity prices (indices, base January 2000 = 100)**



Source: World Bank.

StatLink http://dx.doi.org/10.1787/888932807075

Agricultural export prices have eased. After a sharp rise in 2011, the price of cotton declined again during 2012 as demand contracted in the wake of high prices. But with China increasing imports to rebuild reserves, world prices remained above 2010 levels. Egypt is Africa's main producer of cotton accounting for about one-quarter of the world market. Cotton is also an important commodity in other countries such as Sudan, Côte d'Ivoire, Togo, Zimbabwe, Mali, Burkina Faso, Chad and Benin.

Coffee prices fell sharply during 2012 from their historical peak in 2011. The decline was largely caused by expectations of higher supply from Brazil, the world's largest coffee producer. African coffee producers partly compensated for the fall in prices by increasing export volumes. Ethiopia, Africa's largest coffee producer, increased its export volumes by around 20% in 2012. Kenya also increased export volumes and, in Côte d'Ivoire, production and exports rebounded from the crisis in 2011.

After peaking in 2011 the price of **cocoa** has declined significantly as the political situation in Côte d'Ivoire stabilised and coupled with favourable weather conditions supply from both Côte d'Ivoire and Ghana improved. However, Europe's sovereign debt crisis weakened demand. Given the ongoing uncertainty about supply and demand conditions, prices remain volatile.

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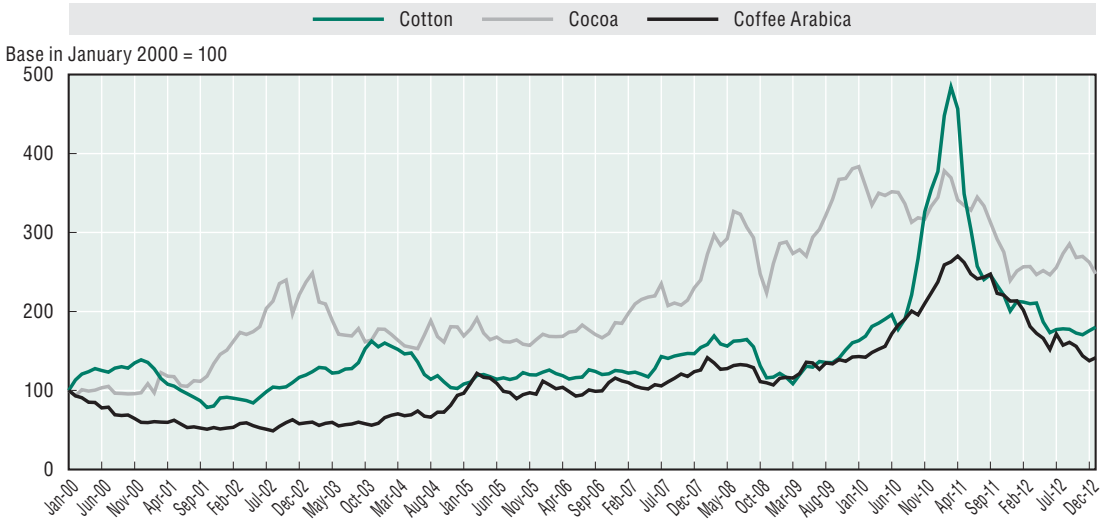
Figure 1.11. **Import prices of basic foodstuffs (Indices, base January 2000 = 100)**



Source: World Bank.

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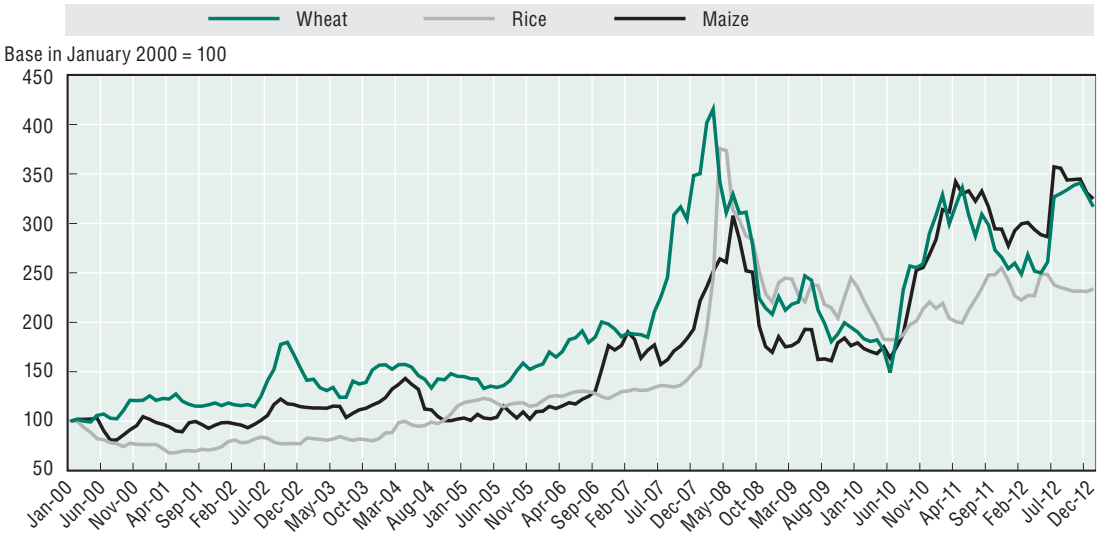
After a decline in the second half of 2011, **import prices of basic foods** increased again in 2012, boosted by supply constraints due to drought in the United States and bad weather conditions in other parts of the world (Figure 1.12). In Africa, weather conditions were often favourable and boosted food production. Nonetheless, given the high dependence on food imports, notably wheat and rice and a high share of food in private consumption, consumers in Africa are vulnerable to high food prices. To mitigate the impact of high world food prices on consumers, governments in several African countries reduced taxes on food or increased subsidies.

Figure 1.12. **Consumer price inflation in Africa (%)**



Source: World Bank.

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Inflation pressure eases as food and fuel prices stabilise

Africa's average inflation rate increased in 2012 to around 9%, from 8.5% in 2011 and 7% in 2010. Inflation is expected to decline but remain above 7% in 2013/14. Median inflation, which is not affected by countries with extremely high or low inflation, was lower than average inflation at 6.5% in 2012 and is expected to gradually decline to 5.3% in 2014 (Figure 1.13). The increase of inflationary pressures in 2011/12 was mainly due to higher food and fuel prices, which hit Africa's consumers, notably the urban poor. In several countries imported inflation in 2012 was exacerbated by currency depreciation. Food and fuel prices have recently eased but remain at elevated levels. Our forecast of a moderation of inflationary pressure is based on the assumption that food and fuel import prices will not significantly push up inflation during the projection period. But there are also risks. Poor national and international harvests and political conflicts in major oil-producing countries could again boost food and fuel prices.

In 2012, inflation exceeded 30% in Sudan and Ethiopia, and averaged 10% and 20% in several other countries (Angola, Burundi, Eritrea, Tanzania, Uganda, Malawi, Guinea, Nigeria and Sierra Leone). But in many countries (Cameroon, Central African Republic, Equatorial Guinea, Congo Republic, Gabon, Mauritania, Morocco, Mauritius, Mozambique, Burkina Faso, Cape Verde, Côte d'Ivoire, Gambia, Guinea-Bissau, Niger, Senegal and Togo), inflation rates remained below 5%. Many of these countries with relatively low inflation belong to monetary unions, such as the West African Economic and Monetary Union (WAEMU)[2] or the Central African Economic and Monetary Community (CAEMC),[3] for which fixed exchange rates pegged to the euro help to contain inflationary pressures. But structural characteristics of countries, such as high food shares in household consumption, oil dependence and pre-existing inflation levels, may also influence countries' vulnerability to commodity price shocks.

Figure 1.13. **Inflation in Africa**

Source: Authors' calculations.
StatLink http://dx.doi.org/10.1787/888932807132

Monetary policy: aiming at controlling inflation and stabilising exchange rates

In 2012, Africa's monetary authorities had to cope with emerging inflationary pressures stemming from higher food prices and exchange rate depreciation. The depreciation of exchange rates helped to boost exports but added to inflation through higher import prices. At the same time, the deepening of the crisis in Europe increased risks of a new economic downturn in Africa. Monetary policies responded quite differently depending on the balances of these risks. In North Africa, the Central Bank of Egypt (CBE) has been struggling

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with inflationary pressures, a falling exchange rate, a depletion of foreign reserves and weak economic conditions. It is pursuing a delicate trade-off between stimulating the economy and controlling inflation. While interest rates have increased, reserve requirements of banks have been reduced. In Tunisia, monetary conditions have been accommodating. The central bank took additional measures to improve the liquidity of the banking sector. As inflation increased in the second half of 2012 the policy interest rate was raised but the real interest rate remained negative due to high inflation. In Morocco, low inflation provided scope for additional monetary easing.

In southern Africa, the South African Reserve Bank (SARB) reduced interest rates to provide additional stimulus to the ailing economy, affected by the global weaknesses and wave of strikes. Monetary conditions were further eased by the depreciation of the exchange rate in response to negative investor sentiments. Given the currency peg, South Africa's monetary and exchange rate developments also affected monetary conditions in neighbouring Namibia, Lesotho and Swaziland, which are members of the Common Monetary Area (CMA). Botswana, a non-CMA member, was also indirectly affected due to its high imports from South Africa and crawling peg exchange rate system. While the real effective exchange rate remained stable, the pula depreciated significantly in nominal terms against the currencies of industrial countries. In Angola, lower inflationary pressure and a stable exchange rate allowed the central bank to reduce benchmark interest rates aiming at stimulating credit growth.

In a number of countries, including Nigeria and Ghana, monetary policies were tightened to reduce inflation. In Uganda and Kenya policy interest rates were also increased in the wake of higher inflation but were gradually reduced as inflation subsided. In Sudan, the difficulties to agree with South Sudan on oil transit fees after the secession made monetary policy more complicated. As the fiscal deficit increased, inflation surged, and the exchange rate depreciated. In this difficult environment, policy focused on reserve management and anchoring the exchange rate but was confronted with the financing requirements of the government budget. In Malawi policies were tightened to combat inflation and measures were taken to limit monetary financing of government debt. Furthermore, to stop the depletion of foreign reserves, the currency peg to the US dollar was dropped, which triggered currency depreciation by around 50%. In Ethiopia, the central bank took measures to limit the growth of money supply, which helped to reduce inflation in the course of 2012. However, as nominal interest rates were kept relatively low in order to promote economic growth, real interest rates remained negative, which caused liquidity constraints in the banking sector.

Monetary policies of the WAEMU and of the CAEMC continued their prudent stance with priority given to controlling inflation with fixed exchange rates tied to the euro. The countries of the East African Community (EAC),[4] plan to create a monetary union with a single currency by 2015. Adopting a common currency in this region will have benefits but also entails costs, which need to be considered. As individual countries lose monetary policy as a stabilisation tool, fiscal policy and flexibility of the private sector will become even more important for macroeconomic stabilisation (Mafusiere and Brixiova, 2012).

Monetary policies in many African countries will have to continue to strike a balance between controlling inflation and supporting economic growth. Countries with high inflation and limited fiscal space have basically no room for expansionary macro policies to counteract an economic downturn. By contrast, in countries where inflationary pressures are contained central banks may see room to further reduce interest rates. But in order to ensure that the reduction in policy interest rates also reduces financing costs for the private sector, the transmission from policy interest rates to lending rates must be strengthened. This transmission mechanism is currently weak in many African countries.

Fiscal policy: Accommodating or restrictive depending on countries' different economic conditions and fiscal space

Given the risk of another economic downturn due to lower global demand, several countries continue to pursue expansionary fiscal policies. But many other countries follow fiscal consolidation strategies to ensure debt sustainability. This is particularly important in countries which are already at risk of debt distress (Table 1.3).

In 2012, expansionary policies were followed by Algeria, which boosted public investment and current spending in response to growing social needs. Burkina Faso also increased public spending, notably for social support including for refugees from Mali. The Republic of Congo continued to implement an ambitious public investment programme aimed at reducing large infrastructure deficits. In Cameroon, fiscal policy was also expansionary due to public investment and food and fuel subsidies. The fiscal policy stance in South Africa also aimed at boosting growth and employment. Namibia continued fiscal expansion in the framework of its Targeted Intervention Program for Employment and Economic Growth (TIPEEG). Zambia's fiscal policy supported growth by reorienting government expenditure towards infrastructure investment. On the revenue side the tax base was broadened, tax incentives reduced and new taxes introduced.

By contrast, other countries saw little fiscal space or need for an expansionary policy and tightened the fiscal stance. In Egypt, the government cut energy subsidies and raised taxes to contain the growing budget deficit and additional austerity measures were announced. Given the political turmoil it is, however, uncertain to what extent these measures will be fully implemented. Ghana increased taxes, including corporate tax and mining taxes. Ethiopia also pursued prudent fiscal policy by strengthening domestic demand mobilisation but at the same time maintained high expenditure growth in physical and social infrastructure. Botswana managed to reduce the budget deficit from a double-digit level in 2010 to about 1% of GDP in 2012. Fiscal consolidation was achieved by the recovery of the economy together with cost saving on the expenditure side and improved revenue collection. Rwanda aimed at fiscal consolidation by prioritising public spending and strengthening revenue collection. Malawi, which had experienced a sharp deterioration of its fiscal position, reduced expenditure including subsidies and increased revenues. In Zimbabwe, the fiscal space remains severely constrained and forces the government to maintain restrictive policies.

Table 1.3. **Debt sustainability analysis - assessing risks of debt distress**

Low risk	Moderate risk	High risk
Benin (August 2011)	Angola (March 2009)	Burundi (July 2010)
Cameroon (August 2009)	Burkina Faso (March 2012)	Comoros (2010)
Cape Verde (November 2009)	Central African Republic (May 2010)	Côte d'Ivoire (June 2011)
Congo, Rep. (July 2011)	Chad (August 2011)	Gambia (December 2011)
Ethiopia (May 2010)	Ghana (May 2011)	Guinea (February 2012)
Kenya (November 2011)	Guinea-Bissau (November 2011)	Sao Tomé and Principe (July 2012)
Liberia (2010)	Lesotho (March 2012)	Sudan (2012)
Mozambique (May 2012)	Malawi (January 2010)	
Nigeria (January 2011)	Mali (November 2011)	
Senegal (May 2011)	Mauritania (February 2010)	
Tanzania (April 2011)	Niger (November 2011)	
Uganda (May 2012)	Rwanda (May 2011)	
Zambia (November 2009)	Sierra Leone (November 2010)	
	Togo (2011)	

Source: Joint World Bank-IMF Low Income Countries Debt Sustainability Analysis (LIC DSA) (Date of most recent analysis in brackets).

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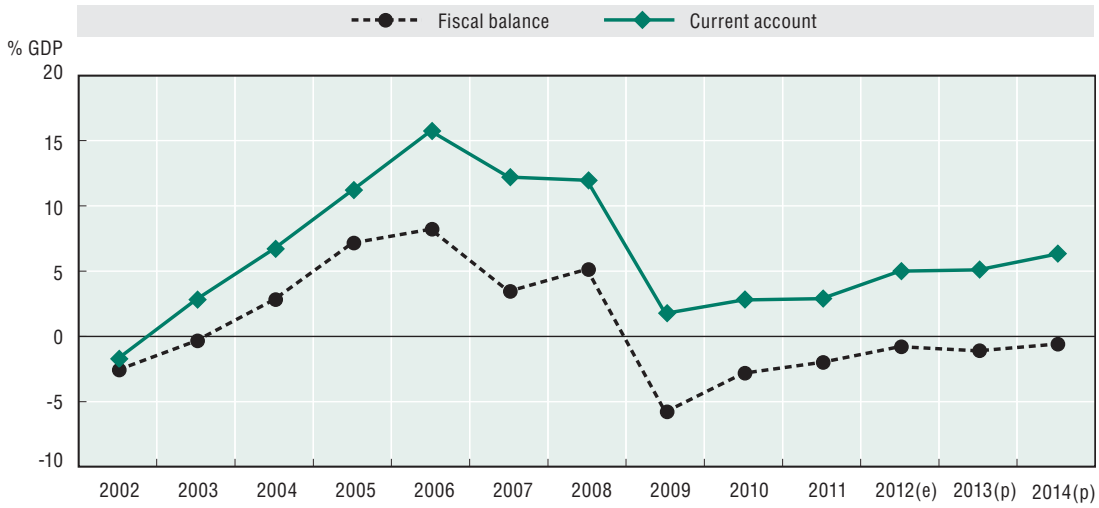
Current account deficits have further increased in oil-importing countries

Higher food and energy costs increased import prices much faster than export prices resulting in weakened terms of trade and deteriorations in current accounts in many African countries. In 2012, current account deficits of oil-importing countries increased to above 7% of GDP (up from around 6% in 2011) and are likely to remain on average at around 7% of GDP in 2013/14. By contrast, oil-exporting countries saw their surpluses rise in 2012 to 5% of GDP (up from around 3%) and are expected to remain in surplus of similar magnitude in 2013 and further increase to above 6% in 2014. In Libya, where the civil war caused a sharp deterioration of the current account, the rebound of oil exports has boosted the country's current account position to surpluses in the order of 25% of GDP.

As illustrated in Figures 1.14 and 1.15, current accounts and fiscal balances often move in tandem. In resource-rich countries higher earnings from commodity exports improve both the current account and government revenues and – if not all of additional revenues are spent – also the budget balance. In oil-exporting countries, both the current account and the fiscal balance deteriorated during the 2009 global recession but since then have improved steadily. By contrast, in oil-importing countries current balance positions improved during the global recession, helped by lower oil prices but deteriorated again in 2011/12 as import prices for food and energy commodities soared. These countries are stuck with a twin deficit – in 2012 a deficit in the current account of above 7% of GDP and a fiscal deficit of around 5% of GDP – which is however expected to decline slowly in 2013/14.

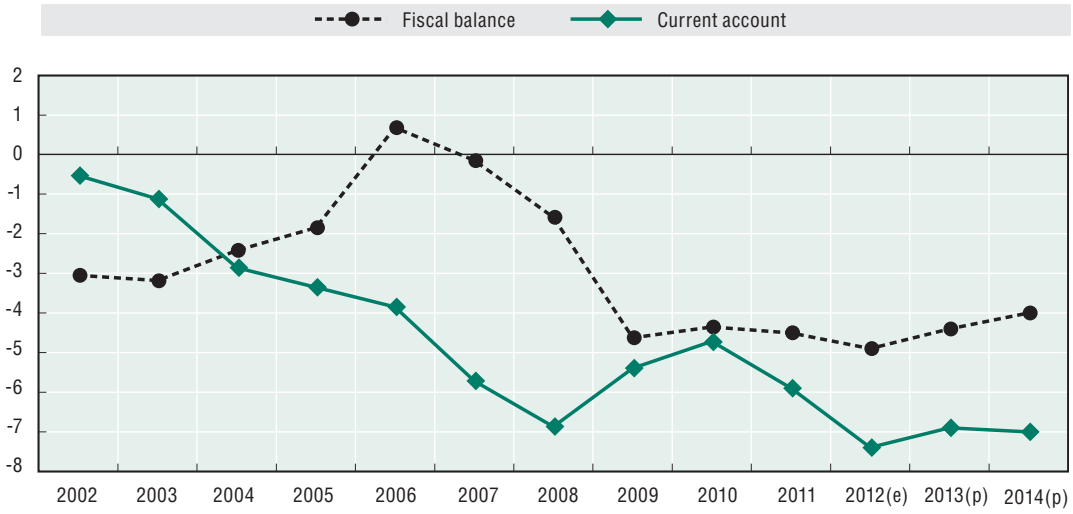
Figure 1.14. **Current account and fiscal balance in oil-exporting countries**



Source: Authors' calculations.

StatLink http://dx.doi.org/10.1787/888932807151

Figure 1.15. **Current account and fiscal balance in oil-importing countries**



Source: Authors' calculations.

StatLink http://dx.doi.org/10.1787/888932807170

Risks and policy challenges for African economies

Africa's economic prospects depend on global and domestic factors, which are highly uncertain. One of the downside risks is continued weakness of the global economy. The main channels of transmission of weaker global growth would be lower commodity export earnings, shrinkages in export volumes of other goods, tourism receipts, official development assistance (ODA), FDI inflows and worker's remittances. According to estimates, a 1-percentage point decline of GDP in OECD member countries causes African GDP to decline by about 0.5% and Africa's export earnings by about 10% (AfDB, 2011). Trade is the most important channel of transmission (AfDB et al., 2012). Indeed, African exports are already affected by the downturn of the global economy and further deepening of the debt crisis in Europe could constrain Africa's exports even more. While ODA, FDI and remittances have so far remained supportive of growth in Africa, a prolonged and deeper crisis in Europe could rapidly unravel these financial flows.

On top of external uncertainties, downside risks also exist within Africa. Two years after the revolutions in Tunisia, Egypt and Libya political stability in the region remains elusive and social tensions continue. In Mali, the political situation has improved after military intervention by France and regional forces from the Economic Community of West African States (ECOWAS). However, as long as security is not restored, the economies of the region remain vulnerable. After the secession of South Sudan, agreement with Sudan has been reached on important issues. But a few regional issues remain contentious and full peace will only be achieved if all remaining problems are resolved. Furthermore, post-election conflicts could arise in several countries if incumbent governments or opposition parties do not accept the results.

Despite all these risks, our economic outlook for Africa remains cautiously optimistic. Africa's impressive growth over the past 15 years, underpinned by its resilience during the 2009 global recession and the recent global downturn, support such optimism. The main short-term challenge for the continent is to consolidate stable macroeconomic conditions in the face of a more volatile global economic environment. In addition, institutions and regulations for private sector activity must be further improved. Addressing infrastructure bottlenecks and increasing access to key public services such as education, health and security would put countries on a durable high-growth path and reduce poverty and inequality.

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Table 1.4a. **Macroeconomic developments in Africa**

Real GDP growth (%)				
	2011	**2012(e)**	**2013(p)**	**2014(p)**
Central Africa	5.2	5.7	5.7	5.4
Eastern Africa	6.3	4.5	5.2	5.6
Northern Africa	-0.1	9.5	3.9	4.3
Southern Africa	4.0	3.7	4.2	4.6
Western Africa	6.8	6.6	6.8	7.4
Africa	**3.5**	**6.6**	**4.8**	**5.3**
Africa (excluding Libya)	4.3	4.2	4.5	5.2
Memorandum items				
North Africa (including Sudan)	0.1	8.8	3.8	4.3
Sub-Saharan Africa	5.5	5.2	5.4	5.8
Oil-exporting countries	2.8	8.7	5.2	5.6
Oil-importing countries	4.3	3.9	4.3	4.8
Consumer prices (inflation in %)				
	2011	**2012(e)**	**2013(p)**	**2014(p)**
Central Africa	4.5	4.4	3.5	3.4
Eastern Africa	16.1	21.3	10.9	9.4
Northern Africa	7.3	7.2	7.1	7.3
Southern Africa	6.7	6.5	6.5	6.2
Western Africa	9.3	9.8	8.0	7.8
Africa	**8.5**	**9.1**	**7.4**	**7.2**
Memorandum items				
North Africa (including Sudan)	8.2	8.9	8.0	8.0
Sub-Saharan Africa	8.7	9.2	7.1	6.7
Oil-exporting countries	10.3	10.6	9.0	9.1
Oil-importing countries	6.9	7.9	5.9	5.3
Overall fiscal balance, including grants (% GDP)				
	2011	**2012(e)**	**2013(p)**	**2014(p)**
Central Africa	1.9	0.0	-1.2	-1.9
Eastern Africa	-3.0	-4.1	-3.2	-3.2
Northern Africa	-6.3	-5.1	-5.1	-4.6
Southern Africa	-1.9	-2.3	-2.7	-2.6
Western Africa	-1.3	1.4	2.0	3.1
Africa	**-3.1**	**-2.5**	**-2.5**	**-2.0**
Memorandum items				
North Africa (including Sudan)	-5.8	-5.1	-5.1	-4.6
Sub-Saharan Africa	-1.6	-1.1	-1.0	-0.6
Oil-exporting countries	-2.0	-0.8	-1.1	-0.6
Oil-importing countries	-4.5	-4.9	-4.4	-4.0
External current account, including grants (% GDP)				
	2011	**2012(e)**	**2013(p)**	**2014(p)**
Central Africa	-2.6	-1.4	-3.3	-4.6
Eastern Africa	-4.6	-8.4	-8.7	-8.7
Northern Africa	0.7	2.3	2.4	3.1
Southern Africa	-1.9	-3.5	-3.1	-3.0
Western Africa	-0.7	3.8	4.9	7.1
Africa	**-1.1**	**-0.4**	**-0.1**	**0.6**
Memorandum items				
North Africa (including Sudan)	0.6	1.4	1.7	2.6
Sub-Saharan Africa	-2.1	-1.5	-1.0	-0.4
Oil-exporting countries	2.9	5.0	5.1	6.3
Oil-importing countries	-5.9	-7.4	-6.9	-7.0

Note: e: estimates; p: projections.
Source: Statistics Department, African Development Bank.

Table 1.4b. **Macroeconomic developments in country unions**

	2010	2011	2012(e)	2013(p)	2014(p)
Real GDP growth (%)					
CAEMC	5.5	4.8	5.4	5.2	4.7
EAC	6.4	5.7	5.2	5.6	6.0
SACU	3.4	3.7	2.7	3.0	3.6
WAEMU	4.8	1.1	6.0	6.2	6.8
Consumer prices (Inflation in %)					
CAEMC	2.0	2.6	4.1	3.1	3.0
EAC	4.6	13.9	12.7	7.8	6.7
SACU	4.2	5.3	5.9	5.8	5.5
WAEMU	1.2	3.6	3.5	2.2	2.3
Overall fiscal balance, including grants (% GDP)					
CAEMC	0.7	2.3	1.1	0.6	0.1
EAC	-5.6	-4.7	-5.5	-3.9	-3.9
SACU	-4.5	-4.5	-4.7	-4.6	-4.1
WAEMU	-2.1	-3.2	-3.7	-4.1	-3.7
External current account, including grants (% GDP)					
CAEMC	-4.6	-1.1	0.0	-1.1	-2.4
EAC	-7.8	-8.9	-9.6	-10.0	-10.6
SACU	-2.9	-3.3	-5.2	-4.9	-4.7
WAEMU	-5.1	-4.0	-6.4	-7.6	-7.2

Note: e: estimates; p: projections.
Source: Statistics Department, African Development Bank.

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Notes

1. The information presented here is largely based on the *OECD Economic Outlook* No. 92, November 2012, the *World Economic Outlook* update of the IMF, January 2013, and the *World Bank Global Economic Prospects*, January 2013, but has been updated as far as possible.
2. The WAEMU members are Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal and Togo.
3. The CAEMC members are Cameroon, Central African Republic, Chad, Republic of Congo, Equatorial Guinea and Gabon.
4. The EAC members are Kenya, Tanzania, Uganda, Rwanda and Burundi.

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Chapter 2

Foreign investment, aid, remittances and tax revenue in Africa

External financial flows into Africa hit a record in 2012 and are expected to top USD 200 billion in 2013. This highlights the growing importance of investment, official development aid and remittances to a continent on the move. This chapter puts the spotlight on emerging financial trends that Africa can take advantage of and the risks they face.

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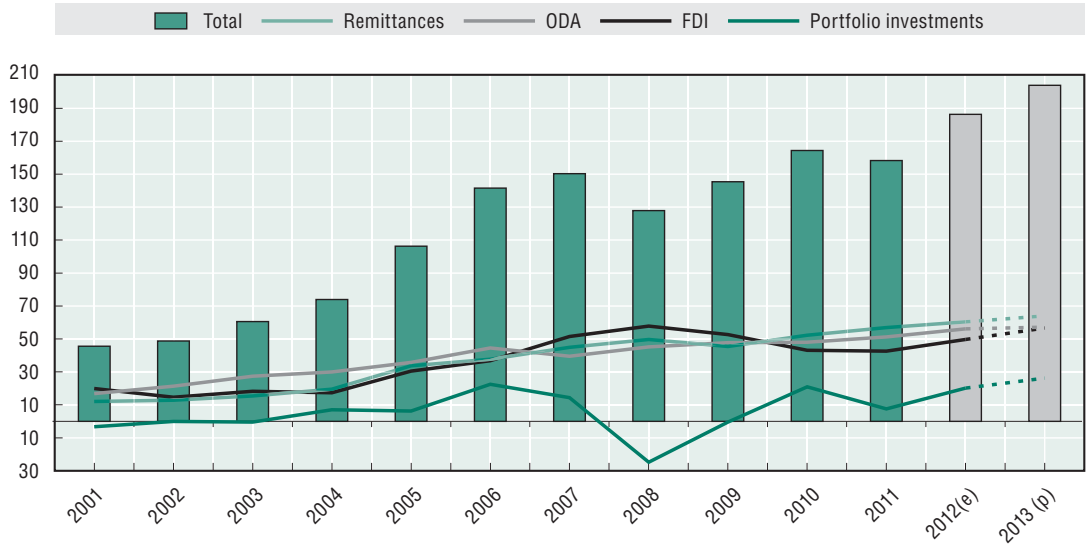
Tax revenues and external financial resources have made an impressive recovery from the dive of 2009 as the global economic crisis hit commodity prices and in turn lowered taxes from the natural resources that are so important to African nations. Foreign investment flows also suffered from the lagged recovery in global economic activity. The relatively high growth in emerging economies and gradual recovery of commodity prices have brought tax levels back to their 2008 peak, while Africa saw record investment flows in 2012.

Total external financial flows to Africa reached a historic high of an estimated USD 186.3 billion (US Dollars) in 2012, up from USD 158.3 billion in 2011. The flow of foreign direct investment (FDI), portfolio investment, official development assistance (ODA) and remittances – the main source of financing for African countries along with tax revenues – have quadrupled since 2001. This strong performance partly stems from the strong recovery of direct and portfolio investment. External flows as a share of Africa's gross domestic product (GDP) increased to 9.2% compared with 8.3% in 2011. They are projected to reach about 9.5% in 2013, back to the average of 9.4% of GDP over the past decade.

Remittances, as highlighted in the previous *African Economic Outlook* (AEO), have also risen spectacularly. They overtook ODA and FDI as the largest external flow to Africa in 2012[1] and are an increasingly important revenue source for many African households. Policy makers do not have much influence over how remittances are spent, but with adequate regulation and measures that lower the cost of remittance services, they could improve domestic savings.

Remittances are different from, but complement, the other external financing. The importance of remittances in consumption, thereby reducing poverty, is widely recognised (Ratha 2003). Hard evidence on the impact of remittances on growth remains mixed. Chami et al. (2003) found that remittances do not necessarily increase output as they are typically not channelled towards productive investment. Gupta et al. (2007) found that remittances help families get into formal financial markets, thus contributing to long-term growth through financial deepening.

Figure 2.1. **Total external financial flows to Africa**
(billion USD, current)



Note: ODA includes both bilateral and multilateral flows; see Table 1 for methodological details on projections. (e) estimates, (p) projections.

Source: UNCTAD *World Investment Report* (UNCTAD 2012a); IMF *World Economic Outlook* 2012; OECD/DAC; World Bank.

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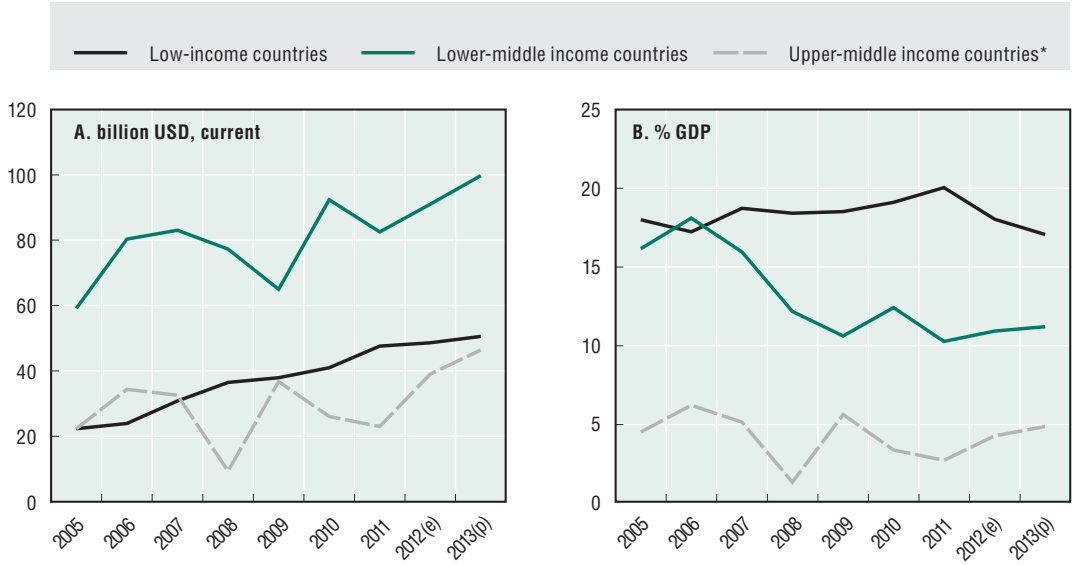
The aggregate external financing figures hide significant country disparities, as shown in Figures 2.2a and 2.2b. In 2012, low-income countries continued to depend on external flows, which represented 18% of GDP on average, above the 11% share in GDP for lower-middle income countries and 4% in upper-middle income countries. ODA represented 64% of external financing, compared to 30% for FDI and 10% for remittances, in low-income countries.[2]

Remittances took up an increasing share of external flows to lower-middle income countries. They more than tripled from USD 13.1 billion in 2004 to an estimated USD 50 billion in 2012. They represented 55% of total external flows and 6% of the country group's GDP. Lower-middle income countries are a heterogeneous group mixing large emerging markets with a strong diaspora such as Nigeria, Egypt and Morocco, as well as countries where aid remains the major inflow, such as South Sudan, Cape Verde, Côte d'Ivoire and Cameroon.

Figure 2.2. **Total external flows to Africa per income group**



Note: * This category includes Equatorial Guinea which, according to the latest World Bank classification, is ranked as a high income country. (e) estimates, (p) projections.

Source: Authors' calculations based on UNCTAD *World Investment Report* 2012; IMF *World Economic Outlook* 2012; OECD/DAC; World Bank.

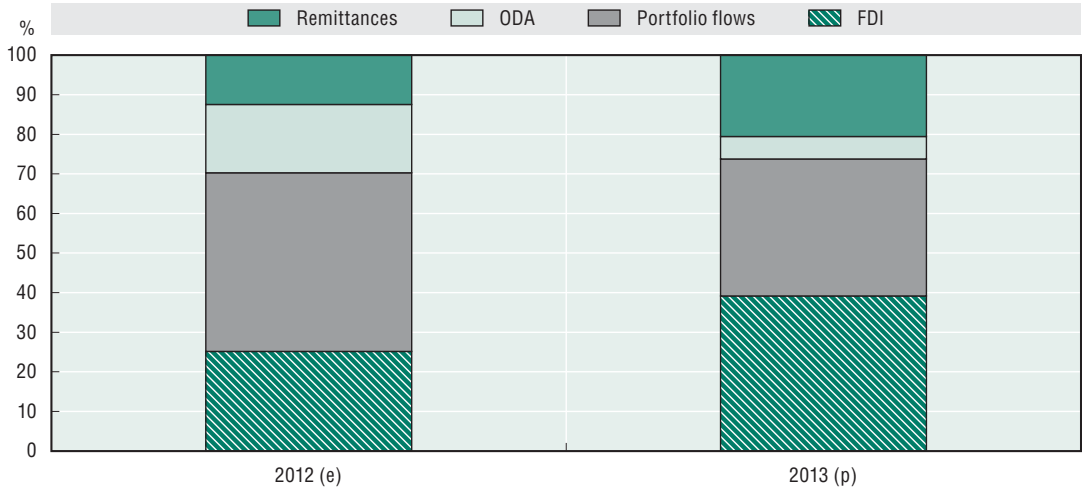
StatLink http://dx.doi.org/10.1787/888932807208

Upper-middle income countries in Africa have a larger share of foreign investment as external flows. Portfolio inflows represented 47% of total external finance in 2012, followed by 29% for FDI and 14% for remittances. This large portfolio share was directed almost exclusively at South Africa. In other economies, direct investment represented the largest share of external flows. According to the United Nations Conference on Trade and Development (UNCTAD), portfolio flows[3] tend to increase in relative importance once a country reaches upper-middle income status. They can help to strengthen financial infrastructure and liquidity. They also pose a risk in terms of increased volatility and the risk of a sudden reversal of capital flows, as witnessed in South Africa in 2008.

Outlook for external flows

External financial flows to Africa are projected to increase by 9.5% to a new record of USD 203.9 billion in 2013, compared with USD 186.3 billion in 2012 (See note Table 2.1). Figure 2.3 shows the projected contributions of remittances, ODA and investment respectively to this USD 17.6 billion increase in external finance. As in 2012, investment growth is expected to underpin external flows. In 2013, however, almost the entire projected increase in FDI to Africa is expected to be in sub-Saharan Africa, while in 2012 northern Africa absorbed half the increase in FDI. This confirms sub-Saharan Africa's economic dynamism as well as the hesitance of investors over political developments in North Africa, particularly in Egypt.

Figure 2.3. **Respective contributions of external financial flows to annual increase of total external flows in Africa**



Note: See Table 2.1 for methodological details on projections. (e) estimates, (p) projections.

Source: UNCTAD *World Investment Report* 2012; IMF *World Economic Outlook* 2012; OECD/DAC; World Bank.

StatLink http://dx.doi.org/10.1787/888932807227

Global economic turbulence still poses significant risks to the outlook for external finance of all kinds. Uncertainty about the recovery, particularly in the euro area, may have a negative impact on trade and investment. The second quarter of 2012 saw a drop in some commodity prices due to lower demand in emerging economies. A new deceleration of global economic activity could bring down commodity prices again. This may in turn affect investment into commodity exporting economies.

Low-income countries are exposed to adverse shocks as their economies and export base tend to be less diversified. Countries which have not replenished fiscal and foreign exchange reserves following the 2008 global economic recession are at particular risk. As spending pressures in major donor countries are likely to result in a stagnation of ODA at best, low-income countries will have an increased reliance on domestic sources of financing.

Table 2.1. **Summary of external financial flows and tax receipts in Africa**

(billion USD, current)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012(e)	2013(p)
1. Inward foreign direct investment (FDI)	20.0	14.6	18.2	17.4	30.5	36.8	51.5	57.8	52.6	43.1	42.7	49.7	56.6
2. Portfolio investments	-3.3	-0.1	-0.4	7.1	6.3	22.5	14.4	-24.8	-0.4	21.0	7.5	20.1	26.2
3. Official development aid (net total, all donors)	16.8	21.4	27.4	30.0	35.8	44.6	39.5	45.2	47.8	48.0	51.3	56.1	57.1
4. Remittances	12.1	12.8	15.4	19.5	33.7	37.7	44.9	49.7	45.4	52.3	56.9	60.4	64.0
5. Tax revenues	145.4	137.7	174.1	219.1	279.4	333.9	371.5	485.4	384.4	465.7	513.7	..	..
Total external flows (1+2+3+4)	45.6	48.8	60.6	73.9	106.3	141.5	150.3	127.9	145.4	164.4	158.3	186.3	203.9
North Africa	14.2	13.6	15.0	20.2	27.4	37.3	42.5	32.6	24.3	43.0	32.0	38.5	45.0
West Africa	7.9	9.6	10.7	13.7	34.5	45.1	40.9	41.9	47.0	51.0	56.9	59.4	61.9
Central Africa	2.8	4.0	8.8	5.4	6.9	6.4	9.8	7.8	10.0	14.9	15.1	14.0	14.7
East Africa	7.7	8.4	10.9	12.9	14.6	18.3	21.3	23.7	23.5	22.3	24.4	28.2	29.6
Southern Africa	11.6	11.5	12.7	19.1	20.2	31.3	31.8	16.9	34.8	28.1	24.6	38.6	45.3

Note: The sum of regional country groupings does not match the total external flows as ODA also includes non-allocated ODA flows to Africa. (e) estimates, (p) projections.

Source: OECD/DAC, World Bank, IMF and *African Economic Outlook* data. Author's estimates for 2012-13 ODA data, by using the forecast rate of increase for Country Programmable Aid in the 2012 OECD Aid Predictability Report. Projections for 2012: FDI and portfolio: IMF, Remittances: World Bank. (This table excludes loans from commercial banks, official loans and trade credits.)

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An in-depth look at each of the finance sources

Foreign Investment flows

According to the International Monetary Fund's (IMF) *World Economic Outlook* FDI to Africa recovered to nearly USD 50 billion in 2012. UNCTAD estimated FDI to Africa in 2012 at USD 45.8 billion, equivalent to a 6% growth rate compared to 2011. Sustained economic growth and Africa's emerging middle class increasingly attracted market-seeking investment. It is expected however that resource-seeking investment will remain the key driver as long as commodity prices remain high.

The most noteworthy African investment trend of recent years has been the rise of south-south investment, as documented in the 2011 edition of the *African Economic Outlook*. Emerging partners compensated for the drop in FDI from Organisation of Economic Co-operation and Development (OECD) members in 2012. Their share of total announced greenfield investment in 2012 increased to an estimated 60%. By contrast, portfolio investment still comes mainly from OECD countries, particularly the United States.

Direct investment

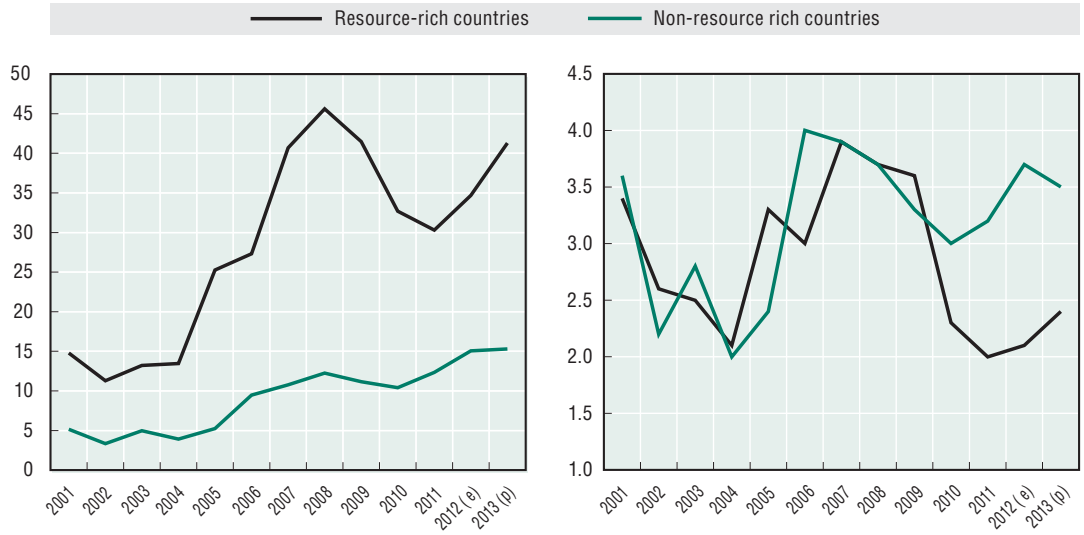
After three consecutive years of decline, 2012 saw FDI to Africa recover to an estimated USD 49.7 billion, compared with USD 42.7 billion in 2011 according to the *World Economic Outlook* (October 2012). This represents 2.5% of Africa's GDP, still below the 2.9% average over the past decade. In 2013, FDI of about USD 56.6 billion is predicted, close to its historic peak in 2008. Sub-Saharan African countries are expected to receive most of this investment.

North and southern Africa largely drove this investment recovery in 2012. Egypt and Libya saw their FDI increase to an estimated USD 3.5 billion and USD 1.5 billion respectively. This mainly came from planned investment projects that were delayed due to the political unrest in 2011. This could only be a temporary boost for Egypt as its lingering political unrest is unlikely to foster new projects in the near future. South Africa saw two years of subdued FDI in 2009-10, but a recovery which started in 2011 was extended. Angola recorded much lower cyclical disinvestments in its oil industry estimated at –USD 1.4 billion in 2012 compared to –USD 5.6 billion in 2011. The money is mainly repatriated earnings and repayment of loans.

FDI to developed countries fell 32% in 2012 and this was the first time that global FDI flows to developing countries exceeded those to developed countries (UNCTAD 1999). Africa increased its share in global FDI from 2.7%, its lowest point in the past decade, in 2011 to 3.8% in 2012. In addition, Africa's share of FDI to developing countries increased from 6.1% in 2011 to an estimated 7.3% in 2012. These improvements remain below their 2009 peaks, when Africa received 4.4% of global flows, and 10.1% of that to all developing countries.

FDI to Africa remained mainly concentrated in resource-rich countries and in extractive industries (Figure 2.4a).[4] Resource-rich countries' share of total FDI stood at 70% in 2012, compared with an average of 76% over the decade. In line with global commodity prices, FDI to resource-rich countries showed more volatility and remains exposed to future shocks. However, FDI as a share of GDP is higher for non resource-rich countries (Figure 2.4b). It represented 3.5% of GDP compared to 2.4% for resource-rich countries. By 2013 FDI to non resource-rich countries is projected to be three times its 2001 value.

Figure 2.4. **FDI to resource-rich countries versus non-resource-rich countries**



Note: (e) estimates, (p) projections.
Source: Authors' calculations based on UNCTAD *World Investment Report* 2012 and IMF WEO 2012.
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The rising investment from emerging economies is one of the most notable economic developments over the past decade. According to the fDi Markets' database on cross-border investment, south-south investment made up the largest share of announced greenfield investment to Africa for the second year in a row.[5] Despite having dropped from USD 43.7 billion to USD 24.9 billion in 2012, the share of total announced greenfield investment to Africa increased from 53% in 2011 to 61% in 2012.

India, followed by the United Arab Emirates (UAE) and Qatar contributed up to 60% of total south-south greenfield investment to Africa in 2012. The UAE made the largest total greenfield investment to Africa over the past decade (2003-12), some USD 133 billion, about 30% of total south-south investment for the period. The UAE's announced investment peaked in 2007-08. The country is mainly active in port and tourism infrastructure as well as telecoms. India and China followed with USD 52 billion and USD 45 billion respectively. (See the *African Economic Outlook* 2011 theme chapter on Africa's Emerging Partners for a more in-depth analysis.)

OECD countries' share of FDI to Africa decreased from USD 33 billion in 2010 to USD 21.9 billion in 2011. This explains the slower recovery of FDI to Africa following the 2008 economic crisis, compared to global FDI flows. The largest individual investors in 2011 were France and the United States with USD 5.7 billion and USD 5.1 billion respectively, followed by Italy and Germany. Over 2005-11, the United States was the largest investor with USD 37 billion, followed by France and the United Kingdom, both at around USD 31 billion.

Net merger and acquisitions (M&As) in Africa fell by about 10.7% to USD 7.2 billion in 2011 (UNCTAD 2012). This remains below the five-year average of USD 10.3 billion. Net M&As to South Africa increased from USD 3.9 billion to USD 5.2 billion, above the country's five-year average. South Africa remains Africa's main M&A destination, followed by Egypt and Nigeria with respectively USD 609 million and USD 539 million. The average deal value for the past three years decreased compared to the three years preceding the economic crisis. The average for 2005-08 was USD 123.7 million and USD 82.2 million for 2009-12. South Africa is the exception, recording an increase in the average value of deals.

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Outlook for direct investment in Africa

FDI to Africa is projected to increase by more than 10% in 2013, bringing it close to its record levels of 2008. The southern African region should see most growth, with new resource-seeking investment in Angola, Mozambique and South Africa. The global economic downturn nevertheless represents a risk. Fiscal consolidation in the United States and the protracted euro area crisis are slowing global demand, which could affect demand and prices for commodities. Conflict in Mali, unrest in northern Nigeria and lingering political uncertainty in Egypt could dampen investment prospects for those regions.

Market-seeking investment to Africa is likely to become more prominent. The continent's decade of strong growth has given households a growing purchasing power. This income increasingly attracts investors to Africa, ahead of commodity prices. The rapid move of populations into cities also drives demand for new types of services and goods. Policy continuity and political stability in Africa's middle-income countries, except for Egypt, Libya and Tunisia, improved the business environment, enabling more long-term investment. However, as long as strong global demand for resources sustains commodity prices, resource-seeking investment is expected to remain Africa's largest FDI driver.

Box 2.1. **Improving Africa's attractiveness: The NEPAD-OECD Africa Investment Initiative**

During 2011-12 the NEPAD-OECD Africa Investment Initiative completed Investment Policy Reviews (IPRs) in four Southern African Development Community (SADC) countries: Mozambique, Botswana, Tanzania and Mauritius. A review is also under way in Nigeria.

Examples of the policy impact of the initiative's work in 2012 include:

- Mauritius's budget process already features several recommendations, including codifying investment regulations in a single legal text; updating the country's Model Bilateral Investment Treaty; and streamlining the administration of Intellectual Property Rights. These are expected to be implemented in 2013.
- Botswana is considering grouping all legislation for investor protection and investment restrictions within an investment code – one of the central IPR recommendations.
- Tanzania's IPR feeds into the review of the Tanzania Investment Act 1997 and the 1996-2013 National Investment Policy.
- In Mozambique, following the IPR recommendations on infrastructure, the government expressed interest in a training programme on preparing and implementing public private partnerships in the energy sector.
- At the regional level, the 14 SADC members identified the OECD Policy Framework for Investment (PFI), on which IPRs are based, as the reference for the SADC Regional Investment Policy Framework. The Initiative is working with the SADC secretariat to design a regional framework, to seek greater competitiveness and co-ordination of investment policy across the region.
- In addition, the Initiative's work on encouraging private participation in infrastructure development has shed light on common challenges faced across southern Africa.

Source: NEPAD-OECD Africa Investment Initiative.

Outward African FDI

Total African investment in other countries halved to USD 3.5 billion in 2012 from USD 7 billion the year before (UNCTAD 2012). South Africa's importance for intra-African investment increased during the past decade and was equivalent to 6% of the country's GDP in 2011, according to the IMF. The main destinations for South African investment in Africa are Mauritius and Nigeria. Mauritius acts as a hub for investment in third countries. South Africa in particular plays an important role through its African Renaissance and International Cooperation Fund.

The value of announced intra-African greenfield investment dropped significantly to USD 3.1 billion in 2012 from an average USD 11 billion in the past three years (fDi Markets). African investors represented 7.7% of total announced greenfield projects in Africa in 2012. Totalling USD 27.3 billion, South Africa accounted for 45% of intra-African greenfield investment for 2003-12. Mauritius, Egypt, Kenya and Nigeria followed with USD 7.8 billion, USD 7.8 billion, USD 6 billion and USD 5.4 billion respectively.

Regional FDI

FDI to North Africa doubled in 2012 in a context of low investor confidence. The major risk to the 2013 outlook is lack of clarity and predictability in the region's economic policies. In **Egypt**, the realisation of two of Africa's largest announced greenfield projects in 2012, worth more than USD 5 billion, will depend on the return of political stability and reaching an agreement on an IMF loan.[6] **Morocco** is estimated to have exceeded USD 3 billion FDI for the first time in 2012, reflecting the positive investor perception of government reforms and the country's stability. Morocco expects to diversify investment into textiles, electronic components, offshore services and tourism as part of its Vision 2020 programme. A recent USD 1 billion investment by the French car manufacturer Renault in a car plant is expected to open the way for further auto industry finance. **Tunisia's** unclear economic policies and complex investment code bears on investors' confidence.

Table 2.2. **FDI flows to African regions**
(billion USD, current)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012 (e)	2013(p)
North Africa	4.9	3.2	4.0	5.3	10.7	19.8	21.7	20.9	16.4	13.8	5.8	10.2	10.8
West Africa	2.0	2.8	3.3	3.2	6.3	6.9	9.5	12.4	13.5	11.7	16.1	15.1	16.0
Central Africa	1.5	2.2	2.7	2.2	2.7	2.7	5.8	4.0	6.1	9.4	8.4	8.2	8.1
East Africa	1.6	1.6	2.5	2.8	4.1	5.6	5.4	5.3	4.4	4.5	4.8	6.6	7.3
Southern Africa	9.9	4.8	5.7	3.8	6.7	1.8	9.2	15.3	12.3	3.7	7.6	9.5	14.3

Note: (e) estimates, (p) projections.
Source: UNCTAD *World Investment Report* 2012; IMF *World Economic Outlook* 2012 for estimates and projections.

In 2012 West Africa remained the region that attracted the largest FDI volumes, estimated at USD 15.1 billion and sustained mostly by resource-seeking money. **Nigeria**, **Guinea**, **Ghana** and **Niger's** resource sector attracted an estimated 88% of total FDI to the region. **Nigeria's** largest announced greenfield project in 2012 amounted to nearly USD 2 billion to increase oil production. The other large greenfield projects for Nigeria were in manufacturing and information and communications, signalling some diversification. Portfolio inflows to Nigeria picked up in 2012 and surpassed FDI flows, which are on a downward trend. Lower transaction charges in Nigeria's stock market could have a further beneficial impact on portfolio investment. If this trend continues it might expose Nigeria to the risk of sudden capital flow reversals. Ghana is likely to see further investment in oil exploration and exploitation. The

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oversubscription of Ghana's bond issuance in January 2012 signals strong investor confidence in the country. Privatisation prospects in Togo are likely to raise investment for the country. Serious risks emanate from instability in the Sahel region and in northern Nigeria.

FDI flows to Central Africa stagnated at around USD 8 billion in 2012 and are projected to hover around that figure in 2013. FDI remained concentrated in the **Democratic Republic of the Congo** (DRC), **Congo Republic** and **Equatorial Guinea**, attracted by natural resources. These three countries are likely to continue receiving 80% of the region's FDI in the near future. FDI to Central Africa as a share of GDP averaged 6.4 % over the past decade. This is about twice the average of other regions and highlights the role of natural resources – especially oil – in the region's economic growth.

East Africa attracted an estimated USD 6.6 billion in 2012, above the USD 5.6 billion peak in 2006. On the back of recent resource discoveries in **Tanzania**, **Uganda** and **Kenya**, FDI is expected to exceed USD 7 billion in 2013. The expansion of household purchasing power, improved infrastructure and regional integration may trigger further investment in Kenya. Progress made under the United States-East African Community Trade and Investment Partnership could underpin investment in the medium term, in particular in Kenya's banking and booming telecommunications sectors.

FDI to southern Africa is projected to recover strongly in 2013 as a result of investment in Angola's oil sector and South Africa's power sector. In July 2012, ExxonMobil announced plans to invest USD 2.5 billion in a new oil extraction facility in **Angola**. The country's new legal framework is expected to provide better transparency and guarantees to investors in a move to develop the mining sector and diversify the economy. Chinese investment in Angola remains large and concentrated in oil, agriculture and construction. The sizeable offshore gas reserves discovered recently in **Mozambique** are likely to trigger significant inflows for coming decades (see the theme chapter in this volume). The liberalisation of **South Africa's** power sector is expected to facilitate FDI in electricity generation. Already in February 2012 India-based JSW Energy announced an USD 800 million greenfield project for a power plant. Investment in the country's sizeable mining reserves might be deterred to upward pressure on wages, strike threats and costly electricity. The current debate on resource nationalism in South Africa heightens policy uncertainty.

Portfolio investment

Portfolio investment recovered strongly to an estimated USD 20.1 billion in 2012, from USD 7.49 billion in 2011 (IMF 2012b). The IMF forecasts portfolio investment to increase to USD 26.2 billion in 2013, above the pre-crisis peak of USD 22.5 billion in 2006. This recovery is largely due to South Africa which saw inward portfolio flows triple from USD 6.5 billion in 2011 to USD 18.5 billion in 2012, close to its pre-crisis level of USD 21.3 billion in 2006. The second largest recipient was Nigeria with USD 6.7 billion. Jointly they accounted for 95% of total portfolio flows to Africa in 2012. Their share of total FDI to Africa is projected to increase from 40% in 2012 to 46% in 2013 (IMF 2012).

Portfolio outflows from Africa decreased from USD 8.5 billion in 2011 to an estimated USD 6.5 billion in 2012. South Africa and Angola represented 78% of this, with USD 3.9 billion and USD 1.2 billion respectively. Egypt saw a negative portfolio flow for the second straight year. The IMF estimates USD 3.9 billion left the country in 2012. These capital outflows, the result of political instability following the ousting of President Mubarak in 2011, are a serious threat to the economy. DRC and Libya also saw negative portfolio flows, worth USD 2 billion and USD 0.4 billion respectively.

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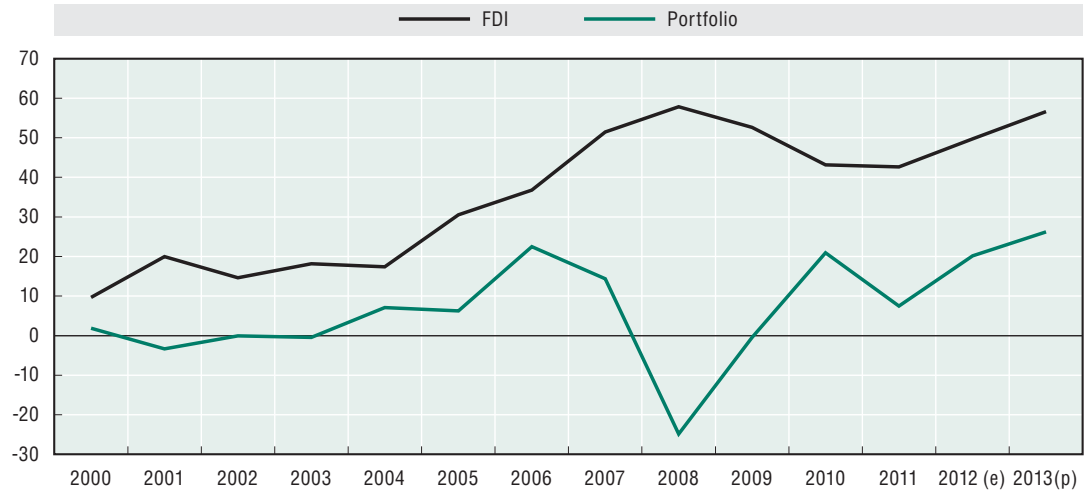
Figure 2.5. **Foreign direct investments and portfolio investments to Africa**
(billion USD, current)



Note: (e) estimates, (p) projections.
Source: UNCTAD *World Investment Report*; IMF *World Economic Outlook*.
StatLink http://dx.doi.org/10.1787/888932807265

Portfolio investment stocks in Africa remain highly concentrated. In 2011, according to the IMF's co-ordinated portfolio survey, the portfolio investment stock in Africa was USD 200 billion.[7] This is roughly five times the portfolio stock of a decade earlier and reflects the increasing importance of these flows to Africa. Over 80% of the stocks are held in South Africa and northern Africa, with South Africa alone representing 70%. This balance has remained unchanged for ten years. In recent years, Mauritius has consolidated its position as an investment gateway to Africa, with USD 15 billion in portfolio investment stock, second to South Africa. In 2011 the United States held the largest stock of African portfolio investment, worth USD 86 billion, representing 43% of the total stock.

Official development assistance

According to the latest OECD Development Assistance Committee (DAC) figures, nominal aid volumes to Africa increased from USD 47.9 billion in 2010 to USD 51.2 billion in 2011. This represents a real increase of 0.6% in 2010 constant USD. These are the highest nominal aid flows to Africa ever and are the result of a USD 3.22 billion in nominal bilateral aid volumes between 2010 and 2011. This made up for the decline in multilateral aid for the second year in a row from USD 18.3 billion in 2010 to USD 17.9 billion in 2011.

So far, African countries have been spared severe ODA cuts in comparison to global net ODA flows which decreased by 2.7% in real terms – the first fall since 1997. Indeed, in real terms, total net ODA disbursements to Africa remained at their 2010 level as shown in Figure 2.6. There are different trends in the disbursements however. Bilateral aid to core development programmes and projects (*i.e.* excluding debt relief grants and humanitarian aid) decreased for a second year in a row. Humanitarian aid reached a record level of USD 5.6 billion and compensated for other components of bilateral aid. Humanitarian aid averaged USD 3.8 billion in the period 2000-10. Bilateral debt relief in 2011 dropped to USD 3.8 billion, compared to USD 4.4 billion in 2010.

OECD/DAC nominal assistance volumes amounted to USD 134 billion in 2011 compared to USD 128.5 billion in 2010. This represented 0.31% of the combined gross national income of DAC countries in 2011 compared to 0.32% in 2010. This relative decline reflects increasing

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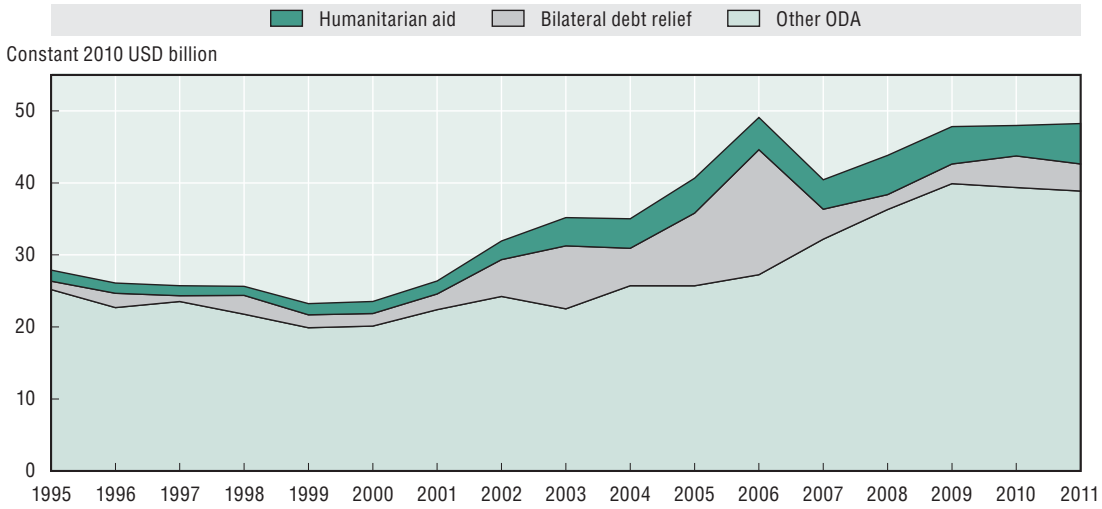
fiscal constraints in donor countries. Sixteen OECD countries recorded ODA cuts, with the largest in Austria, Belgium, Greece, Japan and Spain. Against this background, Africa's share of total net ODA (bilateral and imputed multilateral) was 38%, up from the 2000-10 average of 37%.

Figure 2.6. **Net official development aid disbursements to Africa**



Source: OECD/DAC.

StatLink http://dx.doi.org/10.1787/888932807284

Net bilateral ODA from DAC countries still represents the largest share of total net official assistance volumes to Africa. Their share of total ODA has remained stable at about 64% for the past five years. Multilateral ODA provides around 35% of the net total, with the remaining 1% attributed to non-DAC countries.

Smaller OECD donors to Africa tended to reduce assistance to Africa. Yet, in 2011 this decrease was still compensated by an increase in assistance from the largest DAC donors to Africa: the United States (USD 9.4 billion), France (USD 4.6 billion), United Kingdom (USD 3.4 billion) and Germany (USD 2.6 billion). All four increased their official assistance to the continent, totalling 61% of bilateral DAC ODA to Africa. Ten DAC countries lowered their ODA volume to Africa in 2011: the largest being Austria (-50%) followed by Greece (-47%) and Spain (-44%).

ODA outlook: country programmable aid

In 2013, according to the latest OECD/DAC survey on donor forward spending plans, Country Programmable Aid (CPA) volumes to Africa should stabilise around USD 41.9 billion.[8] For 2014 and 2015 the survey indicates a decrease of CPA to Africa to USD 40.5 billion and USD 39.6 billion respectively. These projected values are slightly higher than the last observed peak of USD 39 billion in 2009. In 2012, CPA to Africa is estimated to increase to USD 41.1 billion from USD 37.6 billion in 2011. This should come from an expected increase in outflows from multilateral agencies, which reflects the delayed effect of earlier replenishment rounds to enable developing countries to overcome the impact of the economic crisis.

While overall CPA to Africa should remain stable in 2013, the distribution by recipient country is expected to change. The largest projected increase in CPA flows is expected in DRC, Kenya and Senegal with respective increases of USD 214 million (+13%); USD 167 million (+7%) and USD 102 million (+13%). Guinea-Bissau is likely to see CPA increase by 39%, which reflects

the expected resumption of ODA after a *coup* attempt in April 2012 caused the suspension of development aid. The strongest declines are expected in Côte d'Ivoire, Rwanda and Ethiopia by USD 111 million (-20%), USD 92 million (-8%) and USD 83 million (-3%) respectively.

CPA per capita in 2012 is expected to increase from USD 37 to USD 39, due to higher flows to large population countries such as Nigeria, Kenya, Tanzania, Uganda and Egypt. From 2013 onwards, CPA per capita is projected to decrease as the result of sustained population growth and the stagnation of CPA flows. This would end the trend of increasing CPA per capita over the past decade.

In 2012, Africa's share of global CPA is estimated to increase to 42%, from 41% in 2011. This is the second year in a row that Africa has attracted more CPA than Asia (USD 38.8 billion, or 40%). Going towards 2015 the difference is expected to disappear, with both regions projected to attract about USD 39.5 billion, or about 41% of total CPA.

The decreasing CPA trend indicates that ODA volumes to Africa in the short term will at best remain stable in nominal values. This is mainly driven by low-income countries which are likely to receive a relatively larger share of global ODA, while they make up half of African countries.

Significant short-term risks to this outlook remain. Fiscal pressures on donors are likely to persist for years. An April, 2012 OECD report highlighted that the United States and the United Kingdom would require significant fiscal consolidation to maintain their debt sustainability by 2050. The two countries represented about 32% of total ODA to Africa in 2011. OECD research (1996) on the impact of recession on aid budgets indicated that it takes three to five years for aid budgets to reflect the full impact of a shrinking economy. In addition, given current events in the Sahel region and in North Africa, it is likely that development partners will change some of their ODA projects.

Box 2.2. **Under-aided countries**

There is no agreed definition of what constitutes an under-aided country. It can be in absolute or relative terms. Receiving insufficient aid in absolute terms means not being able to finance needs to meet the Millennium Development Goals (MDGs) or other development goals – a situation many countries face. The OECD-DAC instead determines which low-income countries are under-aided in relative terms – that is, receiving less aid relative to others that have similar needs and characteristics.

Some countries are under-aided in part because of inadequate co-ordination amongst donors of their individual incentives, frameworks and priorities. Development assistance providers rarely take into consideration the decisions of other actors when making their own allocations. The recent decision by several donors to focus development assistance on fewer countries has aggravated the situation, with donors exiting from some of the same countries. Besides, there is no commonly agreed framework or co-ordination mechanism for development providers to seek analysis of aid allocation patterns.

The OECD-DAC has developed a methodology and established an initial framework for identifying potentially under-aided countries, based on research initially conducted by the World Bank. It draws on four established aid allocation models that are based on countries' needs/poverty and/or institutional performance. Two of them, the UNDP-TRAC-1 aid allocation model and the IDA 15 performance-based allocation model, are currently applied by the United nations Development Programme (UNDP) and the World

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Bank. The egalitarian model and the Collier/Dollar poverty-efficient aid allocation model are more theoretical even though they are partially adopted in other aid allocation approaches. The models range from more simplistic approaches that assume equal aid per capita to more sophisticated formulas based on countries' past institutional performance, poverty levels and income. The amount of aid that countries would receive if all aid was distributed according to these four allocation models is compared to the actual volume of aid that countries receive today. Countries that are found to receive significantly less aid than the models would indicate relative to their needs and institutional performance are considered "under-aided".

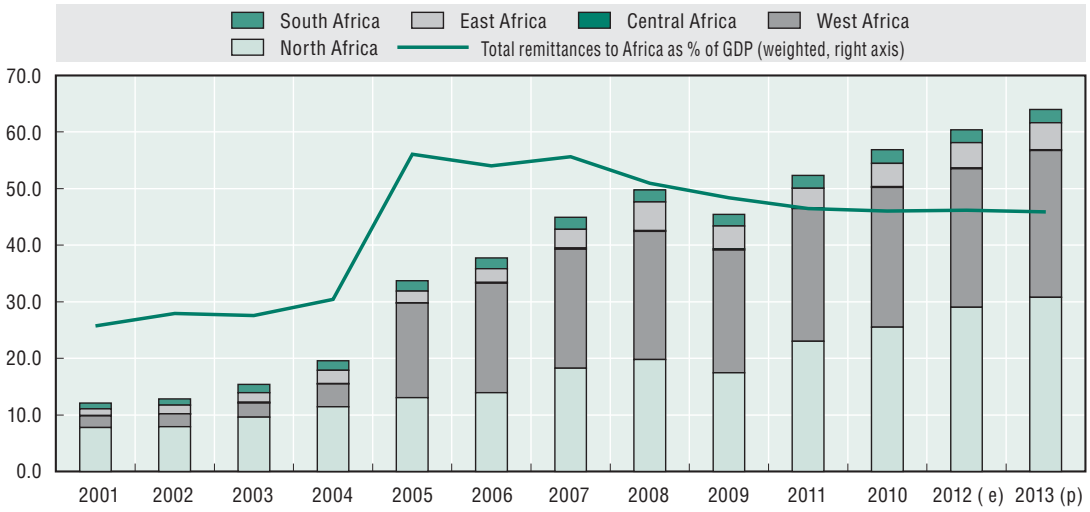
The most recent data find that nine countries – Bangladesh, Burkina Faso, Gambia, Guinea, Madagascar, Malawi, Nepal, Niger and Togo – are potentially under-aided according to needs- and performance-based aid allocation criteria. These are all least developed countries with significant MDG gaps and with limited institutional capacity. Most of the aid they receive is in the form of grants and concessional loans from multilateral agencies. In addition, many of these countries appear to be the chronically under-aided, according to the same criteria, over at least the past five years. The DAC High Level Forum in December 2012 agreed to systematically monitor under-aided countries, and the OECD will therefore play a key role in refining the methodology.

Source: OECD/DAC (2012) *Identification and Monitoring of Potentially Under-aided Countries*.

Remittances

In 2012, for the first time, remittances became the largest external financial source to Africa, ahead of FDI and ODA. In sub-Saharan Africa an estimated 13% of remittances come from other African countries (AfDB). They amounted to USD 60.4 billion compared with USD 56.9 billion in 2011 (World Bank, 2012b). This is a record for the third year running, following the 2009 global financial crisis. Remittances to Africa represented 11% of global remittances in 2012, compared to 8% in 2001. This estimate does not include the unrecorded flows through formal and informal channels. The true size of remittance flows to Africa is expected to be even larger.[9] Remittances are an important source of revenue for some 120 million people in Africa to support consumption, education and health expenses.

Figure 2.7. **Remittances to Africa**
(billion USD, current)



Note: (e) estimates, (p) projections.
Source: World Bank 2012. Authors' calculations for 2012 and 2013 data based on World Bank projections.
StatLink http://dx.doi.org/10.1787/888932807303

Remittances to African countries are unevenly distributed (Figure 2.7). In 2012, northern and western Africa received 89% of total remittances. This is an increase from the early 2000s when their share averaged 80%. Their proximity to Europe and their population size explain those figures. Nigeria and Egypt together represented 64% of total remittances to Africa with respectively USD 21 billion and USD 18 billion. Sudan, Kenya and South Africa are the only countries from other regions that received over USD 1 billion in remittances. They received USD 1.4 billion, USD 1.3 billion and USD 1.1 billion respectively.

Northern Africa represented 90% of the USD 3.9 billion increase in remittances in 2012. Eastern Africa recorded the remaining remittances, worth USD 400 million. This is a 10% increase compared to 2011. Western Africa and southern Africa saw their remittances decrease by 1% and 9% respectively. These drops are due to lower recorded remittances in large recipient countries such as Côte d'Ivoire, Senegal, South Africa and Mozambique.

The importance of remittances expressed as a share of GDP is also very heterogeneous across Africa. In 2012 the average share of remittances to GDP in Africa equalled 3.0%. This has been stable throughout the past decade. However, for some countries remittances represent a pillar of economic growth. Table 2.3 shows the 15 African countries with the largest share of remittances to GDP for the period 2005-11. Migrant workers to South Africa explain the importance of remittances to Lesotho's economy.

Table 2.3. **Average share of remittances to GDP (Top 15 African countries)**

	Average (2005-11) in %
Lesotho	35.4
Nigeria	10.4
Senegal	10.4
Cape Verde	10.4
Togo	10.3
Gambia, The	9.0
Liberia	7.9
Morocco	7.7
Egypt	5.3
Guinea-Bissau	5.1
Tunisia	4.4
Mali	4.4
Uganda	4.3
Benin	3.6
Sudan	3.6

Source: Authors' calculations based on World Bank data.

Intra-African remittances rose from USD 3 billion in 2000 to USD 5.7 billion in 2011. By contrast, their share in total remittances to Africa decreased from 25% in 2000 to 10% in 2011. South Africa is an important destination for migrants and represents the largest share of intra-African remittances with USD 1.4 billion in 2011 (World Bank, 2012a and b).

Since 2008, Africa has been the most costly region of the world to send remittances to. In 2012, it cost an average 12.4% of the transferred sum to send money to Africa, whereas for South Asia it was only 6.6% (World Bank's Remittance Prices Worldwide Database). Sending money to South Africa, Tanzania and Ghana is even more expensive, costing respectively 20.7%, 19.7% and 19%. The international community has yet to live up to its commitment to reduce the cost of remittances by 5% by 2014.[10] This could save up to USD 4 billion annually, according to World Bank calculations.

"*Send Money Africa*" indicates that increasing competition for cross-border payments would lower transaction costs. Banks, the most expensive remittance service provider, are often the only channel for African migrants. Regulatory hurdles slow the introduction of

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cheaper alternatives and new technologies such as mobile money transfers. M-Pesa in Kenya and Tanzania are successful examples, but the regulatory void between telecom and financial regulations complicates the development of international mobile remittances. In addition, allowing customers to make informed decisions requires more transparent information.

The scope is still wide for policy makers to harness remittances for productive investment. Policies that lower the cost of remittance services may help reduce poverty and increase the financial inclusion of rural households which typically are prone to credit-rationing. At macroeconomic level, "formal" remittances could be a source of development finance and facilitate financial and human capital accumulation through increased spending on education and health. However the risk of Dutch disease effects following exchange rate appreciations due to large remittance inflows remains. And this could undermine the competitiveness of non-traditional sectors and hamper much-needed structural change.

Outlook for remittances

According to the World Bank, remittances to Africa are projected to keep increasing in the medium term, but at a slower pace than in the second half of the 2000s. In 2013, recorded remittances to Africa are projected to increase by 6% to USD 64 billion, against a 7.9% increase to other developing regions. The large African diaspora in Europe, which suffers from the euro area crisis, might be an explanation for this. The average growth rate of remittances to Africa for the past 10 years has been 17%.

Risks to this outlook stem from any further global economic downturn and policy tightening towards migrants. So far, migrants have sustained the volume of transfers throughout the crisis, but as they face tougher economic conditions they may have to reduce payments. According to the *OECD International Migration Outlook* (2012b), migrant unemployment rates have increased faster than those of native-born workers in France, Greece, Italy, Spain and the United Kingdom since early 2009. Migrant workers in Spain had an unemployment rate of 31.5% compared to 19.5% in 2011. The weaker employment prospects in key countries such as Italy, Spain and the United Kingdom might affect the prospects for future transfers to Africa.

Taxation

Government tax revenue reached a record USD 513 billion in 2011, after USD 466 billion in 2010, according to this year's AEO. Tax accounted for 26.8% of Africa's GDP, up from 26.6% in 2010. The tax share peaked at 31.1% in 2008 as the financial crisis struck, which suggests there is still room to increase tax revenues. The 2011 figure was cut by the conflict in Libya. Libya's tax revenues, which come 90% from oil, plummeted from USD 48.6 billion in 2010 to USD 13.5 billion in 2011.

From 2000 to 2011, Africa's tax share increased by an annual compound rate of 0.3% (Figure 2.8). Resource taxes as a share of GDP increased by an annual rate of 0.9%. Over the same period, direct taxes and indirect taxes as a share of GDP increased at an annual compound rate of 1% and 0.5% respectively. The share of trade taxes in GDP declined at an annual rate of 5 %.

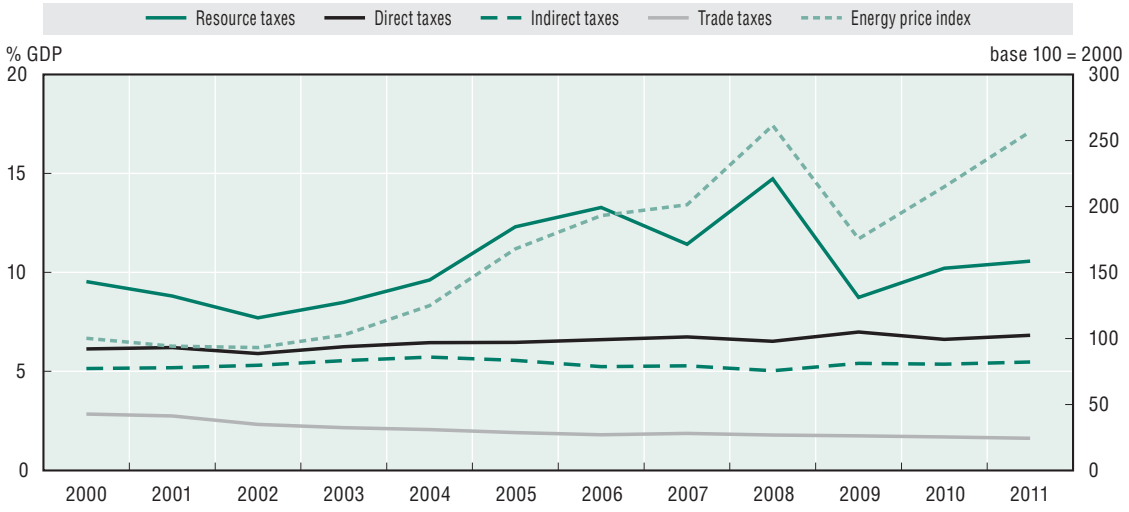
Direct taxes represent more than 10% of GDP for South Africa, Namibia, Seychelles, Lesotho, Zambia, Zimbabwe and Malawi. Since 2000 Mozambique, Uganda, Algeria, Niger, Mali and Tanzania saw the biggest increase in the share of direct taxes in GDP. They grew at an annual compound rate of more than 7%. Indirect taxes represented more than 10% of GDP for Zimbabwe, Mauritius, Morocco, Mozambique, Djibouti, Senegal and Seychelles. Indirect taxes as a share of GDP increased strongest for Cape Verde, DRC, Comoros, Burkina Faso and The Gambia in 2000-11, growing at an annual compound rate of more than 10%. Trade taxes

have lost significant weight as a share of GDP for middle-income countries, decreasing at an annual compound rate of between 6.5% and 7%. In contrast the share of trade taxes in GDP for low-income countries grew at a compound rate of 0.1% after 2000.

Resources remain the foundation of tax collection in Africa, representing 10.6% of GDP. They accounted for an average 40% of total tax collection for 2008-11, compared to an average 35% for 2000-04. In 2011 resource taxes accounted for half the increase in tax collection. In Angola, Libya, Congo Republic, Equatorial Guinea, Algeria, Chad and Nigeria resource taxes represented more than 20% of GDP in 2011. Nigeria, Algeria, Angola and South Africa, all resource-rich countries, accounted for more than 75% of the increased taxes collected in Africa in 2011.

Africa's resource taxes rely on volatile international commodity prices (Figure 2.8). On the back of the commodity price boom between 2002 and 2008 resource taxes increased from about USD 45 billion to USD 230 billion. As the global economic crisis hit in 2009, resource taxes fell back to USD 129 billion. This drop in revenue was larger than the foreign investment and official development assistance that year. This highlights the importance for resource-rich countries to adopt macroeconomic management that smooths the impact of volatile commodity prices on their public finances (see this year's AEO theme chapter).

Figure 2.8. **The tax mix in Africa: Collected amounts for each type of tax as a share of GDP (weighted)**



Source: World Bank, Authors' calculation, based on *African Economic Outlook* country surveys, 2013.
StatLink http://dx.doi.org/10.1787/888932807322

The 2010 AEO argued that resource rich countries are driving "this remarkable quantitative rise in average tax shares across the continent", while non-resource rich countries have made most progress in broadening their tax base. After 2000 the GDP share of direct and indirect taxes for non-resource rich countries grew at an annual compound rate of 2.7% and 1.9% respectively. In contrast the same tax categories for resource rich countries recorded a lower annual compound growth of respectively 0.5% and 0.2%. Many non-resource rich African countries moved towards more politically onerous taxes such as those on consumption, wages and profits on ordinary types of activities. In contrast, resource-rich countries barely changed their tax mix over the past decade. Their increased tax collection came mainly from natural resources.

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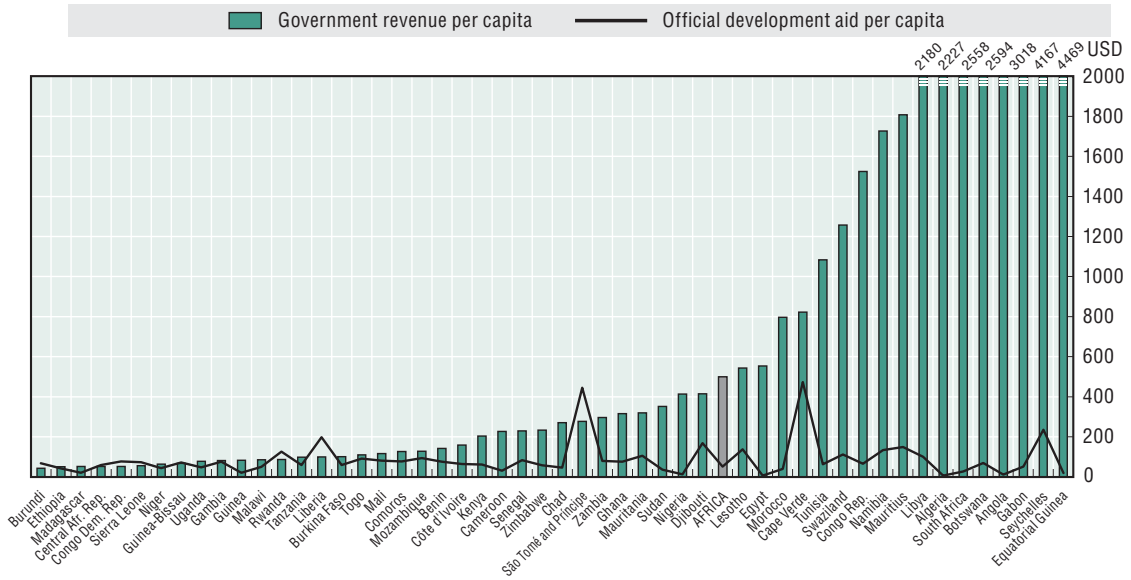
Only eight African countries continue to receive more aid per capita than tax per capita. If Africa was a single country, it would have raised, in 2011, ten times more tax revenue per citizen than aid. However, Figure 2.9 shows that at individual country level significant disparities persist. Thirty-two countries raise less than USD 365 per year per person. That kind of tax revenue is a major obstacle to providing proper public services. Eight African countries collect more than USD 1 825 per year per citizen. With the exception of the Seychelles, these are all resource rich-countries.

Figure 2.9. **Aid and government revenue per capita in Africa in 2011**



Note: "Government revenue" includes: direct taxes, indirect taxes, trade taxes, other taxes and non-tax revenue.
Source: Authors' calculations, based on OECD/DAC, IMF's *World Economic Outlook* and *African Economic Outlook* country surveys, 2013.

StatLink http://dx.doi.org/10.1787/888932807341

Moving reliance from foreign aid to domestic taxes increases the legitimacy and accountability of a government. A healthy public finance system is needed for rapid, equitable and sustainable growth. Government revenue should finance basic security, education, health services and public investment while avoiding inflationary financing (Di John 2009). Fair and efficient taxation forces the state to engage with taxpayers and move towards an equitable social contract.

Many countries face persistent challenges to raising tax revenues. Most African economies have large informal sectors that escape taxes. Excessive granting of tax preferences, inefficient taxation of extractive industries and the inability to fight transfer pricing abuses by multinational enterprises add to the obstacles. Severe capacity constraints of tax administrations combined with a lack of public trust that taxes will be well spent result in an unbalanced tax structure relying on a narrow set of taxes to generate revenues. Resource-related taxes typically distract governments from trying more politically demanding forms such as corporate income taxes, personal income taxes, value added tax excise taxes.

The 2010 *African Economic Outlook* signalled the importance of conducting policy reform in the right order. The tax base needs to be deepened in the short run by limiting tax preferences and negotiating fairer taxation with multinationals. In the medium term the capacity of the tax administration should be raised. In the long run, African countries must improve the balance between different taxes. Eventually it becomes a story of strengthening the fiscal legitimacy of the state, which must be accompanied by a public debate on better governance, transparency and the use of the increased public resources for the government.

Africa's "haves" and "have-nots"

After one record level in 2011, external financial flows reached a new record high of USD 186.3 billion in 2012. Foreign investment and remittances drove this recovery. Both surpassed aid as the most important external source of finance for Africa. Sub-Saharan Africa has been particularly dynamic in attracting an increasing share of external financial resources after the 2008 economic crisis. In contrast, with the notable exception of Morocco, the full resumption of foreign investment to northern Africa has been lagging due to lingering political unrest and economic policy uncertainty in the region. Through their impact on investment and tax revenue, the evolution of commodity prices will determine future external financial flows to Africa.

Looking at individual financial flows before and after the 2008 economic crisis, we find two major trends. Firstly, remittances have become a crucial source of finance to Africa and overtook aid and FDI for the first time. The second is the confirmation of Africa's increased integration with emerging economies. Not only through trade – as highlighted in the 2011 *African Economic Outlook* – but increasingly so through investment flows. Indeed, given the sluggish economic growth in OECD countries, investment in Africa increasingly comes from emerging economies. Although this provides an opportunity to further diversify trade and investment partners, the majority of investment from emerging economies is resource-seeking.

The increased external financial flows reflects Africa's projected economic dynamism and its improved macroeconomic management. However, the external financing is highly concentrated in a handful of countries. Five countries account for more than 50% of total external flows: Nigeria, South Africa, Egypt, Morocco and DRC. Indeed, these populous, resource-rich countries offer large potential markets for foreign investors and have a strong diaspora for sustained remittance inflows.

In contrast, half of African countries rely on aid as the largest external source of finance for development needs. These are mostly post-conflict countries, resource-poor, small economies, landlocked or a combination of these characteristics. Strong population growth combined with the likely stagnation of aid in the near future will lead to a further decrease of aid per capita. The donor community needs to pay special attention to vulnerable countries, which may suffer the most should the global economic downturn worsen.

Volatile commodity prices can have a strong impact on investment and tax revenue in Africa. It is important that African policy makers lower their exposure to these potentially strong external shocks as well as ensure that resource wealth benefits the entire population and future generations. The specific policy challenges these entail are further discussed in this year's thematic chapter.

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Notes

1. These estimates are based on World Bank data. The revised figures, made available end of 2012, indicate that recorded remittances have already surpassed FDI and ODA since 2010.

2. The sum of these shares exceeds 100% as portfolio inflows to low-income countries recorded negative figures. These negative figures represented disinvestments in the DRC and in Eritrea.

3. UNCTAD definition of investment flows.

4. Resource-rich countries include: Algeria, Angola, Botswana, Cameroon, Chad, Congo Republic, DRC, Côte d'Ivoire, Egypt, Equatorial Guinea, Gabon, Ghana, Guinea, Liberia, Libya, Mauritania, Namibia, Nigeria, Sierra Leone, South Africa, South Sudan, Sudan and Zambia.

5. fDi Markets is an online database tracking cross border greenfield investment covering all sectors and countries worldwide. It provides real-time monitoring of investment projects, capital investment and jobs.

6. Qatar Petroleum International plans to build a USD 3.6 billion new oil refinery in Cairo. Emaar Properties, based in the United Arab Emirates, is investing USD 2 billion in real estate in Cairo.

7. The CPIS collects information on the stock of cross-border holdings of equities and debt securities from 75 investor countries and territories (IMF 2013a)

8. Country Programmable Aid (CPA) is a sub-set of gross bilateral ODA that measures actual transfers to partner countries. CPA is critical for delivering international aid commitments in support of the MDGs, but also represents the proportion of aid that is subjected to country allocation decisions by the donor. For more information, see: www.oecd.org/dac/aid-architecture/cpa.htm.

9. According to Freund and Spatafora (2005) up to a share of 75% of total remittances to Africa are not officially recorded. This share is larger than in other continents.

10. The "5x5" objective is the G8's commitment to reduce the cost of remittances by 5% by 2014. The commitment was made at the 2009 Aquila Summit. It was endorsed by the G20 in 2010 which established a "Development Action for Remittances".

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Chapter 3

Trade policies and regional integration in Africa

China, India and Brazil are consuming more and more of Africa's oil, commodities and manufactured goods. The emerging economies are steadily eating into the lion's share of the African export market held by Europe and the United States. Africa is also seeking to push regional integration to improve its trading prospects, but the going has not been easy. This chapter explains how Africa's export trade has changed and what still needs to change.

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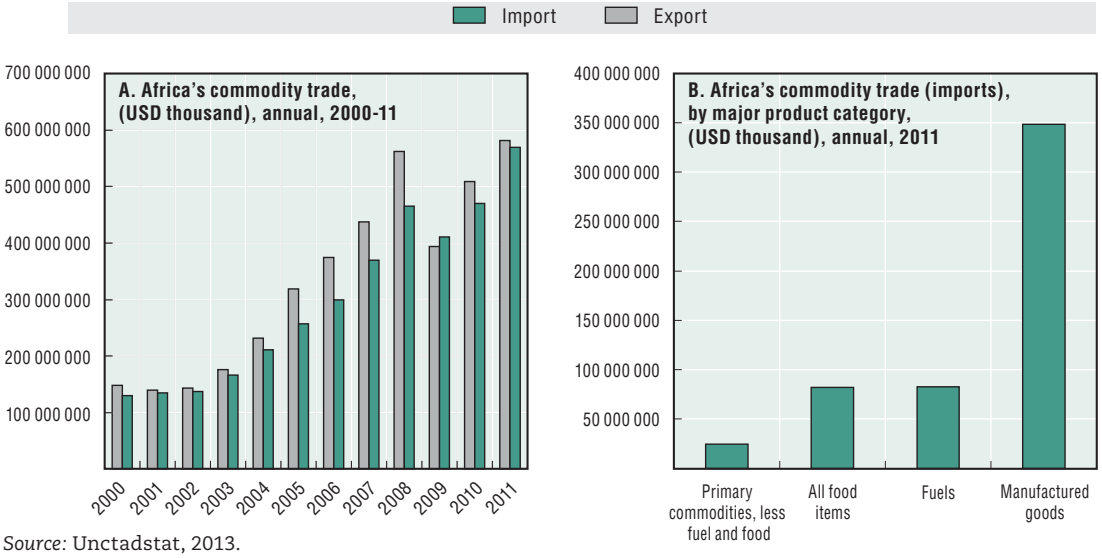
Africa's exports move towards emerging economies

The European Union and the United States are Africa's key export markets but China, Brazil, India and other emerging economies have dramatically increased their share of the continent's exports.

From 2000 to 2011 Africa's exports almost quadrupled in value, from USD 148.6 billion a year to USD 581.8 billion, according to the UN Conference on Trade and Development (UNCTAD) figures. Two trends are noticeable. First, the European Union and the United States saw their share of Africa's exports fall – from 47% in 2000 to 33% in 2011 in the case of Europe and from 17% to 10% for the United States. Second, the emerging economies increased their trade. China increased its share of African exports from 3.2% in 2000 to 13% in 2011; India from 2.8% to 6%; Brazil from 2% to 3% and the Russian Federation from 0.2% to 0.3%. Emerging economies took 8% of Africa's exports in 2000. This had mushroomed to 22% in 2011.

Figure 3.1 **Africa's commodity trade**



Source: Unctadstat, 2013.

StatLink http://dx.doi.org/10.1787/888932807360

Primary products remain the overwhelming export. Their share in total exports increased from about 72% in 2000 to about 78% in 2011. The share of manufactured goods in the total declined from 21% to 16% over the same time. Oil was the main export. It accounted for 51% of total African exports in 2000 and 57% in 2011.

In 2000, Africa exported about USD 76.6 billion of oil. Some 44% went to the European Union and 25% to the United States. At the same time, fuel exports to China accounted for about 4.4% of the total, Brazil 3%, India 2.9% and Russia barely any at all. Africa's exports of manufactured goods came to about USD 31.7 billion. About half went to the European Union and 10% to the United States. India accounted for 2.7%, China 0.8%, Brazil 0.7% and Russia 0.1%.

By 2011, Africa's exports of primary commodities, particularly oil, had jumped to about USD 334 billion in value. The market shares had completely changed. The European Union's share of African oil declined to 31% while that of the United States went down to about 22%. Oil exports to the emerging economies shot up. China's share grew to 13.6%, India's to 7.5%, Brazil's to 4% and Russia's to 0.3%.

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Africa's exports of manufactured goods to the European Union declined from 44% of the total in 2000 to 39% in 2011. The United States share went from 25% in 2000 to 9% in 2011. Again, the emerging economies took a lot more African goods. By 2011, India's share of Africa's manufactured exports had grown to 2.9%, China to 2.7%, Brazil to 1.8% and Russia to 0.3%. Their combined total of 7.7% compared to 4.3% in 2000.

There were three key drivers to the change in Africa's markets. The price of the resources, particularly oil, which are the main export, increased over the decade boosting the value of the exports. This trend is bound to continue since new oil deposits have been discovered in Ghana with estimated oil reserves of about 1.8 billion barrels and Uganda with about 2 billion barrels. Other African countries with recent oil discoveries include Kenya, Ethiopia, Sierra Leone, Sao Tome and Principe (Aryeetey and Asmah, 2011). China became an avid consumer of Africa's primary commodities. In 2000, the value of Africa's exports of primary commodities (excluding fuel and food) was USD 15.6 billion and China accounted for 4.8% of the export market. By 2011, China's market share was 28.8% of total primary commodity exports (excluding fuel and food) of about USD 70 billion.

It is important to note, however, that despite the changes the European Union and the United States remain the most important export markets for Africa.

Regional integration in Africa

African leaders are seeking to fast track regional integration first agreed in the 1991 Abuja Treaty. The treaty, which aimed for the creation of a competitive single market African Economic Community (AEC) and a single currency, entered into force in 1994. All African countries have ratified the AEC except Morocco, which withdrew from the Organization of African Unity (OAU) in 1984. The general concern is over the slow implementation of the stages, not in line with the agreed framework. African countries now recognise, however, the importance of speeding up the process.

With their small economies, a number of African countries face stiff competition on international markets and have less bargaining power at international bodies such as the World Trade Organization and negotiating economic partnership agreements.

Trade between African countries is currently estimated at 10%–12% of the continent's total, a long way behind other regions. Based on 2009 figures, trade within North American countries was about 48% of the total, while 72% of Europe's trade is between the countries in the region and the figure for Asia was 52%.

To help them, the African Union (AU), United Nations Economic Commission for Africa (UNECA), the African Development Bank (AfDB) and regional economic communities are developing policies and frameworks aimed at accelerating integration. Efforts are needed to improve the low levels of intra-African and international trade.

Regional communities such as the Common Market for Eastern and Southern Africa (COMESA), the East African Community (EAC) and the Southern African Development Community (SADC) are moving toward creating a single bloc. The three groups have 27 countries which would like to form a single market. But the heads of the groups face challenges setting trade rules and will need to take bold decisions if the proposed free trade area is to be realised.

The Abuja Treaty set out six stages to integration. But the process has been confronted by limited financial resources, the setting of tariff and non-tariff barriers, the slow pace of

implementation of a protocol on free movement of goods and services across frontiers and internal conflict in some countries. The objective of pan-African integration, particularly in creating a larger market, is still far from being realised.

Continental Free Trade Area

A summit of AU leaders in January 2012 endorsed a new action plan to boost trade between the continent's countries on the basis of the closer links being built between COMESA, EAC and SADC. The summit noted the slow progress of implementing the Abuja Treaty and set a target of 2017 to establish a Continental Free Trade Area (CFTA) to bring together Africa's small and fragmented economies into a single market. The global economic crisis has increased pressure on Africa to speed up its integration and be ready for new challenges and the proposed CFTA would significantly boost this effort.

Main objectives of Africa's Continental Free Trade Area

- Create a single market for goods and services, with free movement of business people and investment, paving the way for a continental customs union.
- Expand trade within Africa through better harmonisation and co-ordination of trade liberalisation regimes within regional economic communities and across Africa in general.
- Resolve the challenges of multiple and often overlapping groups to improve regional and continental integration.
- Enhance business and industrial competitiveness by exploiting opportunities for larger scale production, continental market access and better reallocation of resources.

The road map to Africa's free trade area

The slow progress in implementing the Abuja Treaty has put Africa at a disadvantage in the increasingly global economic arena. Speeding up the establishment of a Continental Free Trade Area would significantly increase trade between countries on the continent and act as an engine of growth and sustainable development. The heads of state of COMESA, the EAC and SADC are aiming for a tripartite free trade area between the groups which could serve as a useful model for a new approach. Other regional communities are expected to use this tripartite initiative to boost their own efforts.

Free trade area timeline

2012-13

- Baseline studies, negotiations, consensus building, protocol.

2014- 17:

- Start a phased liberalisation of trade in goods, start liberalising tariffs, rules of origin, customs procedures and simplifying customs documentation, transit procedures, non-tariff barriers, trade remedies, technical barriers to trade and sanitary and phyto-sanitary measures.
- Liberalisation would focus on products where tariffs are currently at zero duty, while sensitive products are dealt with later.
- Launch efforts to improve production capacity development and competitiveness.

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2017-19:

- Preparations for a Continental Customs Union in 2019 in line with the Abuja Treaty.
- Liberalise trade in services – with tourism, financial services, transport and communications among possible frontrunners.
- Service sectors with some liberalisation already launched could be further deregulated alongside a liberalisation in goods. (*e.g.* trade-related transport services, tourism, financial services such as cross-border banking).

Placing regional integration into national development strategies

Various studies have been conducted on how to include gender, trade, climate change and other sector policies into national development plans and strategies. However, there is only limited general information on mainstreaming regional integration. It is clear though that the process has to overcome the slow pace of implementing regional integration agreements and putting decisions taken at continental and regional levels into domestic development plans and strategies on economic growth, poverty alleviation and socio-economic development. Action at a national level remains weak however. A number of countries have yet to fully integrate agreed decisions into their development strategies.

Governments lack financial resources and skilled personnel for regional integration. There are poor institutional arrangements at continental, regional and national level for such action and only limited consultations between those involved. African countries are trying to tackle overlapping membership between regional groups however. AU heads of state decided in 2006 to halt the creation of new regional economic communities (RECs) and recognise only the eight existing ones and the efforts at the time to create the COMESA-EAC-SADC Tripartite. No member state would be able to belong to more than two RECs, while the focus is put on creating the free trade area. In short, some countries have made progress integrating regional decisions and activities, but others have fallen behind (UNECA, 2012).

To step up co-ordination, the AU summit set up a Conference of Ministers in Charge of Regional Integration to holistically look into the implementation of protocols, harmonisation of policies and programmes, and co-ordination between RECs.

Regional integration requires the participation of government, civil society, the private sector and development partners at all levels. But, while countries have designated ministries or departments in charge of regional integration, there is still often a lack of co-ordination between that service and other stakeholders. A number of decisions and protocols agreed at summits have not been adopted at national level because of inadequate consultations, a lack of information and other reasons. A 2012 survey by UNECA showed that some ministries were not aware of some agreed protocols which they were meant to implement. Some 43% of respondents reported that the level of consultations was weak, while the same percentage indicated that the levels were strong. Only 14% said consultations were very strong.

One major impediment to boosting regional integration is a lack of finance. Many governments do not have a specific budget for activities and programmes on the topic. They need to allocate resources to integration. For too many authorities, it is an ad hoc activity and they will only allocate resources when a request is made or political pressure applied. Many national development strategies do not take into account regional integration or any analysis on the impact.

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Putting regional integration into the mainstream of national policies will also not become effective without an appropriate monitoring mechanism. Several countries do not have proper reporting of the implementation efforts between their governments and regional and continental bodies. There is a need for a way to channel feedback. Despite efforts by the AU and the regional economic communities, there is no mechanism to enforce agreed decisions on regional integration, nor any sanctions for those countries which do not carry them out.

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Chapter 4

Human development in Africa

Africa's human development – expanding the choices of its people and giving them a chance to lead full lives – has improved but is still struggling against inequality and low investment in the continent's population. Africa's natural resource wealth can be used for economic diversification to improve people's lives and this chapter argues that good practices exist and policies can be designed to advance sustainable human development.

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In 2012 for the first time, an African country – the Seychelles – reached the top level of the UN Development Programme's Human Development Index (HDI), highlighting advances made on the continent to improve education, health and social wellbeing. There is still work to be done though on transforming economies to make these changes possible and making public and private investment more effective and equitable.

The concept of human development was first put forward in 1990. By adding the criteria of enhancing an individual's skills and ability to determine his or her own fate to that of income level, it has had a profound impact on the debate on how to boost quality of life.

The HDI – a composite of indicators on life expectancy, education and command over the resources needed for a decent living – is the main assessment of Africa's human development. The 187 countries around the world are classified in four groups denoted as being of "very high", "high", "medium", or "low" development. Africa's breakthrough came with the Seychelles achieving a "very high human development" ranking in 46th place, ahead of wealthier states in Europe and the Middle East. Libya, Mauritius, Algeria and Tunisia were put in the "high" group and ten African countries in the "medium" sector. The remaining 37 African countries are in the "low" human development category, and that is without South Sudan being included. Many countries with a "low" ranking are still improving rapidly with the biggest improvements in Angola, Burundi, Ethiopia, Mozambique, Rwanda, Sierra Leone and Zimbabwe. These countries have a rising life expectancy and incomes, but low educational attainment is holding them back.

Table 4.1. **Human development in Africa**

Very high and high human development	Medium human development	Low human development	
Algeria	Botswana	Angola	Liberia
Libyan Arab Jamahiriya	Cape Verde	Benin	Madagascar
Seychelles	Egypt	Burkina Faso	Malawi
Tunisia	Equatorial Guinea	Burundi	Mali
	Gabon	Cameroon	Mauritania
	Ghana	Central African Republic	Mozambique
	Morocco	Chad	Niger
	Namibia	Comoros	Nigeria
	South Africa	Congo	Rwanda
	Swaziland	Congo, Dem.Rep.	Sao Tome and Principe
		Côte d'Ivoire	Senegal
		Djibouti	Sierra Leone
		Eritrea	Sudan
		Ethiopia	Tanzania
		Gambia	Togo
		Guinea	Uganda
		Guinea-Bissau	Zambia
		Kenya	Zimbabwe
		Lesotho	

Source: UNDP (2013).

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Threats to economic diversification

There is ample evidence that poor health, knowledge and skills, along with high population growth, is a brake on the structural transformation that Africa needs despite its rapid economic growth (Gauci and Tsafck Temah, 2011). It also hits productivity.

Increased investment in people improves output per worker. It moves workers from low to higher productivity sectors and also drives structural transformation. The 2012 *African Economic Outlook* (AEO) highlighted how low educational attainment and a mismatch between skills and the demands of business is affecting growth and economic transformation. Labour is drawn to informal and low-value activities rather than higher productive sectors such as manufacturing.

The HDI has shown the low levels of educational attainment and poor health outcomes in Africa. In African countries (excluding North Africa) a child spends an average of 4.7 years in school. This ranges from 1.2 years in Mozambique to 9.4 in Seychelles. It is in stark contrast to the rapidly industrialising countries in East Asia (7.2 years) and Latin America (7.8 years) and the global average of 7.5 years. This implies that available skills in many African countries are likely to be predominantly basic numeracy and literacy from a primary level education rather than more advanced problem solving and entrepreneurship skills that are developed in secondary and higher education. Many African countries have less than 50% of their girls and boys of secondary age enrolled in school – with even lower completion rates (UNESCO, 2012). One consequence of a low-skilled workforce is that new job searchers move more to subsistence activities and low productive sectors, such as services, that require low skills. More importantly, the low level of skills could act as a barrier to the diffusion of productivity-enhancing technology across all sectors.

Unequal access to education and poor quality education are compounding this problem. A recent study[1] of 28 African countries found that 17 million out of approximately 128 million school-age children will never attend school. Some 37 million children will perform so poorly at basic skills that they will not be much better off than those who missed school. In seven of the countries, more than 40% of the children did not reach the minimum standard of learning. These include Ethiopia, Nigeria and Zambia, where over half of the students are not reaching the base primary school level. The study indicates that half of Africa's total primary school population – 61 million children – will reach adolescence without the basic skills needed to lead productive lives. While there have been significant improvements in spreading primary level education in Africa, the quality remains a critical challenge.

Poor health is also a drain on productivity and national budgets because of the financing needed for health systems. Low life expectancy levels in many low– and medium–human development countries are partly a reflection of vulnerability to diseases such as malaria and HIV as well as infant, child and maternal mortality rates that remain stubbornly high despite recent improvements. Public investment in health needs to be more effective. Studies show that not enough funding reaches the health clinics which are the frontline service providers. In addition, the quality of service they provide is poor (World Bank, 2012).

The impact of inequality

Recent United Nations' human development reports have launched an Inequality Adjusted Human Development Index (IHDI) and Gender Inequality Index (GII) alongside the HDI. High inequality is undermining the positive impact of Africa's economic growth. The IHDI equals the HDI when there is no inequality across the population but falls below the HDI as discrimination rises. In 2012, the inequality adjusted index revealed losses of

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approximately 35% in the HDI value for most African countries due to inequality in life expectancy, education and income across the population. This compares to a loss of 29% for South Asian countries, 26% for Latin America and the Caribbean, 25% for Arab states, 21% for East Asian countries and 13% for Europe and Central Asia. The country with the highest loss in HDI due to inequality was Angola (44%), followed by Namibia (43%). The country suffering the least loss was Mauritius (13%).

The injustice is felt in different ways. High inequality in life expectancy and income are responsible for the biggest losses in human development for Benin, Chad, Cote d'Ivoire, Lesotho, Rwanda, Swaziland Namibia and Mozambique. In contrast, in Central African Republic, Burkina Faso, Djibouti, Guinea, Liberia, Nigeria, Rwanda and Sierra Leone, the loss is driven by lower life expectancy and education more than income differences. More focus on reducing inequality in the components of the HDI – income, education and health – would, however, lead to more positive general benefits from economic growth and structural transformation across the population.

Table 4.2. **Impact of inequality on human development**

High inequality and high HDI loss	Lower inequality & lower HDI loss	Missing data
Angola	Cameroon	Algeria
Benin	Congo	Botswana
Burkina Faso	Egypt	Burundi
Central African Republic	Ethiopia	Cape Verde
Chad	Gabon	Comoros
Congo, Dem. Rep.	Ghana	Equatorial Guinea
Côte d'Ivoire	Madagascar	Eritrea
Djibouti	Malawi	Gambia
Guinea	Mauritius	Libyan Arab Jamahiriya
Guinea-Bissau	Morocco	Mali
Kenya	Mozambique	Seychelles
Lesotho	Sao Tome and Principe	South Africa
Liberia	Senegal	Sudan
Mauritania	Tanzania	Tunisia
Namibia	Zimbabwe	
Niger		
Nigeria		
Rwanda		
Sierra Leone		
Swaziland		
Togo		
Uganda		
Zambia		

Source: UNDP (2013).

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Table 4.3. **Gender inequality in Africa**

Lower gender inequality	Higher gender inequality	Missing data
Algeria	Benin	Angola
Botswana	Burkina Faso	Cape Verde
Burundi	Cameroon	Chad
Gabon	Central African Republic	Comoros
Ghana	Congo	Djibouti
Lesotho	Congo, Dem. Rep.	Equatorial Guinea
Libyan Arab Jamahiriya	Côte d'Ivoire	Eritrea
Malawi	Egypt	Ethiopia
Mauritius	Gambia	Guinea
Morocco	Kenya	Guinea-Bissau
Namibia	Liberia	Madagascar
Rwanda	Mali	Nigeria
Senegal	Mauritania	Sao Tome and Principe
South Africa	Mozambique	Seychelles
Swaziland	Niger	
Tanzania f	Sierra Leone	
Togo	Sudan	
Tunisia	Zambia	
Uganda		
Zimbabwe		

Source: UNDP (2013).

Countries with low gender inequality tend to enjoy higher levels of human development. Most of the African countries with the lowest gender inequality, such as Libya, Tunisia, Mauritius, Algeria, Morocco, Namibia, South Africa and Botswana, have high levels of human development. The GII also reflects gender-based disadvantages in reproductive health, empowerment and the labour market. Countries with better gender equality tend to have low maternal mortality, low adolescent fertility and a high proportion of males and females with at least secondary education. In view of the critical role of the quality and supply of labour in accelerating structural transformation, managing population growth and ensuring high educational levels for men and women will be key to changing Africa's economies. On a regional level, West Africa faces the highest losses in potential human development due to inequality followed by Central and East Africa. Southern and North Africa have slightly lower but still significant losses of approximately 30%. Gender inequality is highest in Central and West Africa and lowest in North and southern Africa.

Gender inequality in Africa is linked to the persistence of discriminatory laws, norms and practices which restrict the access of women and girls to opportunities, resources and power. Using data from 86 non-OECD countries, including 37 African nations, the Social Institutions and Gender Index (SIGI) compares the level of underlying discrimination in five areas (OECD, 2012): discriminatory family practices, violence against women, fertility preferences, restricted resources and entitlements and restricted civil liberties. In 2012, Latin America was the top ranked region while the Middle East and North Africa, and sub-Saharan Africa were at the other extreme. There is a large variation in performance however, with South Africa and Morocco ranked fourth and 17th respectively while nine out of the ten bottom-ranked countries were from Africa: Gabon, Guinea, Nigeria, Chad, Benin, Somalia, Democratic Republic of Congo, Sudan and Mali.

Mozambique, Malawi, Madagascar, Rwanda, Tunisia and Namibia have made significant progress in reducing discrimination since 2009. On average, southern Africa has the lowest levels of discrimination, followed by East Africa and West Africa. The highest levels of discrimination are in central African countries. African countries have narrowed the gender gaps in education, labour participation rates and political participation. However conflict and insecurity leading to sexual violence, displacement and poverty remain a danger for many women on the continent, which also performs poorly on restricted resources and entitlements, discriminatory family practices and physical integrity.

Table 4.4. **Loss in human development due to inequality**

Region	Human development index	Life expectancy at birth	Mean years of schooling	GNI per capita	HDI loss due to inequality (%)	Gender inequality index
Central Africa	0.466	53.2	4.7	5 292	34.1	0.613
East Africa	0.462	59.5	4.4	2 635	33.3	0.529
North Africa	0.652	71.3	6.0	6 483	28.3	0.424
Southern Africa	0.516	55.5	6.1	4 731	30.9	0.516
West Africa	0.427	57.2	3.5	1 322	36.2	0.616
Africa	0.486	58.4	4.7	3 516	33.1	0.545
Arab States	0.652	71.0	6.0	8 307	25.4	0.555
East Asia and the Pacific	0.683	72.7	7.2	6 874	21.3	0.333
Europe and Central Asia	0.771	71.5	10.4	12 243	12.9	0.280
Latin America and the Caribbean	0.741	74.7	7.8	10 300	25.7	0.419
South Asia	0.558	66.2	4.7	3 343	29.1	0.568
Africa (excluding North Africa)	0.475	54.9	4.7	2 010	35.0	0.577
World	0.694	70.1	7.5	10 184	23.3	0.463

Source: UNDP HDR 2013 and authors' calculations.

Human development, structural transformation and natural resource management

Demographic drivers of transformation

Africa is living through a demographic transition with a growing number of young people entering the workforce supporting relatively fewer young and elderly. This could be turned into a demographic dividend, boosting productivity and economic diversification. The quantity and quality of labour is a critical component of improving human capital that has driven economic growth and diversification in Asia and Latin America. However, high population growth, slow declines in mortality rates and low levels of human capital in Africa constrain the labour force quantity and quality. This makes it difficult to increase productivity, which is necessary for structural transformation. A majority of workers are still in agriculture, low value-added jobs and the informal sector. Addressing agricultural productivity and helping workers to get into growing, more productive sectors could speed up Africa's structural transformation.

Africa's average dependent population – those aged under 14 or over 65 – as a proportion of the working age population has fallen from 86% in 1960 to 80% in 2010 (World Bank, 2012b). North and southern Africa have seen dramatic declines. In Algeria, the dependency ratio has fallen from 91% to 40% over this period. Other regions including East, Central and West Africa have had more modest declines and in a few cases reported increased dependency ratios due to reduced mortality and an increased number of dependent children. In contrast the dependency ratio has fallen from 76% to 43% for East Asia, 58% to 48% for Europe, 86% to 54% for Latin America and from 80% to 57% for South Asia. The implication is that the burden on the working population is not declining as rapidly in African countries, diverting resources away from more productive activities and slowing the pace of economic diversification and human development.

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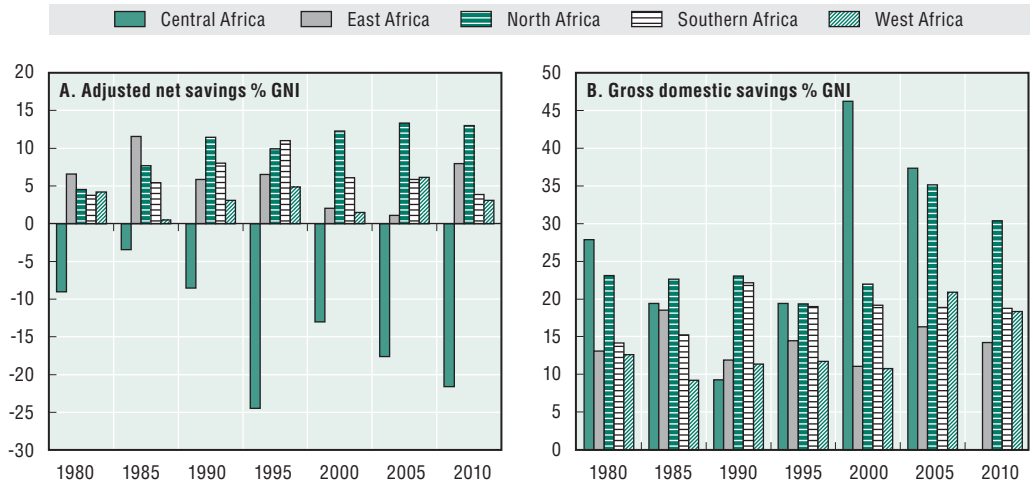
From natural resource wealth to national wealth

A recent analysis by the World Bank (2011) shows that as countries transition from primarily natural resource-based economies to more diversified economies, the proportion of national wealth from human and institutional capital rises. Most countries start out with high dependence on natural capital – agricultural land, forests and natural resources. They use these assets to build more wealth, especially manufactured capital and intangible (human and institutional) capital. For Africa, translating natural resource wealth into long-term growth and human development can be done through investing in better health and education and ensuring the long-term sustainability of renewable natural resources.

Using the net national savings concept, it appears many countries are not investing their resource wealth into their populations. Net national savings are usually calculated as gross national savings – gross national income less total consumption – less the value of consumption of fixed capital. The concept of adjusted net savings, or genuine savings, adapts net national savings to reflect long term investment by deducting the extraction of mineral wealth and environmental depletion and adding investment in human capital as a proxy for the effectiveness of the use of natural resource windfalls in promoting sustainable development.

Using this framework shows that some African countries are turning their natural resource wealth into national wealth, while others are depleting natural resources without investing in the alternative sectors and the human capacity needed for long-term growth. Central and northern Africa had the highest levels of gross savings in Africa between 1980 and 2010 followed by southern Africa. However, in terms of genuine savings, North Africa has the highest level followed by East Africa. Southern Africa and West Africa have had positive genuine savings although they are significantly lower than their gross savings. One conclusion could be that under-investment in education and natural resource depletion are eroding the potential gains from national savings. In particular, Central Africa, a region with rich natural resource wealth, consistently has negative genuine savings due to a high rate of natural resource depletion and low investment in human capital.

Figure 4.1. **Gross savings and adjusted net savings (genuine savings) (% GNI) by region)**



Note: **Adjusted net savings** are equal to net national savings plus education expenditure and minus energy depletion, mineral depletion, net forest depletion, and carbon dioxide. This series excludes particulate emissions damage.
Net national savings are equal to gross national savings less the value of consumption of fixed capital
Gross savings are calculated as gross national income less total consumption, plus net transfers.

Source: World Bank staff estimates based on sources and methods in World Bank's *The Changing Wealth of Nations: Measuring Sustainable Development in the New Millennium* (2011).

StatLink http://dx.doi.org/10.1787/888932807417

The large difference between gross savings and adjusted net savings as a share of gross national income indicates that African countries seem to be mining natural resources through forest depletion,[2] energy depletion[3] and mineral depletion[4] without investing in long-term development. Figure 4.2 illustrates the difference between gross saving and adjusted net savings for 44 African countries for which data are available. The countries with the largest loss of gross savings due to natural resource depletion and limited investment in human capital are at the top of the figure. These include Republic of Congo, Angola and Gabon. These countries need to assume the cost of natural resource depletion and raise the level of investment in human capital as a share of gross national income (GNI). At the other extreme are countries with higher adjusted net savings than gross savings which may indicate investment in replenishing their renewable natural resources as well as in human capital. Gross savings are important for financing growth and human development. However, a focus on national savings that does not take into account the environmental impact of production or the requirement for investing in alternative sources of capital, including human capital development, may result in short-term growth at the expense of long-term sustained development.

A comparison of the proportion of national income spent on education by region reveals that in 2010, the Middle East and North Africa spent a higher proportion of gross national income on education relative to North America, Europe and Central Asia. This is in contrast to the picture in 1970 when North America spent a higher proportion of national income on education. Expenditure on education is an important complement to other investment for structural transformation. Most African countries are spending a higher proportion of gross national income on education than East and South Asia. However, the end result in Africa (excluding North Africa) remains lower in terms of secondary and tertiary education. More effective and increased resources are needed. Within Africa, there is a wide variation in the proportion of GNI devoted to education. Spending is highest in North and Southern Africa followed by East and West Africa and lowest in Central Africa. Research indicates that numeracy and literacy skills are not sufficient to meet the needs of technologically advancing and diversifying economies (Gauci and Tsafack Temah, 2011). Based on the emerging economies in Latin America and Asia, the level and quality of education needed to boost the workforce to more productive sectors requires investment of about 5% of gross national income and an education model that emphasises problem solving and cognitive development.

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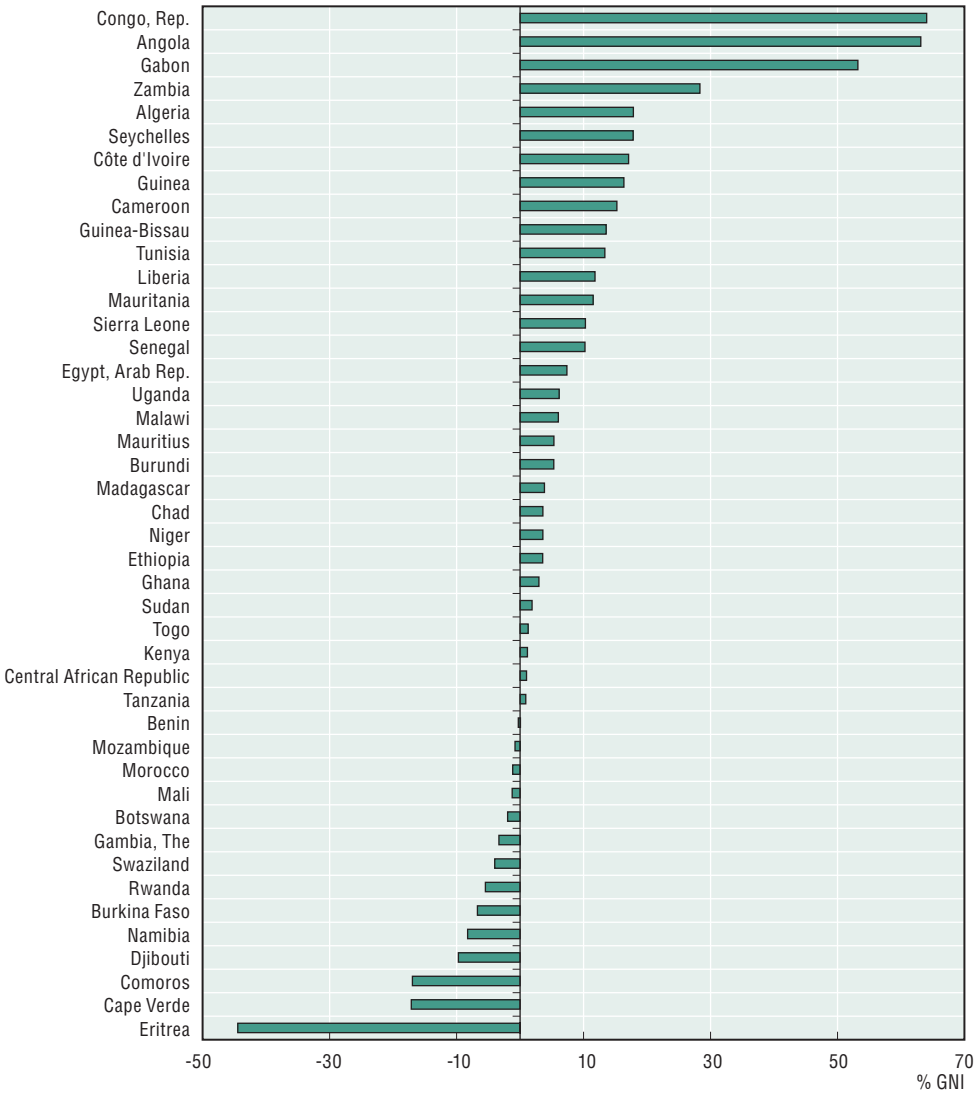
Figure 4.2. **Gross domestic savings - adjusted net savings (% GNI)**

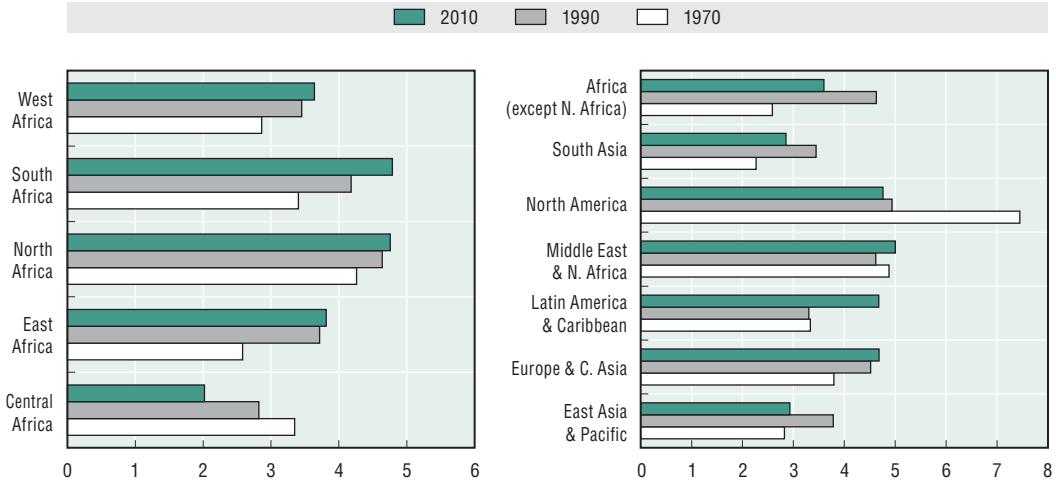


Note: **Adjusted net savings** are equal to net national savings plus education expenditure and minus energy depletion, mineral depletion, net forest depletion, and carbon dioxide. This series excludes particulate emissions damage. **Gross savings** are calculated as gross national income less total consumption, plus net transfers.

Source: World Bank staff estimates based on sources and methods in World Bank's *The Changing Wealth of Nations: Measuring Sustainable Development in the New Millennium* (2011).

StatLink http://dx.doi.org/10.1787/888932807436

Figure 4.3. **Education expenditures as a proportion of GNI (%)**



Source: World Development Indicators (World Bank, 2012d).

StatLink http://dx.doi.org/10.1787/888932807455

Policies to turn natural resources into human capital

Amid dwindling external resources and limited domestic resource mobilisation, wealth from natural resources is providing an increasing proportion of available finance to reach Africa's national development objectives. Countries can translate mineral and energy resources, crop and pasture lands, forests and abundant biodiversity into sustainable long-term growth by prioritising effective distribution of benefits, investment in human capital and maintaining natural resource productivity. A comprehensive strategy to manage natural resource wealth for human development includes macroeconomic management, capturing resource rents and investment in physical, financial and social capital (Conceicao et al., 2011).

Effective and equitable public investment

In many countries, natural resource revenues have often not been put into the public good. The limited funds for public use have mainly been allocated to large-scale infrastructure rather than on building human capital and national wealth to compensate for the depletion of these resources (World Bank, 2012). This has slowed Africa's structural transformation. The low levels of public investment in research and development, agriculture, education and health have long term implications, as it takes time to develop the human and technological capacity needed for accelerated structural transformation.

Of the 11 countries in Africa with data on research and development spending as a percentage of gross domestic product (GDP)[5] (World Bank, 2012), only South Africa and Tunisia allocated at least 1% of GDP for research compared to 3% in East Asia and 2% in Europe and Central Asia. Gabon and Senegal had 0.6% and 0.4% respectively while Egypt, Uganda and Zambia had 0.3%. The lowest allocations were by Gambia with less than 0.02%, Madagascar with 0.15% and Burkina Faso with 0.2%. Investment in agriculture is also low. It is estimated that between 2000 and 2008, approximately half of African countries had declining levels of agricultural research and development spending, ranging from -0.2 to -12% per year particularly in West and Central Africa (Beintema et al., 2012). Falling expenditure levels in Burkina Faso, Guinea, Senegal and Togo were mainly attributed to the completion of large

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donor-funded projects, often financed through World Bank loans. A few African countries increased agricultural research spending, including Ethiopia, Kenya, Nigeria, Tanzania and Uganda.

Even in instances where countries have prioritised social investment, the poor quality of spending on health and education has led to a divergence between the level of public spending and access and quality of services provided. Despite countries significantly improving primary school enrolment, a large proportion of African youth have not attained the skills and capacity to work in non-agriculture sectors. Efforts to improve political and economic governance in the use of national resources should concentrate on boosting access to and equity in social services.

The Africa Learning Barometer and other studies (UNESCO, 2012) have highlighted substantial inequalities in access to quality education between rich and poor, and between girls and boys. There is a much higher percentage of adults with fewer than two years of education from poor, rural areas compared to richer urban areas. In Ethiopia, 68% of the poorest fifth of the population has had restricted education, compared to only 14% of the richest fifth. Despite progress at primary level, where many African countries have achieved or are close to parity in gross enrolment, there is a divergence in enrolment and completion rates at secondary school level. The exclusion of girls increases in upper secondary levels. The results show that despite significant progress in access to education in Africa, there is much more to be done to ensure equal access to quality education. The lack of adequate skills will have a negative impact on the potential for female and male Africans to contribute effectively to the continent's social and economic progress.

Agricultural transformation for growth and economic diversification

It is crucial for some African countries to break away from a dependence on renewable natural resources – agriculture and tourism – with low value-added and employment opportunities. These countries must focus national attention and resources on boosting low levels of human capacity and skills, and the population growth that holds back diversification of the economy and the improvement of social indicators. Lessons from Asia indicate that structural transformation can be accelerated through an integrated approach of improving agricultural productivity, rural industrialisation, market expansion and reducing dependency ratios. This requires policies and investment in raising agricultural productivity, increasing farm incomes by expanding markets and increasing non-farm employment through rural industrialisation and greater use of new technology. All this would contribute to the reduction of dependency ratios which in turn accelerates structural transformation.

De-industrialising with movement of labour and capital from agriculture to less productive sectors, such as services, rather than manufacturing, as discussed in Chapter 6, however, there are clear instances of African economies.

Agriculture can be a key driver of Africa's transformation because of its potential to create jobs and value-added through increased labour and land productivity. The UN Development Programme's African Human Development Report said that higher productivity, especially in yields of food staples and on smallholder farms, builds food security by increasing availability and lowering the price of staple foods. Improved access to affordable food is a critical input to structural transformation as it keeps the cost of living and labour costs low, and increases competitiveness and opportunities for manufacturing and industrial growth. Higher agricultural productivity also boosts rural incomes, helping agro-based industries

and raising living standards. This increases demand for education and better skills. Rapid growth in agricultural productivity, anchored in rising yields of staple crops, could help African countries to reduce poverty and ensure rural and urban food security. A key input in raising agricultural productivity is better roads, railways, warehouses and communication technologies as well as access to markets.

Box 4.1. **Mauritius growth from human capital investment**

Mauritius saw average annual GDP growth of 4.2% from 2003 to 2011 when its GDP per capita was USD 14 689 (2011). It has also reached a "high" human development on United Nations indicators. This is often attributed to significant investment in growth and economic diversification policies, including a focus on trade, export processing, strong social safety nets and sound macro and fiscal policies.

The Mauritian economy has moved from primary sector sugar exports, to labour-intensive manufacturing such as textiles and apparel from the 1970s onwards. Currently, the share of services is rising – tourism, financial services, information and communications and others. Policies that created a favourable business environment through the Business Facilitation Act (2006) and a counter-cyclical fiscal policy are credited with overcoming trade shocks due to the loss of preferences from developed countries since 2004. Growth in the textile sector is now driven by innovation capital, intensive activities and better integration of the supply chain from weaving to finished garments.

Mauritius has successfully invested rents from exports into human capital development with an education policy that grants free education through university for all citizens and free health. This has resulted in higher levels of social cohesion, welfare and economic growth – and to a lower level of inequality. Strong and democratic institutions fostered through political participation, rule of law (property rights) and control of corruption are other factors often cited in Mauritius's good performance. Challenges remain to be overcome including youth unemployment, gender gaps in the labour force and political representation. The country is implementing strategies to improve national competitiveness through higher education and training.

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Invest in critical infrastructure and skills development

African data indicate a large and growing share of the continent's value-added comes from services followed by industry and agriculture (World Bank, 2012). This is in part because of the slow pace of productivity increase in agriculture and limited growth in manufacturing, due to a lack of investment in infrastructure, an unfavourable balance of trade and a weak private sector in many developing countries. In addition, the slowdown in economic transformation is linked to the slow pace of job creation in agriculture and other sectors which cannot absorb the growing population. All this is compounded by the lack of investment in developing a skilled and healthy work force which would drive innovation, productivity growth and technological change.

Strengthening human capital helps structural transformation as it influences the rate of innovation and uptake of new technology. The case of Mauritius illustrates the success of a twin strategy of human capital development and supporting the emergence of new sectors in the economy through an export-oriented development strategy and a strong private sector. Strong links with entrepreneurs from Asia fuelled the adoption of technology and innovation which built local human capacity.

A capable and healthy workforce is not the only requirement for structural transformation, however. The pace of industrialisation is linked to investment in machinery and infrastructure as well as human capital accumulation (Mehta, 2012). The success in diversifying from production of one commodity to another needs infrastructure, institutions and human capital. Hausmann and Klinger (2009) point to the potential difficulties involved. Diversification between closely connected products, such as textiles and garment processing in Mauritius, is much easier because the acquired capabilities can be easily redeployed between products. But if a country is specialised in peripheral products, with few links, then this redeployment is more challenging because products require different capabilities. Botswana's failure to turn investment in economic and social development into a diversified economy is linked to difficulties switching job creation from the public sector to a relatively weak private sector and poor relevant skills for new opportunities in manufacturing, services and industry.

Box 4.2. **Botswana investment fails to yield diversification**

Botswana is one of Africa's success stories – becoming a middle-income country in three decades through sound macroeconomic policies, good governance and careful investment of natural resource wealth in social development. State revenue generation is high due to well negotiated partnerships in the extractive industry. Since the 1980s, the government has used a Sustainable Budget Index and environmental accounting programme to monitor how income from mining is reinvested in the national budget to promote Botswana's long-term development.

Botswana citizens have almost universal access to education, health, water and sanitation. However, prudent macroeconomic management, democratic governance and sustained economic growth have not translated into broad-based development and socio-economic transformation. Botswana's economy is still dependent on minerals and there is high poverty, inequality, unemployment and HIV/AIDS prevalence. High unemployment is linked to a mismatch between skills development and market demands and slow job creation outside the public sector.

The public sector retains a large role in development. Initially, the public sector was a key driver of development in the absence of a viable private sector. However, the slow pace of privatisation may have slowed the opportunity for broad-based growth and poverty reduction. The state is pursuing a number of economic diversification initiatives under a five-year national strategy, including promoting greater local involvement in the processing and marketing of diamonds.

There are benefits to adopting a regional approach to the development of infrastructure and harnessing geographical comparative advantage. Lessons from Asia and Latin America emphasise the importance of regional integration in providing opportunities for economic diversification and structural transformation. Research in Latin America has found that opportunities for structural transformation are much higher for the Caribbean Community (CARICOM) as a perfectly integrated zone than for any of its members on their own. Africa could use a "growth poles" strategy (Ogunleye, 2011) – developing linked industries in different countries in the same region – to accelerate economic transformation through more efficient utilisation of different natural and agricultural resources in each country and sub-region. Specialised products could be developed based on available resources and comparative advantage as well as exploiting the potential from value chains from activities and commodities within each cluster.

The capacity challenge

African countries are faced with a "development challenge" to transform renewable and non-renewable natural capital into national wealth – infrastructure, human capital and institutions that drive structural transformation. Countries that depend on non-renewable natural resources need to transform that capital into stronger and more effective institutions and human capacity to support the development of a diversified economy and long-term growth. This requires policies to assure efficient collection of resource rents, effective investment of that finance in human capital as well as the equitable distribution of benefits and maintaining the productivity of the natural assets. For countries that depend on renewable natural resources such as land, water, forest and biodiversity, the aim must be sustainable use of those resources to drive economic diversification and wealth creation. The move towards structural transformation should focus on raising agricultural productivity, boosting rural industrialisation and managing population growth. Creating a more productive agriculture sector would deliver multiple benefits to drive the needed transformation. African countries must not neglect the mobilisation of domestic revenues that provide a more predictable flow of development resources.

Harnessing the full benefit from natural resources entails investment in long-term wealth including in human capacity, social protection – managing risk and vulnerability—and addressing environmental degradation. Comprehensive social policies contribute to growth, structural change, poverty reduction and social cohesion. African countries should use resource rents to build state capacity to meet economic and social objectives, foster equitable distribution of benefits and promote inclusive growth. Evidence suggests that African countries are not harnessing the human development opportunities from economic growth due to rising inequality in income as well as in access to education and health. In addition, governments need to pay attention to demographic drivers of change. Failure to address high population growth in many African countries will undermine efforts to enhance human capacity which boosts productivity, technological progress and structural transformation.

African governments, the private sector and development partners must integrate their efforts to enhance human skills to create competitive economies that promote industrialisation for domestic and regional markets and attract foreign direct investment. Poor education and health hold up structural transformation and require greater investment, especially to narrow gender inequalities and improve the quality of primary education and health care. Asia and Latin America's example in developing critical skills for structural transformation suggest that priority should be given to more vocational and on-the-job training to build experience and entrepreneurship so the private sector gets the workers it needs.

Strong institutions and participatory governance increase the impact of investment of natural resource revenues in long-term human and national development. The role of regional and south-south co-operation to promote technology transfer, innovation and adaption and the role of regional integration in creating viable markets to move this agenda forward will be critical.

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Annex 4.A1

Table 4.A1. **Country comparison of HDI, IHDI and GII**

Human Development Index (HDI, Rank)	Countries	Human development index 2012 (Value)	Inequality adjusted HDI 2012 (IHDI)	Overall loss (%)	Income Gini coefficient (2000-10)	Gender inequality index (GII)	Average annual HDI growth (2000-12)
46	Seychelles	0.806	..	..	65.8	..	0.33
64	Libya	0.769	..	..	..	0.216	
80	Mauritius	0.737	0.639	13.3	..	0.377	0.73
93	Algeria	0.713	..	..	..	0.391	1.1
94	Tunisia	0.712			41.4	0.261	0.86
106	Gabon	0.683	0.55	19.5	41.5	0.492	0.72
112	Egypt	0.662	0.503	24.1	30.8	0.59	0.92
119	Botswana	0.634	..	..	..	0.485	0.66
121	South Africa	0.629	..	..	63.1	0.462	0.11
128	Namibia	0.608	0.344	43.5	63.9	0.455	0.64
130	Morocco	0.591	0.415	29.7	40.9	0.444	1.2
132	Cape Verde	0.586	..	..	50.5	..	0.81
135	Ghana	0.558	0.379	32.2	42.8	0.565	1.6
136	Equatorial Guinea	0.554	..	..	..	..	0.9
141	Swaziland	0.536	0.346	35.4	51.5	0.525	0.55
142	Congo Rep.	0.534	0.368	31.1	47.3	0.61	0.86
144	Sao Tome and Principe	0.525	0.358	31.7	50.8	..	
145	Kenya	0.519	0.344	33.6	47.7	0.608	1.24
148	Angola	0.508	0.285	43.9	58.6	..	2.56
150	Cameroon	0.495	0.33	33.4	38.9	0.628	1.2
151	Madagascar	0.483	0.335	30.7	44.1	..	1.02
152	Tanzania (United Republic of)	0.476	0.346	27.3	37.6	0.556	2.15
153	Nigeria	0.471	0.276	41.4	48.8	..	..
154	Senegal	0.47	0.315	33	39.2	0.54	1.25
155	Mauritania	0.467	0.306	34.4	40.5	0.643	0.92
158	Lesotho	0.461	0.296	35.9	52.5	0.534	0.61
159	Togo	0.459	0.305	33.5	34.4	0.566	0.62
161	Uganda	0.456	0.303	33.6	44.3	0.517	1.65
163	Zambia	0.448	0.283	36.7	54.6	0.623	1.46
164	Djibouti	0.445	0.285	36	40	..	..
165	Gambia	0.439	..	..	47.3	0.594	1.65
166	Benin	0.436	0.28	35.8	38.6	0.618	1.14
167	Rwanda	0.434	0.287	33.9	53.1	0.414	2.73
168	Côte d'Ivoire	0.432	0.265	38.6	41.5	0.632	0.81
169	Comoros	0.429	..	..	64.3	..	..
170	Malawi	0.418	0.287	31.4	39	0.573	1.44
171	Sudan	0.414	..	..	35.3	0.604	1.08
172	Zimbabwe	0.397	0.284	28.5	..	0.544	0.46
173	Ethiopia	0.396	0.269	31.9	29.8	..	3.09
174	Liberia	0.388	0.251	35.3	38.2	0.658	2.04
176	Guinea-Bissau	0.364	0.213	41.4	35.5	..	..
177	Sierra Leone	0.359	0.21	41.6	42.5	0.643	3.29
178	Burundi	0.355	..	..	33.3	0.476	2.31
178	Guinea	0.355	0.217	38.8	39.4	..	..
180	Central African Republic	0.352	0.209	40.5	56.3	0.654	1.5
181	Eritrea	0.351	..	..	..	..	..
182	Mali	0.344	..	..	33	0.649	2.04
183	Burkina Faso	0.343	0.226	34.2	39.8	0.609	..
184	Chad	0.34	0.203	40.1	39.8		1.32
185	Mozambique	0.327	0.22	32.7	45.7	0.582	2.37
186	Congo (Democratic Republic of the)	0.304	0.183	39.9	44.4	0.681	2.19
186	Niger	0.304	0.2	34.2	34.6	0.707	2.2
Medium human development			**0.64**	**0.485**	**24.2**	**0.457**	**1.29**
Low human development			**0.466**	**0.31**	**33.5**	**0.578**	**1.62**
Arab States			**0.652**	**0.486**	**25.4**	**0.555**	**0.94**
East Asia and the Pacific			**0.683**	**0.537**	**21.3**	**0.333**	**1.31**
South Asia			**0.558**	**0.395**	**29.1**	**0.568**	**1.43**
Latin America and the Caribbean			**0.741**	**0.55**	**25.7**	**0.419**	**0.67**
Sub-Saharan Africa			**0.475**	**0.309**	**35**	**0.577**	**1.34**
Least developed countries			**0.449**	**0.303**	**32.5**	**0.566**	**1.7**

Source: UNDP (2013).

Notes

1. Africa Learning Barometer 2012 (Center for Education, Brookings Institution) uses data from regional examinations, such as *Programme d'analyse des systèmes éducatifs de la CONFEMEN (PASEC)* and Southern and Eastern Africa Consortium for Monitoring Educational Quality (SACMEQ), and national assessments of 4th or 5th grade students.
2. Net forest depletion is calculated as the product of unit resource rents and the excess of round wood harvest over natural growth.
3. Energy depletion: ratio of the value of the stock of energy resources to the remaining reserve lifetime (capped at 25 years) – coal, crude oil, natural gas.
4. Mineral depletion: ratio of the value of the stock of mineral resources to the remaining reserve lifetime (capped at 25 years) – tin, gold, lead, zinc, iron, copper, nickel, silver, bauxite and phosphate.
5. Latest data available for 2008/09.

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Chapter 5

Political and economic governance in Africa

There are more elections in Africa than ever before, but the intensity of protests across Africa in 2012 was almost the same as the landmark Arab Spring year. North African countries remain tense, while people in many sub-Saharan states worry about jobs and the cost of living. This chapter reveals the *African Economic Outlook*'s annual indicators on civil protests and political freedoms and sets out the trends behind them.

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Democracy again took centre stage in Africa's political life in 2012. After the fall of autocratic rulers in Egypt, Libya and Tunisia in the latest wave of democratic transitions that have swept the continent since the 1990s, all African countries – except Somalia and Eritrea – can now choose their governments through a vote.

Yet democratic consolidation remains fragile. A military coup in Mali and the thwarting of elections in Guinea, Guinea-Bissau, Mauritania and Togo highlight the challenges to building democracy. Elections are essential, but more is needed to build strong democratic roots and institutions.

African policy makers increasingly acknowledge the need for "quality" economic growth. The 5% average annual gross domestic product (GDP) growth rate for the past decade has not created enough jobs for the young Africans coming on to labour markets and the pace of poverty reduction in most countries is falling short of the Millennium Development Goals (MDG) targets (see 2012 *African Economic Outlook* [AEO]). In 2008, "food riots" in several countries exposed the economic grievances of many people. African governments are allowing more freedom of expression, but the cost of living and lack of quality employment remained the main concern for most Africans in 2012.

The AEO's annual indicators on civil violence and the hardening of political conditions show that tensions remain high. The chapter also analyses government responses and political freedoms, electoral trends, peace and security issues and progress in the fight against corruption. These are all issues which have played a key role in the turmoil seen in many African countries.

Box 5.1. **Methodology for indicators on civil protests and political freedoms**

The indicators have been assembled on the basis of a detailed monitoring of daily press briefs verified by the Agence France-Presse (AFP) and Reuters news agencies, with the aim of taking into account the daily events and decisions that make up the reality of political life and government attitudes in African countries. The methodology was first proposed by Dessus et al. (1998).

Civil violence and protests include strikes, demonstrations – with political, economic or social motives – and violence by non-government actors; *Political Hardening* includes government violence, arrests, bans, curfews and states of emergencies. Figures 5.1 and 5.2 reflect the trend of those indicators over the period 1996-2012 for 30 African countries.

The scores of individual countries can be found in tables 22 to 24 of the AEO Statistical Annex and on the site www.africaneconomicoutlook.org. The methodological note of the statistical annex includes a technical note explaining how the indicators are calculated.

Protests and civil violence

The intensity of political, economic and social strikes and demonstrations across Africa in 2012 remained comparable to the previous year (Figure 5.1), according to our detailed monitoring of daily reporting by the AFP and Reuters news agencies in 53 African countries.

However, while in 2011 a majority of African countries faced increased popular unrest, in 2012 it was concentrated in large economies: the biggest increase in public protests was seen in Egypt, Gabon, Mali, Senegal, South Africa and Tunisia. Algeria, Botswana, Burkina Faso, Zambia and Zimbabwe recorded significant declines in protests.

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Figure 5.1. **Public protests and civil violence, 1996-2012 (base year: 1996 = 100)**

Source: Authors' calculations based on AFP information.
StatLink http://dx.doi.org/10.1787/888932807474

Protests in North Africa focused mainly on political reforms, followed by government harassment and unemployment. Over 50% of protests in sub-Saharan Africa were primarily to demand wage increases or complain about the cost of living. Better political representation and government harassment came second. In contrast to North Africa, unemployment remained a less important driver of unrest in sub-Saharan Africa.

Fallout from the 2011 Arab Spring has been felt differently across North Africa. Demonstrations intensified in Egypt and Tunisia. A persisting economic malaise and fears of the loss of their secular societies complicated the democratic transition in both countries. By contrast, protesters in Morocco and Algeria focused mainly on employment, housing and prices. Demonstrations in Morocco stabilised at 2011 levels, as reforms made after the Arab Spring appeased demands for more political opening. Popular protest in Algeria fell back to pre-Arab Spring levels.

The scenario of popular revolts in North Africa inspiring similar movements in sub-Saharan countries has not materialised. Several triggers of the Arab Spring are absent in sub-Saharan Africa. There is a lower share of highly educated, unemployed youth and most autocratic regimes have given way to multiparty democracies in recent decades. Finally, the use and penetration of social media, which were crucial in mobilising Arab Spring protesters, is much lower in sub-Saharan Africa (Economist Intelligence Unit, 2012).

As in 2011, wages remained a key concern for Africans. Protests in Algeria, Chad, Côte d'Ivoire, Egypt, Kenya, Nigeria, Senegal, South Africa, Tunisia and Zimbabwe demanded public wage increases. In Burkina Faso, South Africa, Tunisia, Zambia and Zimbabwe, employees demanded increases from their employers. Around July, before the end of the fiscal year, salary strikes in South Africa's mining sector are not unusual. Two policemen died intervening in a clash between union groups during a strike at the Marikana Platinum Mine in August 2012. This triggered a police crackdown in which live ammunition was used on strikers and 34 people were killed. The strikes spread to other gold, chrome and iron mines and eventually to the transport sector in September and the agricultural sector in November.

A challenge that many countries are likely to face soon is the gradual withdrawal of subsidies to keep fiscal balances. Food and fuel subsidies are sometimes used to ensure social peace, but they are a drain on government budgets. Nigeria's failed attempt to eliminate fuel subsidies led to strong civil unrest in January 2012. According to the Nigerian government, an eight-day strike in January led to USD 1.3 billion (US dollars) in economic losses, mostly affecting the retail sector. Several countries saw strong protests against the increasing cost of living, including Algeria, Angola, Burkina Faso, Chad, Egypt, Gabon, Morocco, Nigeria, South Africa, Tunisia and Uganda.

The majority of African countries saw reduced civil violence in 2012, however. This confirmed the past decade's trend of maturing democratic attitudes, with fewer violent demonstrations. Civil violence was concentrated in a limited number of countries, which is why the average score remains high for a second year. Egypt, Kenya, Mali, Mozambique, Nigeria, South Africa and Tunisia felt the strongest increase in civil violence. With the exception of South Africa, all recorded a peak in their civil violence indicator in 2012.

Civil violence in Egypt and Tunisia went up as the result of clashes between opposing political factions and between protesters and government forces throughout 2012. On 25 January 2013, violent protests in Cairo and Suez marked the second anniversary of Egypt's revolution. This exposed the fragmentation of Egyptian society and the difficulties security forces face in enforcing the rule of law. In Tunisia, following violent acts instigated by Muslim fundamentalists, civil violence reached a new height in February 2013 with the assassination of Chokri Belaid, the leader of a small secular opposition party.

Increased terrorism underpinned rising civil violence in Nigeria and Kenya. In Nigeria, the religious sect Boko Haram killed 568 people in 2012 compared to 299 in 2011 (Risk Advisory Group, 2013). Religious symbols, government forces, schools and civilians were all targeted. Following its military intervention in Somalia in 2011, Kenya saw growing attacks by the Somalia-based Al-Shabaab group. Al-Shabaab claimed more than 14 bombings or armed attacks in Nairobi and in Al-Dadaab, Africa's largest refugee camp, in 2012. Kenya also witnessed a resurgence of inter-ethnic violence between August and December 2012 which left at least 180 dead. The United Nations (UN) said it also led to 34 000 people becoming internally displaced.

Government response and political freedom

The AEO *Political Hardening* indicator of government violence, arrests, bans, curfews and states of emergencies shows that political tightening increased slightly in 2012 (Figure 5.2).

This was mostly the case in Gabon, Mali, Nigeria, Tunisia, Senegal and South Africa. Strikes in South Africa's mining sector resulted in 34 deaths in the Marikana Mine and over 1000 arrests in protests during the second half of 2012. President Goodluck Jonathan declared a state of emergency in northern Nigeria because of violence by religious fundamentalists. In Senegal pre-electoral tensions led to an increase in arrests and the banning of demonstrations. Lingering post-electoral tensions in Gabon led to measures against press freedom. On 16 January 2012 clashes between the Malian army and Tuareg separatists, many of them former fighters in Libya who had returned with their weapons, marked the start of a major crisis in Mali. A military *coup* in March led to a wave of arrests and a political clampdown.

Burkina Faso, Côte d'Ivoire and Zimbabwe recorded the strongest declines in political tightening. In March 2012 Côte d'Ivoire's independent electoral commission confirmed the victory of President Alassane Ouattara's party in the December 2011 legislative elections. The decision ended prolonged electoral violence. Protests that surged in Burkina Faso in 2011 after the death of a student calmed in 2012. The government created a human rights cabinet post in an effort to calm anger over abuses by government officials.

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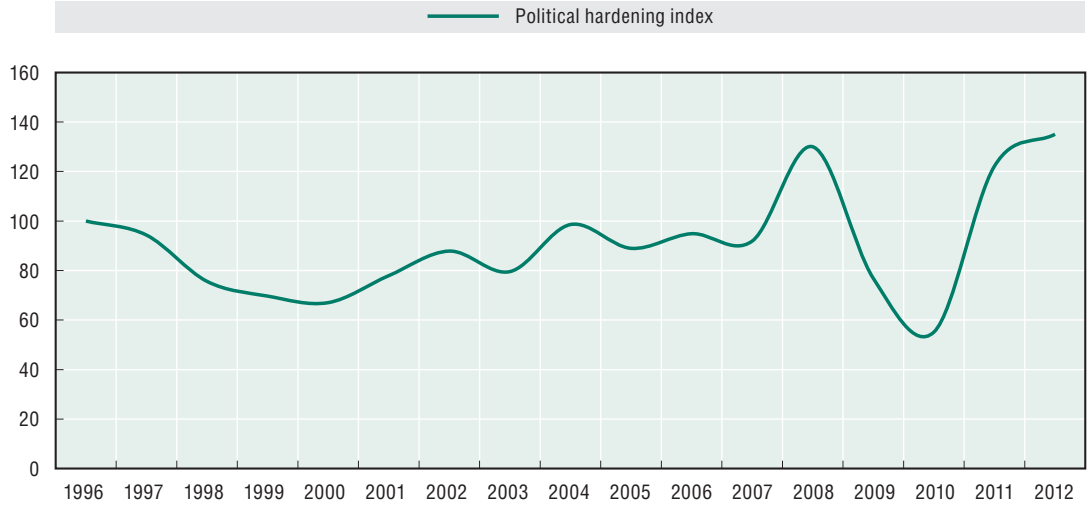
With the exception of Algeria, North Africa's new governments took a more cautious stance handling civil unrest and demonstrations. Throughout 2012 there were fewer arrests and deaths caused by security forces, in an attempt to disassociate themselves from the violent practices of former regimes.

Nevertheless, less visible measures limiting freedom of expression and respect for human rights increased in North Africa. Authorities in Tunisia arrested journalists and people considered to have violated religious rules of behaviour. Several demonstrations were prohibited and the government declared a state of emergency throughout 2012 until at least March 2013. Morocco's government limited press freedom on several occasions. Protesters demanding better social policies and jobs clashed regularly with security forces throughout the year.

Freedom House, a US-based independent watchdog, reported mixed progress towards more open and freer societies in Africa for 2012. Lesotho, Senegal and Sierra Leone moved from "partly free" to "free" following successful national elections and peaceful transfers of power in Lesotho and Senegal. Côte d'Ivoire moved from "not free" to "partly free" following the inauguration of a new parliament.

Figure 5.2. **Political hardening index, 1996-2012 (base year 1996 = 100)**



Source: Authors' calculations based on AFP information.

StatLink http://dx.doi.org/10.1787/888932807493

Its most recent report nevertheless noted a substantial decline in civil liberties over the past five years in sub-Saharan Africa. Mali declined from "free" to "not free" due to the military *coup* in March. Guinea-Bissau's status declined from "partly free" to "not free", because of a military *coup* in April 2012 which led to the suspension of the national legislature. Other countries where civil liberties declined include Kenya, Madagascar, South Africa and Uganda.

North Africa made the most noticeable progress in increasing civil liberties. Libya and Egypt moved from "not Free" to "partly Free" after holding their first free, multi-party elections. Nevertheless, progress remains fragile in Egypt, Libya and Tunisia. In Libya, the state's control over territory where local militias operate is unclear, which challenges the rule of law and civil liberties. In Tunisia and Egypt, unemployment, faltering economic progress and action by religious fundamentalists may threaten civil liberties (Freedom House, 2013).

Table 5.1. **Freedom in Africa 2012**

Country	Freedom Status	Political Rights	Civil Liberties	Trend
Algeria	Not Free	6	5	
Angola	Not Free	6	5	
Benin*	Free	2	2	
Botswana*	Free	3	2	
Burkina Faso	Partly Free	5	3	
Burundi	Partly Free	5	5	
Cameroon	Not Free	6	6	
Cape Verde*	Free	1	1	
Central African Rep.	Partly Free	5	5	Setback
Chad	Not Free	7	6	
Comoros*	Partly Free	3	4	
Congo Rep.	Not Free	6	5	
Congo, Dem. Rep.	Not Free	6	6	
Côte d'Ivoire	Partly Free (+)	5 (+)	5 (+)	
Djibouti	Not Free	6	5	
Egypt	Partly Free (+)	5 (+)	5	
Equatorial Guinea	Not Free	7	7	
Eritrea	Not Free	7	7	
Ethiopia	Not Free	6	6	
Gabon	Not Free	6	5	
Gambia	Not Free	6	6 (-)	
Ghana*	Free	1	2	
Guinea	Partly Free	5	5	Improvement
Guinea-Bissau	Not Free (-)	6 (-)	5 (-)	
Kenya	Partly Free	4	4 (-)	
Lesotho*	Free (+)	2 (+)	3	
Liberia*	Partly Free	3	4	
Libya*	Partle Free (+)	4 (+)	5 (+)	
Madagascar	Partly Free	6	4	Setback
Malawi*	Partly Free	3	4	Improvement
Mali	Not free (-)	7 (-)	5 (-)	
Mauritania	Not Free	6	5	
Mauritius*	Free	1	2	
Morocco	Partly Free	5	4	
Mozambique	Partly Free	4	3	
Namibia*	Free	2	2	
Niger*	Partly Free	3	4	
Nigeria	Partly Free	4	4	Setback
Rwanda	Not Free	6	6 (-)	
São Tomé and Príncipe*	Free	2	2	
Senegal*	Free (+)	2 (+)	3	
Seychelles*	Partly Free	3	3	
Sierra Leone*	Free (+)	2 (+)	3	
Somalia	Not Free	7	7	
South Africa*	Free	2	2	
South Sudan	Not Free	6	5	
Sudan	Not Free	7	7	
Swaziland	Not Free	7	5	
Tanzania*	Partly Free	3	3	
Togo	Partly Free	5	4	
Tunisia*	Partly Free	3	4	
Uganda	Partly Free	5	4	Setback
Zambia*	Partly Free	3	4	
Zimbabwe	Not Free	6	6	

Source: Freedom in the World 2013, Political Freedom Index, Freedom House. The ratings reflect events from 1 January to 31 December 2012 ; 1 represented the most free and 7 the least free rating; Asterisk (*) indicates a country's status as an electoral democracy; improvement or setback indicates the trend of events that have not been sufficient to trigger a change in rating or status since the last survey.

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Elections in Africa

Multiparty elections have taken root in Africa, with five presidential votes and 12 parliamentary and legislative elections held in 2012. Since the 1990s an increasing number of African countries have introduced elections, legalised multiparty systems and fixed-term limits for elected leaders. However, the interruption of two presidential election campaigns in 2012 by military *coups* – in Mali and Guinea-Bissau illustrates the fragility of democratic progress.

New evidence has shown that democratisation since the 1960s has encouraged income growth. However when income grows too slowly, progress in democratisation may be hindered or reversed. In such cases, the public institutions underpinning democratic processes face the risk of a gradual erosion of democratic standards or the resurgence of military *coups* (Bates et al., 2012).

In recent years, the military has overthrown elected governments in Mauritania, Niger, Guinea-Bissau and Mali. Low socio-economic development levels threaten democratic gains and could encourage such *coups* across Africa (Ben Barka and Ncube, 2012). They argue that "while the transition to multiparty competitive elections has been relatively smooth, other aspects of democratic change, such as the institutionalisation of state structures that respect citizens, social and political rights, and that foster political and economic transparency and accountability, have yet to take root in many African countries".

Multiparty elections were associated with tensions in several African countries, including in countries with strong democratic traditions such as Senegal, where unrest preceded the 2012 presidential election. At least 25% of elections between 2000 and 2012 were marked by unrest, *e.g.* in Côte d'Ivoire, Kenya, Zimbabwe and Uganda (Bekoe, 2010). Bekoe notes that "tensions over land rights, employment and ethnic marginalisation are three dominant characteristics of recurring electoral violence".

Egypt's first free parliamentary and presidential elections in more than 60 years marked a milestone in North Africa's democratic transition. The parliamentary elections were later annulled by Egypt's Supreme Court, and should be held again in 2013. Mohammed Morsi of the Freedom and Justice Party (FJP, Muslim Brotherhood) won a presidential runoff against former prime minister Ahmed Shafiq with 51.7% of the votes. The adoption of a contested new constitution by referendum on 15 December 2012 brought to the fore rifts in the political landscape. The initial movement against former president Hosni Mubarak gave way to an opposition coalition made up of liberal and conservative forces.

Algeria's parliamentary elections in May 2012 stood as an exception amidst the victories of Islamist parties in North Africa's recent polls. An alliance of Islamist parties obtained only 66 seats out of 462 in the assembly. The ruling coalition, consisting of the National Liberation Front (*Front de libération nationale* – FLN) of President Abdelaziz Bouteflika and the National Rally for Democracy (*Rassemblement national démocratique*–RND) of then prime minister Ahmed Ouyahia won a majority. The new parliament features 145 women, compared with 30 in the previous assembly. Despite widespread suspicion of irregularities, international observers deemed the elections to be free and fair and noted the calm atmosphere in which they were held.

Ghana, Lesotho, Senegal and Sierra Leone all held presidential elections in 2012 that were deemed free and fair. On 25 March, Senegal's former prime minister Macky Sall beat the incumbent president Abdoulaye Wade. On 17 November, Sierra Leone's President Ernest Koroma was re-elected for a second and final term with 58.7% in the first round of voting,

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considered free and fair. His All People's Congress (APC) party won 60% of parliamentary seats. The opposition called for a boycott of the parliamentary and local elections, but conceded defeat on 4 December. This was the country's third general election since the end of a civil war in 2002 and was considered a turning point for the consolidation of peace. On 7 December 2012, John Mahama won Ghana's presidential election with 50.7% in the first round. The vote was held after President John Evans Atta Mills died on 24 July and Mahama took over as interim leader. The result consolidated Ghana's reputation as an increasingly mature democracy. Voter turnout was estimated at about 80%.

Elections in Angola, Burkina Faso and the Congo Republic confirmed their leaders into power. In Angola the ruling People's Movement for the Liberation of Angola (MPLA) of President Jose Eduardo Dos Santos, in power since September 1979, obtained 71.8% of the vote in the March 2012 general elections. Dos Santos was reconfirmed as president for a new five-year term. In Burkina Faso, the ruling party of President Blaise Compaoré, in power since October 1987, obtained 97 seats out of 127 in the new national assembly in an election in December 2012. In August 2012, President Denis Sassou-Nguesso's Congolese Labour Party (*Partie congolais du travail* –PCT) obtained the absolute majority with 89 seats in the Congo Republic's legislative elections. Clashes between opposing factions after the first round left three injured. As in previous elections, the opposition denounced fraud, but held back from taking further legal action.

Kenya held presidential, parliamentary and regional elections in March 2013. There were widespread worries about the election because of unrest after the last election in December 2007 which left 1 200 dead and the new clashes in 2012. On 9 March 2013 Deputy prime minister Uhuru Kenyatta was declared winner of the latest election with 50.07% of the first round vote. His main rival, prime minister Raila Odinga, obtained 43.28%. International observers said the election was free and transparent and praised the peaceful conduct of the election. However, Raila Odinga challenged the results in the Supreme Court, but the Court upheld Kenyatta's election. The new president is one of four people accused by the International Criminal Court (ICC) of orchestrating tribal fighting after the 2007 elections. Kenya adopted a new constitution in 2010 in a bid to avoid a repeat of the violence. It includes a comprehensive bill of rights, a more balanced mechanism for planning and resource allocation in the different regions, a one-third quota for women in the public sector and a new Supreme Court.

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Table 5.2. **Overview of national elections in Africa for 2012 -13**

	2012	2013
Algeria	Parliamentary (20 May)	
Angola	Legislative elections (31 August)	
Benin		
Botswana		
Burkina Faso	Parliamentary (2 December)	
Burundi		
Cameroon		Legislative (February) (postponed from July 2012)
Cape Verde		
Central African Rep.		
Chad		
Comoros		
Congo	Legislative 1st round (15 June); Legislative 2nd round (29 June)	
Congo, Dem. Rep.		Sub national – Legislative Tentative
Côte d'Ivoire		Local elections (24 February)
Djibouti	Presidential (8 April)	National Assembly (22 February)
Egypt	Parliamentary stage 3 (3 January), Legislative stage 1 (29 January), Legislative stage 2 (14 February), Presidential stage 1 (23 May), Presidential stage 2 (16 June). Referendum on the new constitution (15 December)	
Equatorial Guinea		
Eritrea		Presidential (October)
Ethiopia		
Gabon		
Gambia	Legislative (29 March)	
Ghana	Presidential (December), Legislative (December).	
Guinea		Legislative (12 May)
Guinea-Bissau	Presidential 1st round (18 March) Moved Up, 2nd round 29 April postponed.	People's National Assembly & local (postponed from 2012)
Kenya		Presidential elections and National Assembly (4 March, postponed from August 2012)
Lesotho		Parliamentary (May).
Liberia		
Libya	Legislative (7 July)	Constitutional referendum. Presidential and parliamentary after the referendum
Madagascar		Presidential 1st round (24 June), Presidential 2nd round (25 September), Parliamentary (25 September).
Malawi		
Mali	Presidential 1st round (29 April) Postponed, Presidential 2nd round (13 May) Postponed, Parliamentary 1st round (1 July) Cancelled, Parliamentary 2nd round (22 July) Cancelled.	Presidential (date to be established), Parliamentary (date to be established)
Mauritania		
Mauritius		Presidential
Morocco		
Mozambique		Local (November)
Namibia		
Nigeria		
Rwanda		Parliamentary
São Tomé and Príncipe		
Senegal	Presidential 1st round (26 February), Presidential 2nd round (25 March), Parliamentary (1 June).	
Seychelles		
Sierra Leone	Legislative (August), Presidential (17 November).	
Somalia		
South Africa		
South Sudan		
Sudan		
Swaziland		Parliamentary
Tanzania		
Togo		Parliamentary (24 March)
Tunisia		Presidential and Parliamentary 1st round (23 June)
Uganda		
Zambia		
Zimbabwe		

Source: International Foundation for Electoral Systems; Electoral Institute for Sustainable Democracy in Africa.

Peace and security

Terrorism and organised crime increasingly threatened human security and socio-economic development in the Sahel region. The concept of human security was first tabled by the United Nations Development Programme (UNDP) in its 1994 *Human Development Report*, when it argued that people needed to be put back at the centre of the development agenda (UNDP 1994). This required broadening the scope of global security to the economy, food security, health, environment, personal, community and political security. Improving human security is particularly important for states facing internal conflict, but with a weak capacity or political will to face these threats.

The number of terrorism acts (Risk Advisory Group, 2013) across Africa has risen from 318 in 2007 to 599 in 2012. Over the six years, 5 723 people have been killed and 7 905 wounded in the attacks. There were 1 540 dead and 1 610 injured in 2012 which was the bloodiest year of the six.

The repatriation of armed fighters to Mali, Algeria and northern Nigeria after the fall of Muammar Kaddafi in Libya in 2011 partly explains this increase. Terrorism was mainly concentrated in the Sahel region, northern Nigeria, Somalia, Kenya, Sudan and the Sinai desert in Egypt. About half of the 2012 attacks were not claimed by any specific group. The Boko Haram sect in Nigeria and Islamist militants Al-Shabaab in Somalia represented over a third of militant acts in Africa in 2012. Boko Haram claimed 124 acts and Al-Shabaab 116 acts. The two groups accounted for 886 dead and 720 injured. In the Sahel region, Al-Qaeda in the Islamic Maghreb (AQIM) claimed 11 attacks. Other main militant groups active in the Sahel region were Ansar Dine, the National Movement for Liberation of Azawad (MNLA), the Movement for Oneness and Jihad in West Africa (MUJAO) and the Tuareg Niger Movement for Justice (MNJ).

In addition, organised crime networks further undermined state capacity and fostered corruption, precipitating a major political crisis in Mali. Decades of contraband trade in cigarettes and subsidised fuel from Algeria led to the erosion of customs services through corruption and collusion between smugglers and state officials. This laid the foundation for illegal trafficking in drugs, arms and migrants (Lacher, 2012). The outbreak of a Tuareg-led rebellion in northern Mali in 2006 exacerbated a drive by different networks to control lucrative smuggling routes. In 2010, the cocaine trade transiting through West Africa, mainly from Latin America, was estimated at USD 1.25 billion (UNODC, 2013). This is more than all official development assistance received by Mali (USD 1 billion) and ten times the national defence budget of Burkina Faso (estimated at USD 124 million) that year. Since 2007 a wave of kidnappings of foreigners for ransom, mainly perpetrated by AQIM and MUJAO, also afflicted the Sahel region. This lucrative industry allowed AQIM to gain political and military clout in the region.

Disgruntled by the government's handling of the Tuareg uprising, a group of junior military officers took control of the Mali government on 22 March 2012 in a context of institutional deliquescence: "This series of events in Mali is the result of a weak political system despite democratic practices, disillusionment in the lack of economic and social development in the north and south, government laxity in state management and the unprecedented external shock of the Libyan crisis"(International Crisis Group, 2012). Despite the restoration of a civilian government on 25 April 2012, institutional instability and political fragmentation continued to prevail as the authority and legitimacy of the state remained challenged by various military factions, political parties and religious leaders.

The Tuareg rebels, organised as the MNLA, had some military success before the *coup* and took advantage of the political stalemate to proclaim the state of "Azawad" in northern Mali on 6 April. In the ensuing months the main cities in northern Mali fell under the control of

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two groups closely linked to AQIM, Ansar Dine and the MUJAO, as they overtook the MNLA. The interim government in Bamako called for French military help on 10 January 2013 as a Jihadist move towards southern Mali gathered pace. The French military intervention was backed by the UN Security Council.

The interim government and national assembly later adopted a political transition road map calling for national reconciliation with groups in the north and free elections which are scheduled to be held before the end of July 2013.

The instability crippled the key tourism and agriculture industries in the region. Between 2004 and 2010, the Mali tourism industry's turnover had doubled to EUR 240 million (Euros). In 2008, there were 170 000 tourists, compared with 40 000 in 1995. Agricultural production in the Niger River basin, accounting for 20% of Mali's rice production and 80% of its wheat production, suffered from the disruption of stocks of seeds and fertilisers. Overall, the lack of reliable, alternative sources of income adds to the attractiveness of illegal trafficking and compounds the difficulty of finding a sustainable solution to the political crisis.

Prolonged cross-border conflicts also affect development and state building in other parts of Africa. In the Senegalese region of Casamance a low-intensity separatist rebellion, started in 1982, is one of Africa's longest-running insurgencies. The release of eight military hostages by rebels in December 2012 sparked hope for renewed peace talks.

South Sudan broke away from Sudan in July 2011 after a self-determination referendum that year. Lingering border tensions undermine stability in both countries. These tensions peaked in April 2012 but the two agreed in September to resume oil exports from landlocked South Sudan through a pipeline that crosses Sudan. Both states rely on revenues from the oil reserves to finance food and fuel purchases.

Lack of progress in the negotiations between the Moroccan government and the Polisario Front (PF) about the future of Western Sahara continues to weigh on relations between Morocco and Algeria.

On 25 August 2012, the Central African Republic's (CAR) last armed rebel group, the Patriots' Convention for Justice and Peace, signed a peace deal with the government and ended the insurgency that dated back to 2005. At the end of 2012, a new rural rebellion called Seleka, a coalition of rebel groups, accused President François Bozizé of failing to keep a 2007 peace deal which had promised jobs to insurgents who surrendered their arms. The Seleka rebels closed in on the capital Bangui in December 2012 to force new peace talks. A deal concluded in Libreville on 11 January 2013 included provisions for new elections, security sector reform and the instalment of a government of national unity. In spite of this agreement, the rebel attacks have critically exacerbated the country's fragile political and security situation leading to the fall of Francois Bozizé's regime on 22 March 2013. Michel Djotodia the chief of the Seleka coalition and defence minister in the interim cabinet agreed at Libreville in January 2013 has proclaimed himself President of the Republic and declared the dissolution of both the constitution and the government of national unity. He indicated his will to organise free and transparent elections within the next three years. The proliferation of looting and robberies of both public and private goods that occurred, notably in the capital Bangui, is worth noting. At least 13 South African troops, in the country under a bilateral accord, were killed in the clashes in Bangui.

Although peace has been largely restored in Côte d'Ivoire, stability remained a concern throughout 2012. According to observers, thousands of fighters loyal to Laurent Gbagbo, a former president now before the ICC, and Liberian mercenaries crossed the border to Liberia and continued to threaten stability in western Côte d'Ivoire. Seven UN peacekeepers were killed in a raid in early June 2012, underscoring concerns over stability in one of West Africa's major economies.

In Guinea-Bissau, a former military intelligence chief was killed on the day of an election, and a military *coup* was attempted on 12 April 2012. Negotiations between the Economic Community of West African States (ECOWAS) and the *coup* leaders led to the installation of a 28-member interim cabinet in May 2012. The agreement provided for new parliamentary and presidential elections in 2013 as well as the deployment of an ECOWAS contingent to ensure the resumption of the country's security sector reforms. Neither the international community nor the former ruling party the *Partido Africano da Independência da Guiné e Cabo Verde* (PAIGC), recognised the interim government. The lingering political instability, dating back to the end of the civil war in 1998, continues to severely undermine the country's economic prospects.

Seven UN peacekeeping operations were active in sub-Saharan Africa in 2012. The latest to be launched was the UN Mission in South Sudan, after its independence in July 2011. These seven missions have an annual budget of about USD 5 billion and 86 000 staff. The UN Stabilisation Mission in the Democratic Republic of Congo (DRC) (MONUSCO) and the African Union/United Nations (AU/UN) hybrid peacekeeping operation in Darfur (UNAMID) between them had a budget of USD 2.8 billion in 2012.

Corruption

Corruption affects many Africans on a daily basis. According to Transparency International's (TI) 2012 Corruption Perception Index (CPI), 90% of African countries scored below the symbolic 50 pass mark. This is roughly on a par with Eastern Europe and Central Asia. On average, Africa's CPI score in 2012 was 33, which means corruption hampers business and the provision of decent public services. This is an improvement over last year's average score of 29, which TI equates to widespread corruption. The bottom five countries in the index include two African countries, Somalia and Sudan.

For the first time, Botswana entered the world's top 30 countries perceived to be least corrupt, ahead of Spain, Estonia and Portugal. Cape Verde joined Botswana in the group of countries with a score above 60. The Seychelles (52) became the fifth African country with an index above 50, closely behind Mauritius (57) and Rwanda (53). Zambia and Ghana are two countries that have taken a tough stance against corruption which might translate into an improved CPI in the medium term.

TI's 2011 Global Corruption Barometer indicates that African citizens believe corruption had worsened in the previous three years. Rwanda was the only African country where more than 50% of respondents believed corruption had declined in this time. In Kenya and Ethiopia more people believed corruption had improved than got worse.

The majority of countries at the bottom of the CPI have emerged from prolonged crisis, which highlights the strong detrimental effect of conflict on political and administrative institutions. Somalia, Sudan, Chad, Burundi, Zimbabwe, Libya, Congo Republic, DRC and Angola have the lowest scores for the continent.

The Arab Spring put the spotlight on public concern over corruption. Newly elected North African governments must entrench a culture of transparency and accountability in public office and regain trust. This will require establishing integrity in government institutions and involving the public much more to have them demand further accountability.

According to TI, national defence sectors face a strong risk of corruption. Defence and security establishments in North African countries in particular were considered barely accountable. Neither Morocco nor Tunisia publicly discloses its national defence budget.

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Table 5.3. **Corruption Perception Index by Transparency International 2011-13**

Country	Global rank 2012	CPI 2012	Global rank 2011	CPI 2011
Botswana	30	65	32	61
Cape Verde	39	60	41	55
Mauritius	43	57	46	51
Rwanda	50	53	49	50
Seychelles	51	52	50	48
Namibia	58	48	57	44
Ghana	64	45	69	39
Lesotho	64	45	77	35
South Africa	69	43	64	41
Saõ Tomé & Príncipe	72	42	100	30
Liberia	75	41	91	32
Tunisia	75	41	73	38
Burkina Faso	83	38	100	30
Malawi	88	37	100	30
Morocco	88	37	80	34
Swaziland	88	37	95	31
Zambia	88	37	91	32
Benin	94	36	100	30
Djibouti	94	36	100	30
Senegal	94	36	112	29
Gabon	102	35	100	30
Tanzania	102	35	100	30
Algeria	105	34	112	29
Gambia	105	34	77	35
Mali	105	34	118	28
Ethiopia	113	33	120	27
Niger	113	33	134	25
Egypt	118	32	112	29
Madagascar	118	32	100	30
Mauritania	123	31	143	24
Mozambique	123	31	120	27
Sierra Leone	123	31	134	25
Togo	128	30	143	24
Côte d´Ivoire	130	29	154	22
Uganda	130	29	143	24
Comoros	133	28	143	24
Kenya	139	27	154	22
Nigeria	139	27	143	24
Cameroon	144	26	134	25
Central African Rep.	144	26	154	22
Congo Rep.	144	26	154	22
Eritrea	150	25	134	25
Guinea-Bissau	150	25	154	22
Guinea	154	24	164	21
Angola	157	22	168	20
Congo, Dem. Rep.	160	21	168	20
Libya	160	21	168	20
Equatorial Guinea	163	20	172	19
Zimbabwe	163	20	154	22
Burundi	165	19	172	19
Chad	165	19	168	20
Sudan	173	13	177	16
Somalia	174	8	182	10
South Sudan	…	…	…	…

Source: Transparency International. The Corruption Perception Index ranks countries according to perception of corruption in the public sector on a scale from 10 (very clean) to 0 (highly corrupt).

Algeria's powerful military prevents scrutiny of the defence sector through political connections. Commercial enterprises owned by the military in Egypt and Algeria are not subject to public scrutiny. These problems are all made possible thanks to excessive secrecy and lack of legislative oversight.

The TI study found a high-to-critical corruption risk in defence sectors in 14 sub-Saharan countries. Angola, Cameroon, DRC and Eritrea face the highest risk of defence corruption, highlighting the legacy of conflict and weak governance. South Africa is the only country in the region with provisions for legislative oversight of the defence sector. Ghana and Kenya show some encouraging measures, including the existence of disciplinary measures against corruption. Tanzania's professional training of UN peacekeeping forces may lower the risk of corruption on operations.

Public procurement also offers potential for corruption through embezzlement or waste of public money. TI estimates corruption and mismanagement in public procurement could be costing Kenya up to USD 357 million annually. In early 2013, the Kenyan government started looking into simplified monitoring tools and a central database of contract information to increase transparency in public spending. In Ghana, social auditing clubs track public tenders to watch for quality and effective spending.

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Economic governance

African countries have made significant institutional and regulatory improvements since 2005. Burundi has eliminated three requirements to register companies while information on how to open a business is available in the national press. New companies can register at the Ministry of Trade and Industry. A study on Rwanda in the World Bank *Doing Business 2013* report showcases the country as a best practice in fostering business prospects and promoting entrepreneurship (World Bank, 2013). Rwanda's Vision 2020 strategy, aiming to become a middle-income country by 2020, stresses long-term planning and strengthened leadership. Following the national efforts, Rwanda is currently ranked second in the World Bank *Doing Business 2013* "Distance to Frontier" index, a composite of each of the Doing Business indicators to show how far an economy is from its optimal performance.

Ease of doing business: Mauritius, South Africa and Tunisia were the only African countries among the world top 50 in the World Bank's *Doing Business 2013* ''ease of doing business'' indicator. Seven African countries were among the next 50 countries. The majority of African countries were among the last 85 overall. Countries such as Botswana, Burundi, CAR, Comoros, DRC, Republic of Congo, Cote d'Ivoire, Kenya, Liberia, Malawi, Mali, Nigeria, Sierra Leone, Togo and Zambia have increased efforts to improve their business environment, including by setting up inter-ministerial committees. Business regulatory practices by the poor performers have been slowly improving.

Paying taxes: Countries such as Kenya have introduced or enhanced electronic systems for tax recovery. Mali has simplified its tax complaints process, while Burundi, Djibouti, Sierra Leone and Swaziland have introduced value added tax (VAT) to replace their cascading sales taxes. Cameroon, Mauritania, Senegal, Gambia, CAR, Congo Republic, Guinea and Chad remain among the most difficult places in Africa for paying taxes.

Starting a business: Entrepreneurship needs to be stimulated in Africa to strengthen job creation (AEO, 2012). Benin, Burundi, Comoros, DRC, Republic of Congo, Lesotho, Tanzania and Togo have simplified registration formalities for start-ups. Morocco reduced its minimum capital requirements. Others such as Burundi, Chad, Guinea, Lesotho and Madagascar created or improved one-stop shops for creating a company.

Getting credit: Access to credit has become much easier. A number of sub-Saharan countries have intensified reforms on the legal rights of borrowers and lenders. Ethiopia, for example, has incorporated new laws and regulations guaranteeing the rights of borrowers. Mauritius has enhanced access to credit information. Its credit registry now reports positive and negative data in addition to payment information from retailers. Algeria and Sierra Leone continue to improve the sharing of credit information. In addition, many sub-Saharan countries have put more emphasis on enforcement of security interests and intensified efforts to develop credit information systems since 2008.

Protecting investors: Lesotho enacted a new company law that requires company directors to disclose the full extent of any conflict of interest relative to proposed transactions. It also adopted a law setting out the duties and skills of directors. Overall, Burundi, Rwanda and Swaziland are the ones that improved the most regarding investor protection, while The Gambia, Guinea and Djibouti are performing worst in offering protection to investors.

Improving governance is a necessary condition for the credibility of the countries and their policies. African countries are stepping up efforts in a bid to attract foreign direct investment. However, they have a long way to go particularly in eliminating corruption and strengthening capacities in public governance and economic support.

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Table 5.4 traces developments in economic freedom in African countries over the period 2004-13 as reported by the Heritage Foundation. Mauritius is making serious efforts to eliminate corruption and currently holds 8th position on economic freedom in the world. Among other issues, it has focused on improving business transparency.

Table 5.4. **Index of economic freedom for 2004-12**

World rank	Country	2013 score	2012 score	2011 score	2010 score	2009 score	2008 score	2007 score	2006 score	2005 score	2004 score
8	Mauritius	76.9	77.8	76.2	76.3	74.3	72.6	69.4	67.4	67.2	64.3
30	Botswana	70.6	69.6	68.8	70.3	69.7	68.2	68.1	68.8	69.3	69.9
65	Cape Verde	63.7	63.5	64.6	61.8	61.3	57.9	56.5	58.6	57.8	58.1
84	Namibia	60.3	61.9	62.7	62.2	62.4	61.4	63.5	60.7	61.4	62.4
74	South Africa	61.8	62.7	62.7	62.8	63.8	63.4	63.5	63.7	62.9	66.3
63	Rwanda	64.1	64.9	62.7	59.1	54.2	54.2	52.4	52.8	51.7	53.3
79	Uganda	61.1	61.9	61.7	62.2	63.6	63.8	63.1	63.9	62.9	64.1
73	Madagascar	62	62.4	61.2	63.2	62.2	62.4	61.1	61	63.1	60.9
86	Burkina Faso	59.9	60.6	60.6	59.4	59.5	55.7	55.1	55.8	56.5	58
93	Zambia	58.7	58.3	59.7	58	56.6	56.2	56.2	56.8	55	54.9
90	Morocco	59.6	60.2	59.6	59.2	57.7	55.6	56.4	51.5	52.2	56.7
77	Ghana	61.3	60.7	59.4	60.2	58	57	57.6	55.6	56.5	59.1
125	Egypt	54.8	57.9	59.1	59	58	58.5	54.4	53.2	55.8	55.5
104	Swaziland	57.2	57.2	59.1	57.4	59.1	58.4	60.1	61.4	59.4	58.6
107	Tunisia	57	58.6	58.5	58.9	58	60.1	60.3	57.5	55.4	58.4
92	Gambia	58.8	58.8	57.4	55.1	55.8	56.9	57.7	57.3	56.5	55.3
114	Kenya	55.9	57.5	57.4	57.5	58.7		59.6	59.7	57.9	57.7
98	Tanzania	57.9	57	57	58.3	58.3	56.5	56.8	58.5	56.3	60.1
123	Mozambique	55	57.1	56.8	56	55.7	55.4	54.7	51.9	54.6	57.2
99	Gabon	57.8	56.4	56.7	55.4	55	54.2	54.8	56.1	54.8	57.1
120	Nigeria	55.1	56.3	56.7	56.8	55.1	55.1	55.6	48.7	48.4	49.2
111	Mali	56.4	55.8	56.3	55.6	55.6	55.6	54.7	54.1	57.3	56.6
101	Benin	57.6	55.7	56	55.4	55.4	55.2	55.1	54	52.3	54.6
118	Malawi	55.3	56.4	55.8	54.1	53.7	52.7	52.9	55.4	53.6	53.6
116	Senegal	55.5	55.4	55.7	54.6	56.3	58.3	58.1	56.2	57.9	58.9
126	Côte d'Ivoire	54.1	54.3	55.4	54.1	55	53.9	54.9	56.2	56.6	57.8
127	Djibouti	53.9	53.9	54.5	51	51.4	51.2	52.4	53.2	55.2	55.6
128	Niger	53.9	54.3	54.3	52.9	53.8	52.9	53.2	52.5	54.1	54.6
145	Algeria	49.6	51	52.4	56.9	56.6	56.2	55.4	55.7	53.2	58.1
134	Mauritania	52.3	53	52.1	52	53.9	55.2	53.6	55.7	59.4	61.8
133	Cameroon	52.3	51.8	51.8	52.3	53	54.3	55.6	54.6	53	52.3
137	Guinea	51.2	50.8	51.7	51.8	51	52.8	54.5	52.8	57.4	56.1
124	Seychelles	54.9	53	51.2	47.9	47.8	-	-	-	-	-
146	Ethiopia	49.4	52	50.5	51.2	53	52.5	53.6	50.9	51.1	54.5
148	Burundi	49	48.1	49.6	47.5	48.8	46.2	46.9	48.7	-	-
151	Sierra Leone	48.3	49.1	49.6	47.9	47.8	48.3	47	45.2	44.8	43.6
153	São Tomé and Príncipe	48	50.2	49.5	-	-	-	-	-	-	-
142	Central African Rep.	50.4	50.3	49.3	48.4	48.3	48.6	50.6	54.2	56.5	57.5
150	Togo	48.8	48.3	49.1	47.1	48.7	48.9	49.7	47.3	48.2	47
155	Lesotho	47.9	46.6	47.5	48.1	49.7	52.2	53.2	54.7	53.9	50.3
170	Equatorial Guinea	42.3	42.8	47.5	48.6	51.3	51.6	53.2	51.5	53.3	53.3
138	Guinea-Bissau	51.1	50.1	46.5	43.6	45.4	44.4	46.1	46.5	46	42.6
147	Liberia	49.3	48.6	46.5	-	-	-	-	-	-	-
158	Angola	47.3	46.7	46.2	48.4	47	46.9	44.7	43.5	-	-
164	Chad	45.2	44.8	45.3	47.5	47.5	47.8	50.1	50	52.1	53.1
157	Comoros	47.5	45.7	43.8	-	-	-	-	-	-	-
167	Congo Rep.	43.5	43.8	43.6	43.2	45.4	45.4	44.4	43.8	46.2	45.9
171	Congo, Dem. Rep.	39.6	41.1	40.7	-	-	-	-	-	-	-
-	Libya	-	35.9	38.6	40.2	43.5	38.7	37	33.2	32.8	31.5
173	Eritrea	36.3	36.2	36.7	-	-	-	-	-	-	-
175	Zimbabwe	28.6	26.3	22.1	21.4	22.7	29.4	32	33.5	35.2	34.4

Source: Heritage Foundation, 2012.

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The Arab Spring goes on

Public protests in North Africa in 2012 had a political undertone that reflected an extension of the Arab Spring revolts. The protests were primarily motivated by calls for further and deeper political reforms. Tunisia and Egypt, in particular, saw intense protests that cast a shadow over their democratic consolidation. Their societies became increasingly polarised between a more secular opposition and supporters of democratically elected Islamist governments. Clashes between opposing political groups erupted as opposition denounced measures perceived to be threatening the secular nature of the state, or insufficiently protecting individual and religious freedoms.

Protests in sub-Saharan Africa were mostly over economic concerns. More than half of public protests were to demand salary increases or to complain against the increasing cost of living. As populations grow, pressure is likely to stay on African governments to provide sustainable answers to economic and social grievances. The year also saw a concentration of unrest in fewer, large economies. This was in contrast to 2011 when nearly all African countries faced increased protests.

More than 50 presidential, parliamentary and legislative elections were held during 2011 and 2012, a sign that democracy is taking root across Africa. However, factors such as low socio-economic development, poor state capacity or the military influence on politics undermined the consolidation of democracy in several countries. In addition, election-related violence remains a concern.

Militant attacks and organised crime have emerged as major threats to Africa's security, stability and democracy. Combined with lingering cross-border conflicts they form pockets of instability in remote areas with little government control. The UN Office on Drugs and Crime (UNODC) 2013 report on transnational organised crime emphasises its undermining impact on state capacity. It also foments corruption. The transnational nature and origin of these "global crime chains" calls for solutions supported at a national and international level.

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Part two

Structural transformation and natural resources in Africa

Chapter 6

Structural transformation and natural resources in Africa

Structural transformation towards more productive activities and better jobs is closely linked with a strong natural-resource sector. To harness Africa's natural resources for structural transformation, a four-layer policy approach is suggested:

i. establish general framework conditions for structural transformation such as education, infrastructure and access to sufficiently large, regional markets;

ii. establish specific conditions required for natural resource sectors to thrive;

iii. optimise the revenues from natural resources and invest them strategically to promote structural transformation;

iv. address structural transformation directly by increasing agricultural productivity and enabling economic linkages between the natural-resource sector and the economy as a whole.

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Introduction

The theme of last year's edition of the *African Economic Outlook*, that of promoting youth employment, showed that in spite of steady growth Africa's ability to offer economic and social opportunities to its younger generation has not matched its demographic dynamism. African economies today are facing nothing less than the formidable challenge of creating more and better jobs, not just by sustaining the pace of growth, but by making it more inclusive.

Emerging economies, such as Brazil, China, India among others, have been more successful than most African countries in that endeavour, achieving impressive reductions in poverty for more than two decades. How are they different from Africa? One answer is that they have undergone a more rapid *structural transformation*; that is, the process by which new, more productive activities arise and resources move from traditional activities to these newer ones. A higher proportion of labour thus moved from low-productivity to high-productivity sectors.

In Africa, the evidence suggests that structural transformation is in its formative stage in most countries and has not yet put down deep roots. As a result, the pace of poverty reduction has not kept pace with the relatively rapid growth attained in many countries.

The second difference between most African countries and the emerging economies mentioned above is the importance of natural resources for Africa.

Taking together agricultural commodities, timber, metals and minerals, and hydrocarbons, natural resources have accounted for roughly 35% of Africa's growth since 2000. Resource-based raw and semi-processed goods accounted for about 80% of African export products in 2011, compared with 60% in Brazil, 40% in India and 14% in China. Similarly, most greenfield foreign direct investment (FDI) in Africa went to resource-related activities. Given that Africa is comparatively land-abundant and scarcely populated the importance of natural resources comes as little surprise (Wood, 2002). In other words, Africa has a strong comparative advantage in natural resources.

The high proportion of jobs in the primary sector thus reflects a lack of structural change and of productive jobs, but also Africa's comparative advantage and hence the basis from which structural transformation must take off. The question then becomes how Africa can achieve growth that delivers more productive jobs, given its comparative advantage.

The high level of prices for natural resources offers a window of opportunity that Africa must take advantage of. Driven by the phenomenon of "shifting wealth" and the appetite of emerging economies such as China for natural resources, demand has remained high in spite of the current sluggishness in advanced economies. It has put Africa back on the map of international investors and led to a number of impressive new discoveries of mineral and energy resources. It is up to Africa to make the most of this renewed interest. This requires policy makers and entrepreneurs to analyse the obstacles to structural change, and draw lessons from countries that have built on their natural-resource wealth to chart a growth path providing employment and income for all.

As sources of development finance increase and diversify (as shown in Chapter 2 of this volume), and policy space broadens – underpinned by sustained macroeconomic stability – a growing number of African governments are exploring options for actively promoting the structural transformation of their economies. But how is this to be done? Should African economies prepare to seize the new opportunities opened by rising labour

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costs in China and adopt East Asian types of manufacturing and export-led strategies, as Mauritius successfully did 30 years ago? Should they invest massively in the processing of raw materials extracted from African soil, so as to climb up the global value chains and retain a larger share of their own wealth? Or should they look into an alternative "Indian model" centred on services?

This report argues that since natural resources – energy, minerals, and agriculture – will remain the continent's comparative advantage for the foreseeable future, by contrast with most of Asia, the priority of an active transformation strategy should be to establish a strong, diversified resource-based economy.

This chapter is structured as follows:

Section 1 on **taking stock of structural transformation** analyses structural transformation in Africa over the last decades. During the 1990s productivity within individual sectors rose but labour moved in the "wrong" direction, from higher to lower productivity sectors. Africa has been able to turn this trend around in the new millennium: positive structural change is beginning to take root. But the rate is slow and many Africans remain in poverty because there are not enough good jobs to be had. Given Africa's comparatively low skill-to-labour ratio, it needs mainly low-skilled jobs with growth potential. Where can such jobs come from?

Section 2 on **building on a strong primary sector as the basis for structural transformation** provides a concept. Jobs should come from manufacturing rather than services. But in many countries the conditions are not yet in place. To get there Africa must work to its strengths. It has a strong comparative advantage in natural resources and they can be the drivers of structural transformation through linkages, employment, revenue and foreign investment if given the environment and support to thrive. Diversification is fundamental. Countries with diversified natural-resource sectors also exhibit more diversified manufacturing.

Section 3 looks at **the primary sector in Africa past and present** shows that this has not been recognised in the past, that large-scale agricultural transformation remains to be done in Africa and that the continent has been underexplored. But this is changing for the better. Exploration and production are expanding and Africa stands to gain more from its resources.

Section 4 is about **getting it right: a four-layer approach to harnessing natural resources for structural transformation** presents just that. Putting in place the right framework conditions for structural transformation is layer one. Meeting the specific requirements of the primary sectors to fuel natural resource-based transformation constitutes layer two. The third layer is concerned with optimising the revenue from natural resources and investing it wisely. Finally, layer four is about promoting structural transformation with active policies, focusing on increasing agricultural productivity and building linkages to and from the extractive industries.

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1. Taking stock of Africa's structural transformation

In brief... Structural transformation is the reallocation of economic activity away from the least productive sectors of the economy to more productive ones. It is one fundamental driver of economic development. It contains two elements: the rise of new, more productive activities and the movement of resources from traditional activities to these newer ones, raising overall productivity. Without the first, there is little that propels the economy forward. Without the second, productivity gains are not diffused to the rest of the economy (McMillan and Rodrik, 2011; hereafter identified as M&R 2011). This stock-taking exercise finds that *i)* structural change in Africa was largely growth-reducing between 1990 and 1999; while *ii)* structural change in Africa was largely growth-enhancing between 2000 and 2005; *iii)* structural change in Africa's recent past has been most pronounced in countries that stand to benefit the most as measured by the share of the labour force in agriculture; *iv)* structural change has been higher in countries with better governance, more effective schools and more competitive exchange rates; v) in spite of the arrival of positive structural change during the last decade, Africa needs much more effective transformation to create economic structures that can provide good jobs and income for its growing population; and *vi)* comparison with the historical paths of richer countries shows that Africa follows the general pattern and can accelerate structural change through diversification.

It has been well documented that structural change — that is, the reallocation of economic activity away from the least productive sectors of the economy to more productive ones — is a fundamental driver of economic development (Herrendorf, Rogerson and Valentinyi (2011); Duarte and Restuccia, 2010). In particular, the movement of labour out of less productive semi-subsistence agriculture and into the more productive sectors of manufacturing or services, in both urban and rural areas, is needed to sustain increases in overall productivity and living standards and drive poverty reduction. This holds true both from a theoretical standpoint and from the actual experiences of countries throughout the stages of their development.[1] Traditionally, the concept of structural change has been framed in terms of a reallocation of economic activity between three broad sectors — agriculture, manufacturing and services — which accompanies and facilitates the process of economic growth. Historically, the share of activity in manufacturing has followed an inverted U-shape: increasing during low stages of development as capital is accumulated, then decreasing for high stages of development where higher incomes drive demand for services and increased labour costs make manufacturing difficult.[2] Some of this transition into services and manufacturing occurs within rural areas, but much of it involves migration to urban centres in pursuit of formal employment opportunities. Urban workers typically enjoy higher labour productivity because of, among other things, greater specialisation, more access to capital and lower transaction costs in trade. Structural change has undoubtedly played a substantial role in the productivity catching-up of developing countries. Those with the most rapid growth rates have typically reallocated the most labour into high-productivity manufacturing, allowing aggregate productivity to catch up (Duarte and Restuccia, 2010). In other words, countries that pull themselves out of poverty also exhibit positive structural change.[3]

Comparing the patterns from the 1990s with those observed from 2000-05 in selected countries reveals a remarkable turnaround from negative to positive structural change in Africa. According to analysis by M&R (2011), based on a sample of nine African countries, structural change made a negative contribution to overall productivity growth in Africa in the 1990s. In Africa, the early 1990s were still a period of adjustment. The period starting around 2000 marked the beginning of Africa's "growth miracle", coinciding with a period of intensified globalisation marked by the opening up of the largest developing country in the world – China – and a boom in commodity prices. Figure 6.1 presents the central findings

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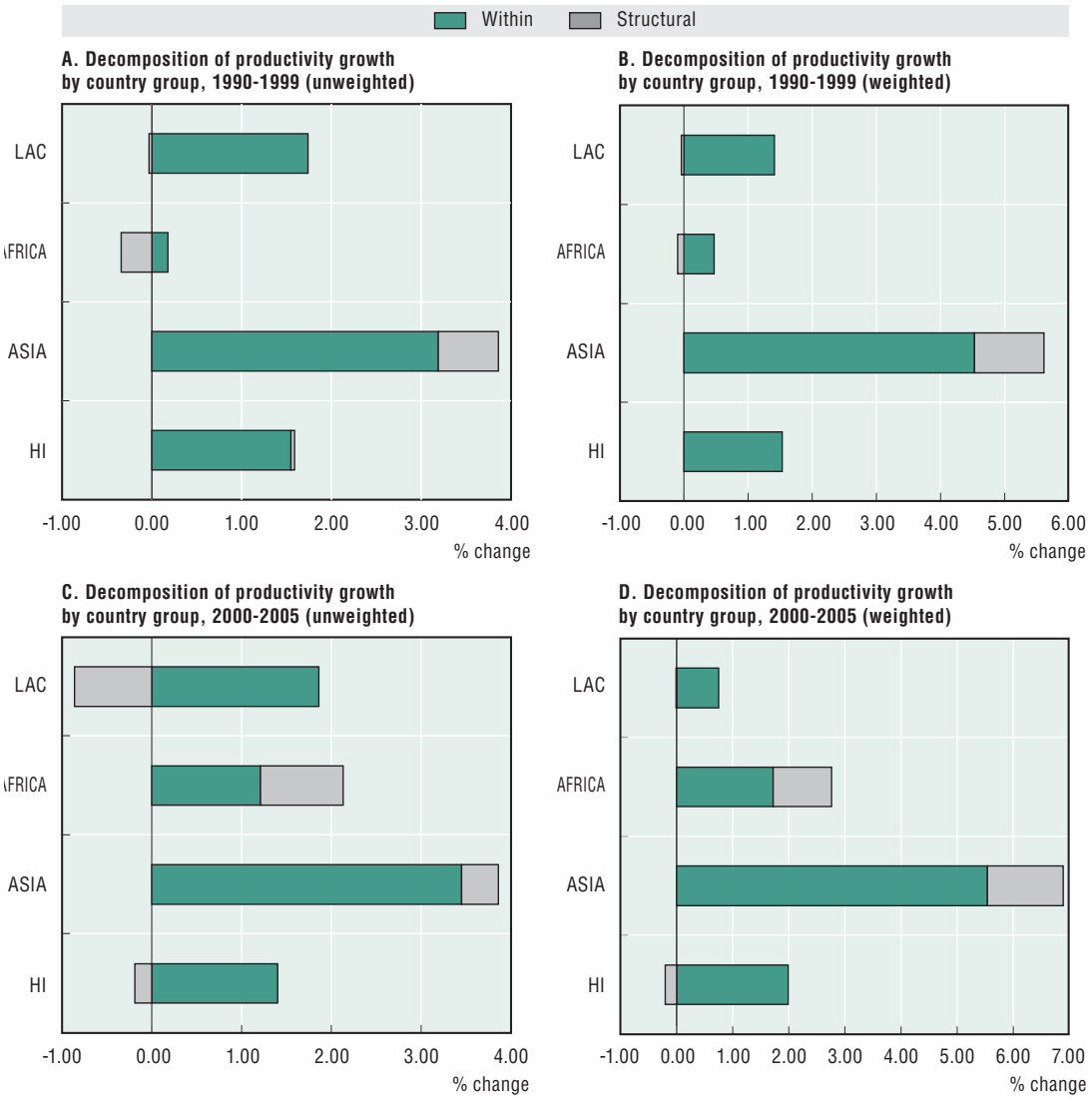
on patterns of structural change.[4] Simple averages and employment-weighted averages are presented for the periods 1990–99 and 2000-05 for four groups of countries: Latin American and Caribbean (LAC), sub-Saharan African, Asian and high-income. The most striking result is Africa's remarkable turnaround. Between 1990 and 1999, structural change was a drag on economy-wide productivity in Africa: in the unweighted sample overall growth in labour productivity was negative and largely a result of structural change. A very similar pattern was observed in Latin America at the time. While the situation did not improve in Latin America in the period 2000-05, Africa experienced a remarkable turnaround. Structural change contributed around 1 percentage point to labour productivity growth in Africa in both the weighted and the unweighted samples. Moreover, overall labour productivity growth in Africa was second only to that in Asia, where structural change continued to play an important positive role.

Figure 6.1. **Structural transformation in Africa: Comparing the patterns across periods**



Note: These graphs are based on the nine country sample used in McMillan and Rodrik, 2011.
Source: Authors' calculations based on data from McMillan, M.S. and D. Rodrik (2011), "Globalization, structural change and productivity growth", NBER Working Paper No. 17143, http://www.nber.org/papers/w17143.

StatLink http://dx.doi.org/10.1787/888932807512

Using additional, more recent country-level data for this chapter confirms the turnaround of structural change in Africa. Having established that structural change seems to be moving in the right direction for the nine African countries in the M&R (2011) sample, the analysis for this chapter is expanded to 19 African countries.[5] Comprising 16 of 48 countries from sub-Saharan Africa and three of six countries from North Africa, the enlarged sample is broadly representative. Table 6.1 shows the results. With only few exceptions, using a larger sample of countries confirms the finding of a turnaround. Labour productivity in these 19 countries grew by 2.18% after 2000 and the contribution of structural change across sectors was 0.87 percentage points or roughly 40% of the total. In contrast to the earlier period from 1990-99, structural change now accounted for nearly half of Africa's overall productivity growth.

Table 6.1. **Decomposing productivity growth in Africa (2000-05)**

	Labour productivity	of which:	
	Growth (%)	Within - labour movement within sectors (%)	Structural - labour movement between sectors (%)
Algeria	0.62	0.43	0.19
Angola	5.68	5.29	0.39
Cameroon	-2.61	-3.08	0.46
Egypt	1.73	3.20	-1.47
Ethiopia	2.09	2.06	0.03
Ghana	3.63	3.66	-0.03
Kenya	0.57	0.29	0.27
Malawi	-1.73	-1.80	0.08
Mali	2.81	2.29	0.52
Mauritius	2.29	1.82	0.46
Morocco	4.18	3.16	1.02
Mozambique	4.91	3.98	0.94
Nigeria	3.77	0.96	2.81
Rwanda	3.96	-0.16	4.12
Senegal	0.79	-0.37	1.16
South Africa	2.47	2.10	0.38
Tanzania	3.17	0.76	2.41
Uganda	1.78	-0.88	2.65
Zambia	1.30	1.23	0.57
Africa Unweighted	**2.18**	**1.31**	**0.87**
Africa Weighted	**2.87**	**2.07**	**0.80**

Source: Authors' calculations based expanding the dataset used in McMillan, M.S. and D. Rodrik (2011), "Globalization, structural change and productivity growth", *NBER Working Paper* No. 17143, http://www.nber.org/papers/w17143

Household-level data show that there has been an overall shift in employment from agriculture to services and manufacturing. To check the robustness of employment shares estimates (and the changes in employment shares) data from the Demographic and Health Surveys (DHSs) are used. The DHSs are nationally representative surveys designed to collect detailed information on child mortality, health and fertility, as well as on households' durables and the quality of their dwelling. In addition the DHSs collect information on the education, employment status and occupations of women and their partners between the ages of 15 and 49. Importantly, the design and coding of variables (especially on the type of occupation, educational achievements, households assets, dwelling characteristics) are generally comparable across countries and over time. Finally, the sample includes considerable regional variations. In all, 90 surveys are available for 31 African countries and

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92 surveys for 37 non-African countries and for most multiple surveys (up to six) were conducted between 1995 and 2011. Using DHS data on changes in occupations, it emerges that for the African countries in the sample for the period 2001-07: *i)* labour force participation of both men and women increased relative to the previous period; *ii)* there was a shift in male occupations away from agriculture and services to manufacturing; and *iii)* there was a shift in female occupations away from services to agriculture and manufacturing. By contrast, it emerges that in the earlier period, which covers 1990-99, *i)* labour force participation of both men and women fell; and *ii)* there was a shift in male occupations into services and agriculture. Given that many fewer women report working, these trends are broadly consistent with the previous findings: most workers in the African countries for which there are data are reporting that they are earning more of their income from manufacturing and services and less from agriculture. Another finding is that a much larger proportion of men report working in manufacturing than is currently reported in national statistics.

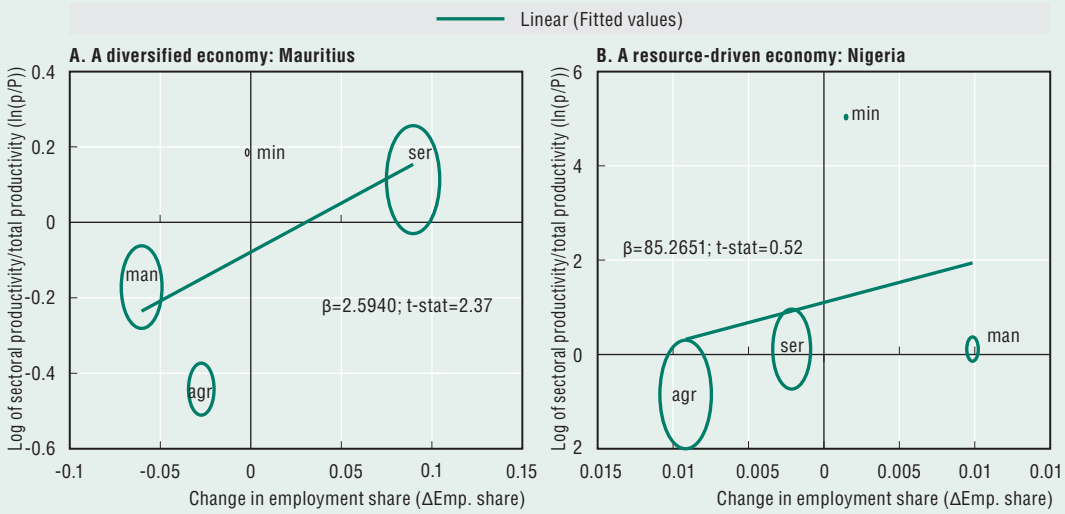
The drivers behind positive structural change have been the quality of governance, human capital accumulation, competitive exchange rates and the share of the labour force in agriculture. Multivariate analysis of the drivers of the recently observed positive structural change in Africa shows that, first, the higher the quality of governance as measured by the Mo Ibrahim Foundation (2012), the more positive the structural transformation. Second, human capital accumulation as measured by changes in primary school completion is positively correlated with structural transformation. This is in line with the fact that skills are important prerequisites for even the most basic jobs in the modern parts of the economy, which need to expand in order to accelerate structural change. According to the World Bank Enterprise Survey Data (World Bank, 2013a), the average length of education of a worker in a formal manufacturing job in Africa is 6.5 years. Third, DHS household level data show that the more competitive the exchange rate (measured by a comparison of price levels across countries6), the more rapid the drop in the share of agriculture in employment. At the same time more competitive exchange rates are positively correlated with the share of employment in manufacturing. Fourth, and finally, countries with a higher share of the labour force in agriculture are experiencing greater growth-enhancing structural change. This is consistent with a large initial gap in productivity, and with productivity growth within agriculture that helps to finance households' investment in both rural non-farm work and migration to urban employment, as well as the rise of employment opportunities in the destination sector.

Box 6.1. **Structural transformation in four distinct groups of countries**

Dividing Africa's 54 countries into four characteristic groups helps to illustrate the heterogeneity of structural transformation experiences across the continent.

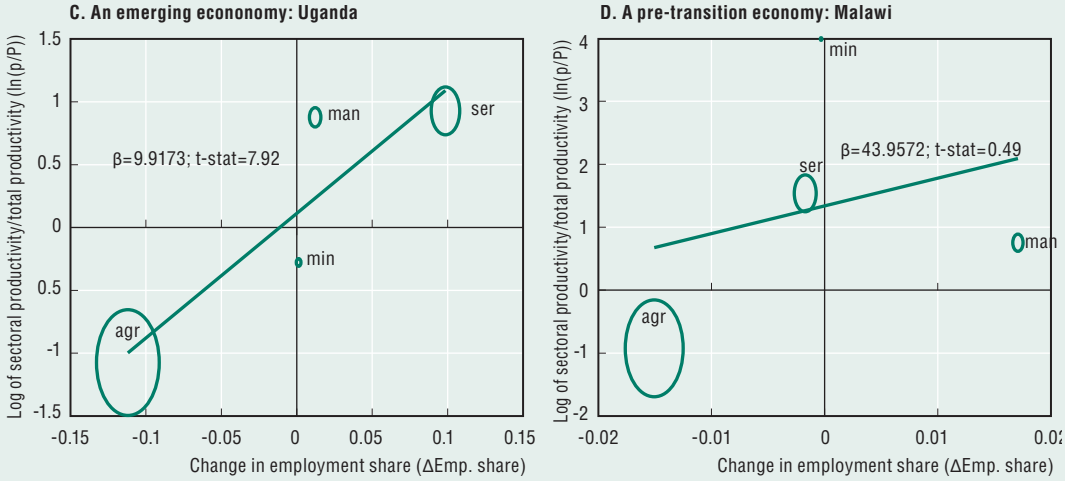
- Resource-driven economies are economies where extractive resources such as oil and minerals represent at least 30% of Gross Domestic Product (GDP).
- Diversified established economies have relatively high levels of per capita income, and low exposure to extractive resources and agriculture as a share of GDP.
- Emerging economies have relatively low levels of GDP per capita, rapid growth rates and a high share of GDP coming from agriculture.
- Pre-transition countries have the lowest per capita incomes and growth in these countries remains low.

Structural transformation in Africa: Exemplary cases for four distinct groups of countries



Source: Authors' calculations based on data from Republic of Mauritius (2012), Statistics Mauritius, (database), http://www.gov.mu/portal/site/cso, and UN (2012), National Accounts Main Aggregate Database (database), http://unstats.un.org/unsd/snaama/Introduction.asp

Source: Authors' calculations based on data from Adeyinka, A., S. Salau and D. Vollrath (2012), "Structural change in Nigeria", Mimeo.



Source: Authors' calculations based on data from Uganda's Bureau of Statistics (2012), CountryStat Uganda, (database), http://countrystat.org/home.aspx?c=UGA, and UN (2012), National Accounts Main Aggregate Database (database), http://unstats.un.org/unsd/snaama/Introduction.asp

Source: Authors' calculations based on data from Malawi National Statistical Office (2012), http://www.nsomalawi.mw World Bank (2010), World Development Indicators, http://data.worldbank.org/data-catalog/world-development-indicators and ILO (2013), LABORSTA, (database), http://laborsta.ilo.org

Note: Size of circle represents employment share in 2000 (Mauritius), 1999 (Nigeria and Uganda) and 1998 (Malawi). Differences in the periods covered stem from differences in the data available. β denotes the coefficient of the independent variable in the regression $ln(p/P)=\alpha+\beta\Delta emp.share$

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Structural change in Mauritius (Figure A) has recently been growth-enhancing and driven by the highly productive service sector. Mauritius is a well-known African success story and its economy is highly diversified.

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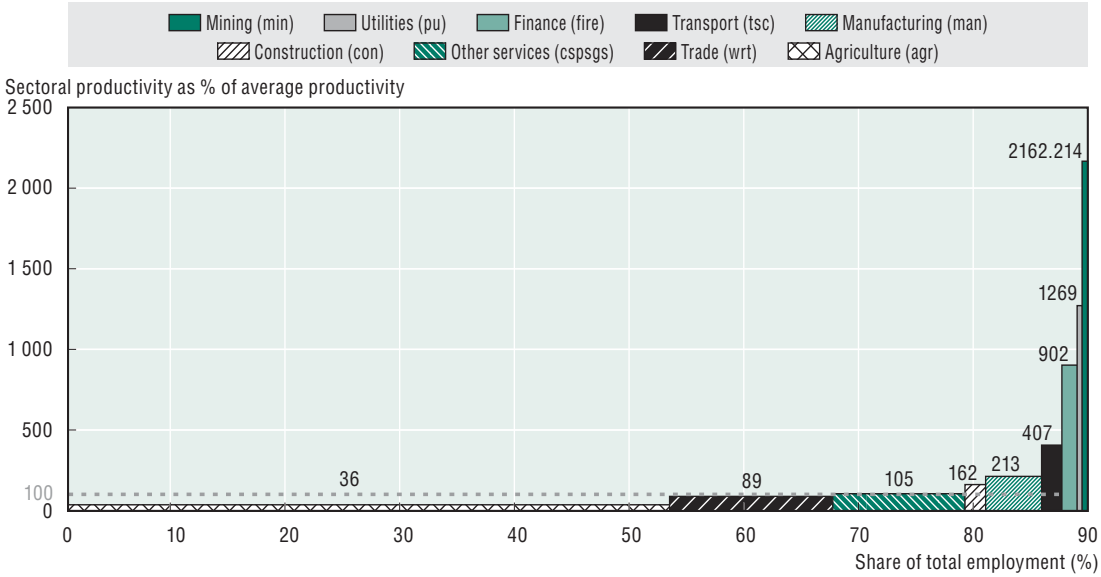
The sizes of the circles indicate that agriculture and mining are relatively unimportant compared to manufacturing and services. In line with many of the developed countries in the sample, the manufacturing sector has contracted in Mauritius. However, unlike some of the other more advanced economies in Africa and elsewhere, Mauritius has managed to grow its tertiary sector based on high-productivity activities that absorb significant amounts of labour.

In Nigeria (Figure B), structural change has played a positive but much less significant role in increasing economy-wide productivity. The main driver of this structural change has been a movement of labour out of agriculture and services into manufacturing. It is notable, though, that the differences in productivity across these three sectors are not very large. This is probably due to the high degree of informality across all sectors of the economy.

Structural changes in Uganda's emerging economy contributed significantly to its overall growth in output per worker (Figure C). Remarkable changes are apparent in the country's economy. Recently, the share of the labour force in agriculture fell by more than 10% while the share of the labour force in manufacturing and services increased by around the same amount. Unlike in Nigeria, productivity in manufacturing and services is significantly higher than productivity in agriculture.

There was limited but positive structural transformation in the pre-transition economy of Malawi (Figure D). In many ways the structure of the economy is similar to that of Uganda: the majority of workers are in the agricultural sector, services come second, manufacturing third and mining last. The main difference is that there have been significant structural changes in the economy of Uganda while there has been very little movement in Malawi. The share of the labour force in agriculture fell by around 1.5% and the share of the labour force in services fell by .002%. These reductions in employment shares in agriculture and services were matched by an increase in the share of the labour force in manufacturing.

Figure 6.2. **Labour productivity gaps in Africa, 2005**



Note: Each bin corresponds to one of the nine sectors in the dataset of McMillan and Rodrik (2011), with the width of the bin corresponding to the sector's share of total employment, and the height corresponding to the sector's labour productivity level as a fraction of average labour productivity.

Source: Authors' calculations based on data from McMillan, M.S. and D. Rodrik (2011), "Globalization, structural change and productivity growth", NBER Working Paper No. 17143, http://www.nber.org/papers/w17143

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However, in spite of the recent progress in structural transformation the productivity gaps between sectors in Africa remain immense. Much potential remains to be tapped. Figure 6.2 compares productivity in nine sectors with the proportion of labour employed in them. Agriculture, at 36% of average productivity, is by far the sector with the lowest productivity; manufacturing productivity is six times as high; and that in mining is nearly 60 times as high.[7] Most jobs in this African sample are in the most unproductive sectors, with roughly three-quarters of the population in the two sectors with below-average productivity, namely agriculture, and wholesale and retail trade. While these findings seem to imply a misallocation of labour, they also present enormous potential for growth-enhancing structural transformation.

Indeed, if structural change had been faster, Africa could have achieved more poverty reduction. Using the relationship between poverty reduction and labour movement from low to high productivity sectors observed in household surveys it is possible to simulate the relationship between poverty reduction and structural transformation. Figure 6.3 shows what would have happened to poverty reduction if labour had moved from low productivity to the most productive sectors of the economy at a faster pace than that actually observed. The slow pace of structural change in Africa thus presents a lost opportunity.

Figure 6.3. **Poverty reduction in Africa if labour had moved to high productivity sectors: A lost opportunity, but also potential for the future**

Note: The graph compares actual poverty reduction with the results from a simulation assuming labour had moved to high-productivity sectors.
Source: Authors' calculations based on household surveys from 16 countries.

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Nevertheless, the patterns observed in Africa are in line with those of other regions, when the stage of its development is taken into consideration. There is no Africa curse. The previous analysis reveals two seemingly contradictory findings. In the face of significant gaps in productivity levels across sectors, employment growth has been weak in most countries' most productive sectors and the majority of the workforce remain engaged in what is by far the least productive sector, namely agriculture. Such patterns seem to imply a misallocation of labour across sectors. However, comparing the relationship between income levels and the distribution of employment in Africa in recent years with other regions over the last several decades, the patterns of structural change in Africa are roughly what would be expected based on what has happened elsewhere (Figure 6.4). Thus there is no particular "Africa factor" holding back the continent. The challenge is simply one of accelerating the process of structural change.

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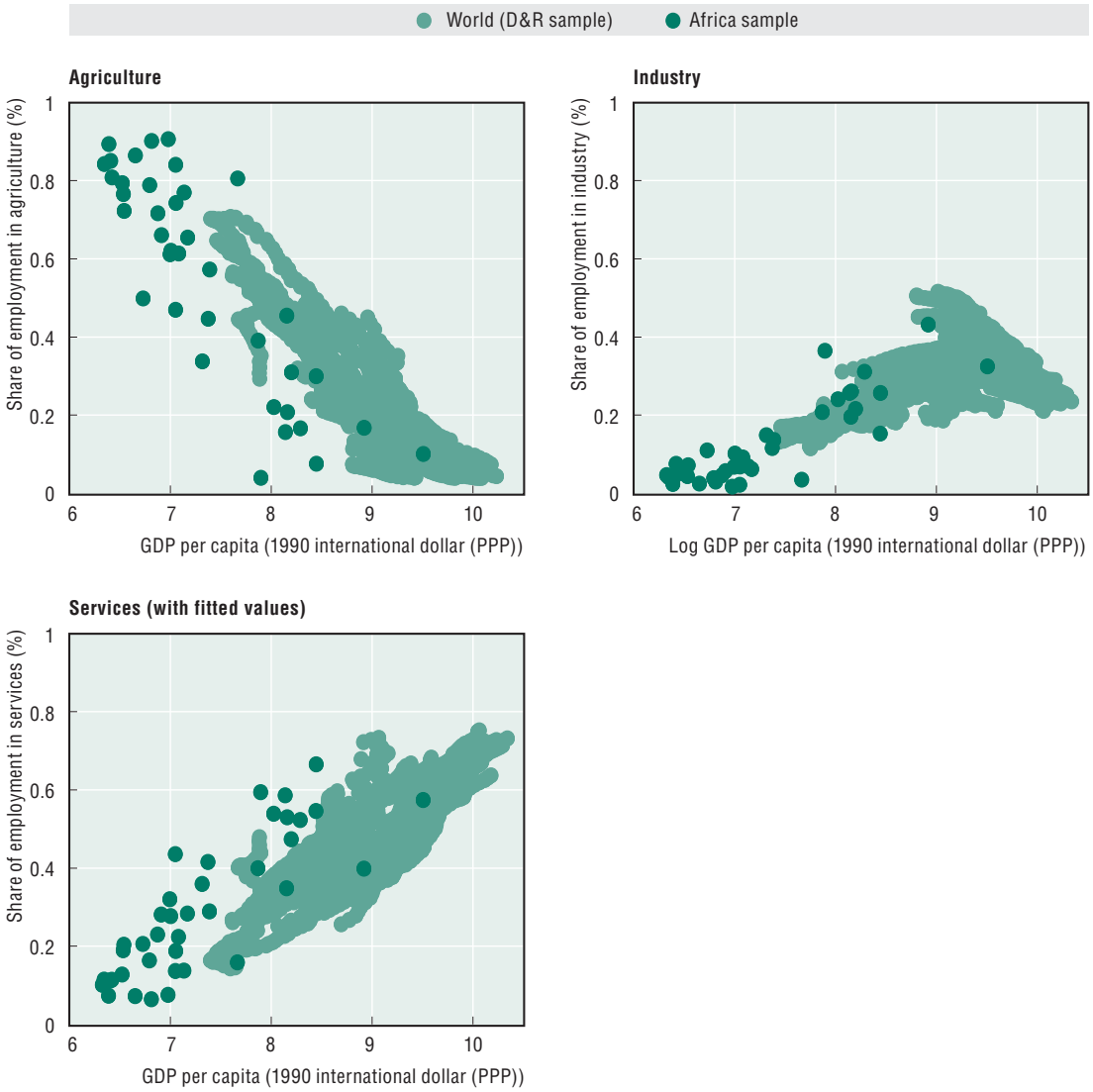
Figure 6.4. **Comparing patterns in Africa with those observed in other regions**

Employment shares of three broad sectors

Comparing sample from Duarte and Restuccia (2010) and African countries (sample from 2013)



Note: Data for a panel of 29 countries (none of which are in Africa) covering the period 1950-2006 were obtained from Duarte and Restuccia (2010). These were complemented with data on GDP per capita for these countries obtained from Maddison (2010). Note that Africa data measure sectoral share of total employment, whereas Duarte and Restuccia (2010) data measure share of total hours.

Source: Authors' calculations based on data from Duarte, M. and D. Restuccia (2010), "The role of structural transformation in aggregate productivity", The Quarterly Journal of Economics, Vol. 125/1, MIT Press. Cambridge, MA and London , pp. 129-173, and Maddison, A. (2010), Statistics on World Population, GDP and per capita GDP, 1-2008 AD, University of Groningen, Groningen.

StatLink http://dx.doi.org/10.1787/888932807569

Comparing Africa to other regions also shows that the potential for structural transformation depends on a country's level of development. Differences in productivity between sectors are greatest in poor countries. As countries develop, productivity gains within sectors matter more. The poorer a country, the wider the gap between the most productive and least productive sectors in that country. As countries grow richer, the productivity gap between sectors tends to close and intra-sector productivity differences

become more important. Multivariate analysis of the drivers of movements of labour between sectors shows that the share of employment in agriculture is an important determinant. The more people in a country work in agriculture, the more structural change has been experienced. On the other hand, structural change has made very little contribution (positive or negative) to the overall growth in labour productivity in high-income countries since the 1990s. What determines economy-wide performance in these economies is, by and large, how productivity fares in each individual sector (M&R, 2011).

Sector shares in GDP and exports reflect the same pattern. At initial stages of development growth is correlated with diversification of sectors and export products. Concentration of sectors and products follows at higher levels of income. Based on a large sample of countries from the 1980 and 1990s Imbs and Wacziarg (2003) determined the average turning point from equalisation of sector shares in the economy (diversification) to concentration of sector shares (specialisation) to be found at around USD 10 000 in 1985 prices. A similar pattern holds for the development of export patterns. A country's basket of export goods tends to increase until an inflection point of purchasing power parity (PPP) USD 25 000, after which specialisation kicks in and the economy begins to specialise in a smaller basket of export goods. Early in the development process diversification occurs mostly at the extensive margin as new export items multiply and are marketed on increasingly large initial scales (Cadot, Carrère and Strauss-Kahn, 2011).

Accelerating structural change towards economic structures that can provide good jobs and income for all in Africa thus requires diversification through new, more productive activities. Most African countries are at comparatively low levels of income per capita and continue to have large shares of their labour force in activities with comparatively low productivity. The historic trajectory of countries that grew from low to high income levels suggests that at the current level of development of most African countries productivity increases will mainly be derived from an expansion of the range of economic activities. In other words, structural change entails the rise of new, more productive activities and the movement of resources from traditional activities to these newer ones, raising overall productivity. Without the first, there is little that drives the economy forward. Without the second, productivity gains are not diffused to the rest of the economy (M&R, 2011).

2. Building on a strong primary sector as the basis for structural transformation

In brief... Although promising in the long run, and feasible strategy options for some of Africa's middle-income countries, high-skill services and advanced manufacturing offer limited opportunities for accelerating structural transformation in the near term for most of Africa's low-income countries. The importance of learning processes, capabilities and factor endowments suggests that building a strong primary sector can be the fastest way to structural transformation. The primary sector can drive structural transformation through four channels: *i)* linkages and diversification into adjacent activities; *ii)* as source of employment for large numbers of low-skilled workers and consequently also the source of demand for potential new products from new activities; *iii)* as source of government revenue, mainly from extractive industries, but industrial agriculture can be important too, which can then be invested in creating the right conditions and pushing structural transformation; and *iv)* attracting foreign investment that brings capital and know-how. Foreign investment also serves as an indicator as to which sectors and activities have potential. Trade data show that a diversified primary sector is closely related to a diversified manufacturing sector. Common capabilities and good framework conditions are the link. The primary sector needs the right environment: most requirements are similar to those of manufacturing. In addition activities based on natural resources have special requirements on which governments should focus, such as transport links to rural sectors, energy for mining, regulations that

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set the right incentives and a strong system of land management. Where these are not in place, only resources with very high rents can be exploited profitably. Yet these offer fewer opportunities for structural transformation.

To accelerate structural change new activities must meet four criteria: provide large-scale employment for unskilled workers, be of higher productivity than existing activities, be subject to pressure to perform and be sufficiently close to a country's comparative advantage and capabilities. First, they must provide employment for the large number of people with no or few skills that work in low productivity activities today. Although important improvements have been made and educational attainment in Africa is on an upward trend, educational attainment in most of Africa is low relative to other regions. Second, new activities must be of higher productivity than existing activities or at least exhibit the potential for it. To propel structural transformation, expanding existing low productivity activities is not enough. Third, new activities must be subject to pressure to perform. Competition creates such pressure. In a few countries capable governments have created such pressure without competition, but many have failed. Without pressure to perform new activities are likely to become inefficient and ultimately cause negative structural change. Finally, new activities should be in line with existing comparative advantage, or at least not too far away from it. A country's comparative advantage, here simply defined as the products of which a country produces relatively more, reflects the country's endowment with production factors (land, labour, capital, natural resources) and its capabilities, which are embedded in human capital, technology, institutions and regulations, infrastructure, government capacity and public services. The degree of spillovers and learning opportunities that new activities offer is positively related to their proximity, measured in factor intensities and capabilities, to existing activities (Hausmann et al., 2011). Activities that require a very different set of factors and capabilities from the ones present in a country[8] are unlikely to generate learning and spillovers. They are also unlikely to last. In the best case such activities will remain islands or enclaves with very limited potential for structural transformation, in the worst case they will waste large amounts of resources before failing entirely (see also Lin, 2012). These four criteria point to challenges and opportunities for structural transformation in Africa.

Given the large number of low-skilled workers in Africa, aiming for high-skilled services as a vehicle of structural transformation too soon may not work. It is sometimes argued that Africa might just follow the "Indian" model and direct its energies toward services.[9] This is misleading for several reasons. First and foremost, the service sector that most people have in mind when they think about India's success is the business services sector. But many tasks in the business services sector require high levels of education, which remains a relatively scarce form of human capital in most African countries. Moreover, this sector directly employs only a very tiny fraction – around 2% – of India's labour force. So even in India it has not been a force for the kind of employment growth that would allow for large numbers of people to move from the agricultural sector (out of poverty) into more productive sectors and higher-paying jobs. Achieving broad-based growth on the basis of business services sectors in Africa therefore seems unrealistic, except, potentially, for small countries with a well educated labour force such as Mauritius or Botswana.

Low-skilled services hold more promise, but many activities are of low productivity. Most of the low-skilled service sector in Africa is made up of informal activities in occupations such as personal services and trade. Although these activities are very important for the generation of employment they hold little promise for productivity gains with a few exceptions such as large-size retail commerce (supermarkets) and tourism. While these two areas have seen important growth rates over the last years and will continue to do so, even so their employment potential in most countries is limited.

Manufacturing holds the potential promise of large numbers of low-skilled jobs and new capabilities. However, past productivity increases were not met with commensurate expansion of employment. Rodrik (2011a) has shown that manufacturing industries can serve as escalator activities because they exhibit unconditional convergence of productivity growth.[10] In other words, once a country successfully enters a specific industry the productivity levels of this industry will begin to rise towards the global technology frontier irrespective of the country itself. Manufacturing also holds the promise of "generating millions of jobs for unskilled workers, often women, who previously were employed in traditional agriculture or petty services" (Rodrik, 2011b). After all "industrialization was the driving force of rapid growth in southern Europe during the 1950s and 1960s, and in East and Southeast Asia since the 1960's" (Rodrick, 2011b). Yet, as the preceding analysis of structural transformation has shown, the productivity increases that were realised in the manufacturing sector in Africa did not come with sufficient expansion of employment. During the 1990s the overall contribution to structural change was even negative, as labour was shed. This has improved markedly during the 2000s, but the pace of employment expansion in the manufacturing sector is still much too slow.

Jumping straight to advanced manufacturing has been fraught with difficulties in the past, because the importance of existing capabilities and learning processes had been overlooked. Many African countries pursued fast industrialisation between the 1960s and 1990. Although superficially these strategies seemed to build on existing factor endowments, often targeting the processing of natural resources, they were largely dominated by misconceptions about the links between natural resources and structural transformation and the importance of capabilities. In attempts to industrialise, learning processes, the complexity of technology and the importance of the general business environment and complementary inputs[11] were underestimated, while the potential for value-addition was often overestimated.[12] The result has been little industrialisation to show for the efforts made.[13]

These challenges were compounded by the lack of pressure to perform, creating unsustainable structures that required subsequent painful reforms. The end of this unwinding was an important factor behind the recent turnaround in structural change in Africa. Not only did industrialisation not come about: worse, the large public sectors and high levels of protection for inefficient sectors built up during the early push for industrialisation proved to be economically and socially unsustainable, leading to a decade-long process of structural adjustment that started in the mid-1980s. This period of structural adjustment was marked by a significant decline in the share of the labour force employed in the formal sector and a movement of labour out of industry and back to agriculture. In other words, unwinding the results of misguided attempts at industrialisation in the past has been a driving factor of the negative structural change observed in Africa during the 1990s. Having largely completed this unwinding, which came at high social costs, made the turnaround towards positive structural change possible.

For structural transformation to take off, Africa needs to focus on creating capabilities. Entrepreneurs need the right environment to thrive in. Despite past failures, Rodrik's finding of unconditional productivity convergence in manufacturing points to the potential of this sector for structural transformation (Rodrik, 2011a). To combine productivity increases with job creation, the firms active in this sector need an environment that allows them to expand their activities and invites other entrepreneurs to join the sector with innovations, expanding employment. An economy's ability to competitively produce and export new products depends on its capabilities. Capabilities are best understood as a mix of specific technological know-how and skills with environmental factors such as the quality of public services (infrastructure, education, health etc.) and financial services, institutions and regulations, as well as the general level of government capacity and human capital (Hausmann et al., 2011). In addition, the size of the reachable market and macroeconomic and political stability are important factors in the environment.

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Box 6.2. **Structural reforms and transformation in Zambia and Mozambique**

Zambia's first free elections in 1991 were won based on a commitment to comprehensive structural adjustment and the promise of more transparent and accountable governance (Bratton and Liatto-Katundu, 1994; and Thurlow and Wobst, 2004). After two decades of policies emphasising state ownership and import substitution, the government inherited an unstable and contracting economy with high poverty and inequality, a collapsing copper-dominated export sector, and massive foreign debt. The fourth structural adjustment program (SAP), which began immediately after the new government was elected, encompassed: *i)* macroeconomic stabilisation; *ii)* public sector reform; *iii)* external liberalisation; *iv)* the privatisation of state assets; and *v)* agricultural reforms. Although these reforms hoped to stimulate growth and diversify the economy, GDP growth remained stagnant at 0.2% throughout the 1990s."

They go on to show that this period of structural adjustment was marked by a significant decline in the share of the labour force employed in the formal sector and a movement of labour out of industry and back to agriculture. They show that much of this was precipitated by the privatisation of state-owned factories. Finally, they show that between 1999 and 2001 things were beginning to turn around in Zambia. They attribute the turnaround to a more stable macroeconomic and political environment in which the government was able to mitigate the effects of Zambia's copper exports on the exchange rate and domestic prices.

The story in Mozambique is not very different. After a prolonged period of civil war, Mozambique entered its first structural adjustment programme with the World Bank in 1987 (McMillan, Welch and Rodrik, 2003) The first period of reform lasted until 1990. A second, more aggressive period of reform began in the early 1990s. Among the casualties of this reform were state-owned enterprises. For example, by the end of 1994, all the formerly state-owned cashew-processing factories had been privatised, releasing thousands of workers who typically returned to agriculture because little else was available. It is only in recent years that the cashew-processing sector in Mozambique has been beginning to hire new workers. However, the scale of the sector is still much smaller than it was under state ownership.

Currently, African firms are held back by the environment they face. Small market size, poor public services and financial access, and the role of government are the main obstacles, translating into higher external costs. The negative effects of institutions and the business environment at large on the growth and performance of companies in manufacturing in Africa are well documented.[14] Controlling for the business environment, African firms actually have higher productivity and sales growth than firms in comparable countries in other regions. However, given the existing environment, African firms trail those in other regions. The biggest burden on the growth of African firms is geography, in the form of small market size. It pulls down the GDP of African firms by almost 100% compared to non-African firms. The other fundamental explanations for African disadvantages are associated with the basic market-supporting roles of the government: property rights protection, infrastructure and access to finance. Interestingly, party monopoly seems to account for 81% of the total factor productivity disadvantage of African firms compared to non-African firms (Harrison, Lin and Xu, 2013).[15] Gelb, Ramachandran and Turner (2007) show that external "costs (electricity, transport, communications, security, rent, business services and bribes) form a larger share of the costs of firms in African countries than elsewhere." In Kenya, for example, the average gross (at factory level) total factor productivity (TFP) is about 70% that of China. Kenya's net (in the international market) TFP, however, is only about 40% that of China (Eifert, Gelb and Ramachandran, 2005; see also AfDB, et al., 2012).

In addition, in African low-income countries labour costs are higher than elsewhere, suggesting that low-wage labour is not actually a competitive advantage for Africa. African firms on average have to pay a labour premium of 80% compared with the average firm in other regions at the same level of GDP. Firms in Africa are more productive but also face a steeper labour cost curve; as firms become larger and more productive their labour costs increase more in Africa than elsewhere (Gelb, Mayer and Ramachandran, forthcoming). Labour costs are particularly high in African firms that are productive and labour-intensive – exactly the type of firm most desirable for structural transformation. Africa's higher labour costs could be driven by a range of factors. A high price level is likely to be an important factor. Decomposing purchasing power parity (PPP) exchange rates shows that low-income countries in Africa on average have a PPP price level that is about 20% higher than the average for the four poorest comparators. In other words for the same wage in dollars a worker in a poor Asian country can buy more than a worker in low-income Africa.

Africa's land abundance presents a challenge for creating a better infrastructure environment. Compared with other regions Africa is land-abundant and comparatively scarcely populated. With 36 people per square kilometre Africa's ratio of population to surface area is much lower than that of Europe (120 in the European Union [EU], East Asia (also 120) and South Asia (342), and more akin to that found in the Americas: Latin America counts 29 people per square kilometre and the United States 33; (World Bank, 2013b). This translates into much higher costs for some of the public services that are essential for structural transformation. Wood (2002) estimates that "Africa will need to invest at least twice as much of its GDP in infrastructure as will low-income Asia and will have higher recurrent charges for operation and maintenance."

Africa's factor endowments also suggest that the primary sector will continue to play a more important role and manufacturing a less important one in Africa than in Asia or Europe. The preceding paragraphs have shown that Africa is land-abundant and skill-scarce relative to other regions. Africa thus has a high land-to-skill ratio. Comparing regions over time, Wood and Mayer (2001) show that countries with high ratios of land to skills tend to export mainly primary products. As the land-skill ratio falls the export mix shifts towards simple and then more complex manufactures. Given the large gap in population density, Africa will probably never match the land-skill ratio of Asia or Europe. Its sectoral and spatial structure will converge to those in the Americas, which always relied more heavily on the primary sector, defined as agriculture and extractive industries, than on manufacturing because of land abundance, rather than to those in land-scarce Asia or Europe, where manufacturing plays a more important role (Wood, 2002).

This need not be bad news. The primary sector holds potential for creating new activities for enhancing structural transformation that build on existing factor endowments and capabilities. Counting agricultural commodities, timber, metals and minerals, and hydrocarbons, raw commodities and resource-based semi-processed goods account for 80% of Africa's exports[16] (see Box 6.3 for a classification of natural resources). Commodity production also accounts for 50% to 60% of employment on average, and in some countries even 80%; most of it in agriculture as has been seen in the preceding section, but a significant amount of highly productive jobs are also in the extractive sector. Although Africa boasts a range of emerging capabilities in other sectors, especially services, the bulk of capabilities related to trade and employment are within, or closely related to, the primary sector.[17] The primary sector offers four channels to drive structural transformation:

First, new activities and capabilities can be fostered through linkages and diversification into other natural resource activities. The most sustainable path to new capabilities that can support new activities is that of proximity to existing capabilities (Hausmann *et al.,* 2011; Hidalgo, 2011; Neffke, Henning and Boschma , 2009; Lin, 2012). Therefore, the diversification

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into new activities that could have an impact on structural transformation in a relatively short period of time will have to make use of the existing capabilities in the primary sector. Two mechanisms can be used: *i)* linkages to and from natural resource production into adjacent activities. For example, providing supplies of goods and services for the agricultural and extractive sectors or processing local food commodities into goods with higher value added; and *ii)* diversification into adjacent natural resource activities that make use of existing capabilities and geographic conditions.

Box 6.3. **Africa's spectrum of natural resources: definitions**

To cover the whole spectrum of Africa's endowment, for the purpose of this chapter natural resources are defined as comprising all commodities of agricultural, mineral and hydrocarbon origin. Following this wide definition the term "primary sector" refers to both the agriculture and extractive sectors.

Agricultural or "soft" commodities consist of food commodities and fisheries, as well as agricultural non-food products and industrial crops. Agricultural food products include fruits and vegetables, cereals such as wheat and rice, and plantation crops for the production of beverages (tea, coffee and cocoa, for example). Livestock such as cattle, sheep or goats, and all fishery products also fall in this category. Non-food products comprise industrial crops such as timber and cotton, as well as indigenous natural products and the cut-flower industry.

Minerals and metals, or "hard commodities", comprise precious metals and minerals such as gold, silver, platinum and diamonds, as well as ferrous (iron) and non-ferrous base metals where copper, zinc, lead and aluminium are the major varieties. Rare metals (cobalt, molybdenum) and minerals (phosphates, sulphates etc.) also fall into this category.

Hydrocarbons, also referred to as energy commodities, include any resources used for power production. This refers to petroleum products (namely oil and natural gas) and coal,[18] but also includes uranium and plutonium to be used as inputs for nuclear power production.[19]

These three categories hint at Africa's richness and the large variety of natural resources it boasts. The inclusion of agricultural commodities enlarges the common understanding of the term "natural resources" which is often understood as only comprising resources of mineral and hydrocarbon origin. Although separating out agricultural goods as a separate analytical entity makes analysis easier and certainly makes sense for many issues related to the high-rent nature of some of the extractive resources, it does not do justice to Africa's natural richness. Moreover, despite their obvious differences all three resource types have opportunities and challenges in common. For one thing, all natural resources are derived from the earth with the input of labour and capital. Wheat is grown and copper extracted. Both need human ingenuity, labour and capital. Second, taken together they form the basis of most product value chains. Third, prices of all three resource types have risen hugely over the last decade, almost in harmony, offering opportunities, but also dangers of inflation, volatility and the creation of dependency. Applying a wide lens of analysis, therefore, allows for more comprehensive policy conclusions.

Second, the primary sector, especially agriculture, holds the key to broad-based structural transformation as the largest employer of low-skilled labour. In fact, experience from other regions suggests that broad-based agricultural transformation is a prerequisite for industrial development (Johnston and Mellor, 1961; Henley, 2012). "This (a) provides cheap

food for domestic consumption enabling a low-cost industrial labour force to survive, (b) drives up incomes of farmers, who in turn become consumers of industrial goods, and (c) frees up labour for industrial and urban jobs and savings for investments" (Gelb, Meyer and Ramachandran, forthcoming). The development of domestic supplier networks into soft, hard and energy resources is another opportunity for job creation, which has relatively low thresholds in terms of technology and scale.

Third, the primary sector, particularly extractive industries, can create important revenues for the state to invest in structural transformation. The investment needs for structural transformation in most African countries are huge. Infrastructure and education gaps top the list in most countries. Yet each country faces specific bottlenecks that must be addressed to accelerate structural transformation. Extractive industries offer revenue potential that can be used to address these bottlenecks with targeted investments. Framework conditions for both enhanced structural transformation and the development of dynamic resource sectors can thereby be improved.

Fourth, a strong natural resource sector can attract foreign investment, which brings otherwise scarce capital and know-how. Foreign investment also serves as an important indicator as to which sectors offer potential. With roughly 60%, natural resources continue to attract the majority of greenfield foreign direct investment (fDi markets, 2013). For many low-income countries in Africa foreign investment related to natural resources is an essential source of capital. It also comes with important know-how. By interacting with foreign investors, resource-producing countries can gain valuable knowledge about the industry and requiring foreign investors to transfer technology can enable the development of local capabilities. FDI can also serve as an important indicator for evaluating the competitive potential a specific sector has to offer. Getting this assessment wrong was one of the reasons for the failure of industrial policies in the past. Instead, governments should focus on attracting FDI and invest in those areas where such investments are forthcoming. In this respect the recent uptake in greenfield FDI in Africa in resource processing and energy generation, driven largely by projects of petroleum refineries, liquefied gas and fossil fuel electricity generation, is very encouraging.[20]

Investments in exploration and exploitation are a good indicator of the strength of a country's resource economy and the quality of the business environment. Having great resource potential does not guarantee that this will be exploited. Gold in the sea is a good example. It is assumed that the world's oceans contain billions of tonnes of gold. But this is not being exploited because no viable technology exists. Technology is one factor, economic incentives another: Egypt boasts plentiful oil and gas reserves but is unable to cover its domestic demand because the sector regulations in place deter further foreign investment in exploitation.

Analysis of relative comparative advantage demonstrates the close link between a strong resource sector and a strong manufacturing sector. Balassa (1986) defined a country's revealed comparative advantage (RCA) as the number of products of which the country exports relatively more than the average. When this concept is applied separately to raw commodities and products with higher value added it can be seen that the RCAs of countries in both categories are closely related. Countries that have comparative advantages in a large range of raw commodities also tend to have comparative advantages in a wide range of higher value-added products (Figure 6.5 and Figure 6.6). Thus, instead of holding a country back, a strong and diversified primary sector is an important step towards a diversified economy that creates productive jobs.

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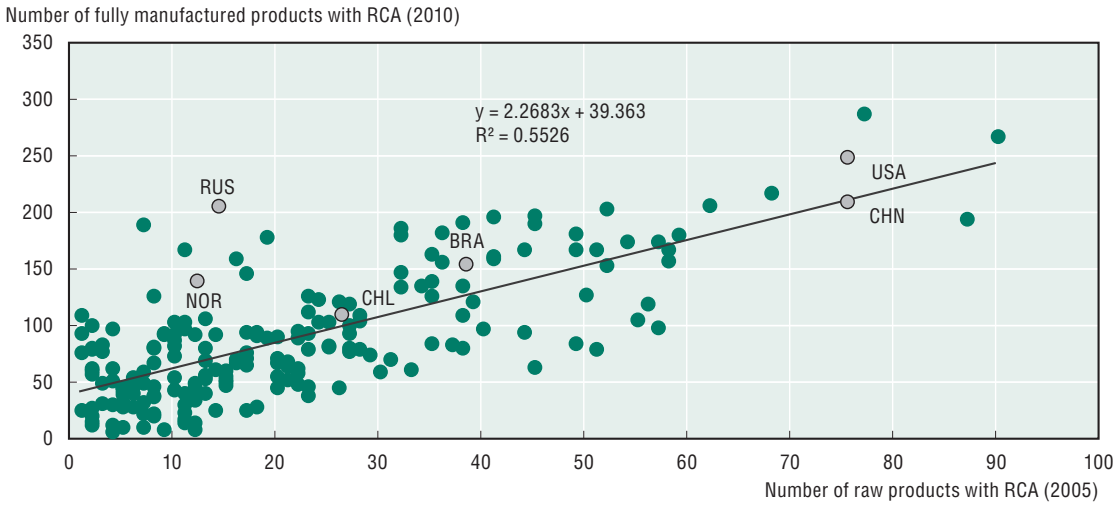
Figure 6.5. **Relative comparative advantage (RCA) in unprocessed commodities and manufactured products: World**

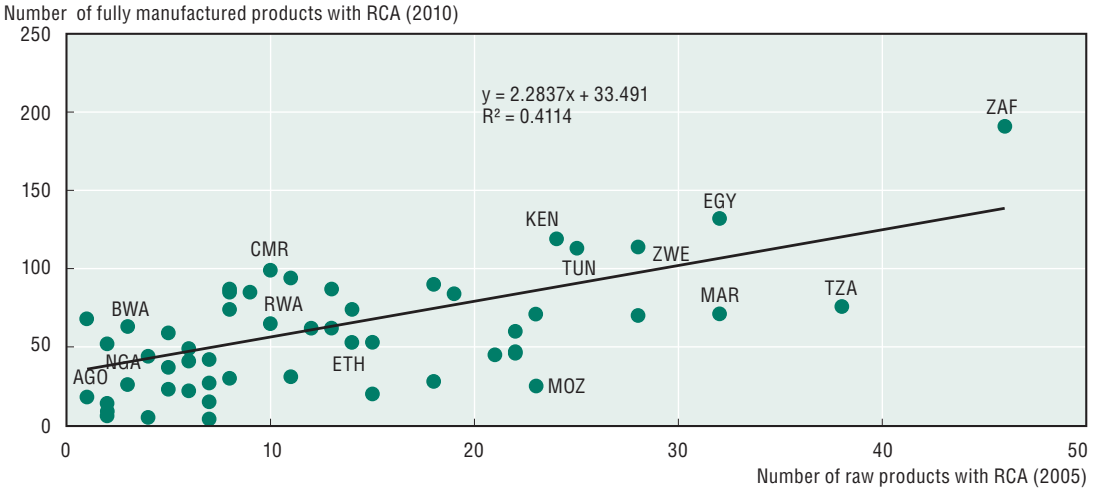


Note: To exclude reverse causality effects data for raw products are from 2005, data for manufactured products from 2010. Selected countries are highlighted for illustratory purposes: Brazil (BRA), Chile (CHL), China (CHN), Malaysia (MYS), Norway (NOR), Russian Federation (RUS), United States (USA).

Source: Authors' calculations based on UN (2013), UN ComTrade, (database), via http://wits.worldbank.org/wits

StatLink http://dx.doi.org/10.1787/888932807588

Figure 6.6. **Relative comparative advantage (RCA) in unprocessed commodities and manufactured products: Africa**



Note : To exclude reverse causality effects data for raw products are from 2005, data for manufactured products from 2010. Selected countries are highlighted for illustratory purposes: Angola (AGO), Botswana (BWA), Cameroon (CMR), Egypt (EGY), Ethiopia (ETH), Kenya (KEN), Morocco (MAR), Mozambique (MOZ), Nigeria (NGA), Rwanda (RWA), Tanzania (TZA), Tunisia (TUN), South Africa (ZAF), Zimbabwe (ZWE).

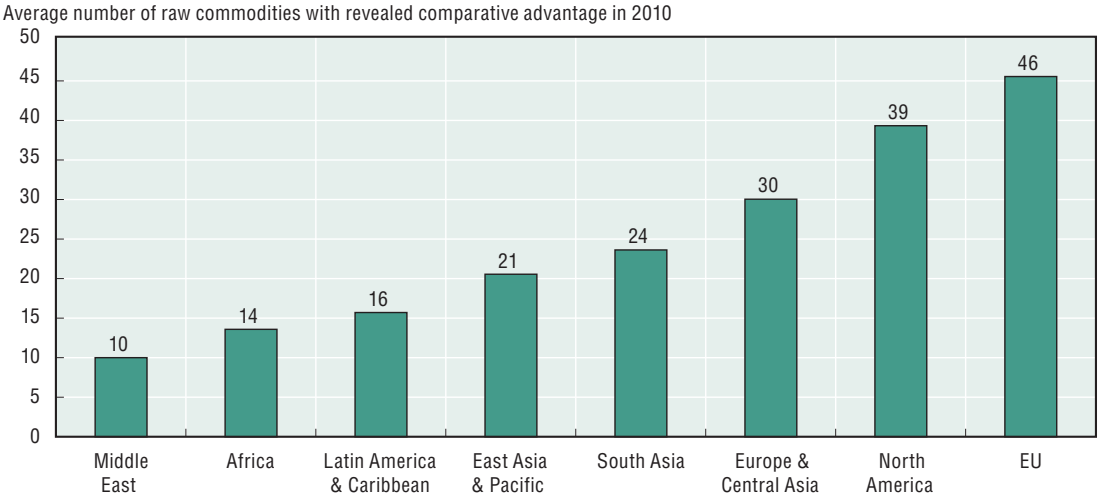
Source: Authors' calculations based on UN (2013), UN ComTrade, (database), via http://wits.worldbank.org/wits

StatLink http://dx.doi.org/10.1787/888932807607

However, geological abundance of resources does not automatically translate into a strong primary sector. Africa's natural resource exports are less diversified than those of other regions. Despite the heavy concentration of raw commodities in African exports, the range of such commodities in which Africa has a comparative advantage is limited compared

to other regions (Figure 6.7). Only 13 African countries export more commodities with RCA than the global average. South Africa is far ahead with RCA in 46 commodity products, followed by Morocco (36) and Tanzania (34).

Figure 6.7. **Africa's natural resource exports are less diversified than those of other regions**



Source: Authors' calculations based on UN (2013), UN ComTrade, (database), via http://wits.worldbank.org/wits
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To drive structural transformation, natural-resource sectors need the right conditions. Much of what is holding back structural transformation into manufacturing also stands in the way of stronger natural-resource sectors. While the geological distribution of resources such as land, mineral and hydrocarbon deposits is given by nature, resource abundance in economic terms is largely determined by the conditions for exploration and exploitation faced by investors and farmers. The preceding section has shown that governance, measured by the Mo Ibrahim index, and primary school completion are closely related to positive structural transformation. The same holds for the performance of the hard and soft resource sectors. Figure 6.8 shows the relationship between a country's gross per capita production of hard and soft resources and the Mo Ibrahim index.[21] Similarly, public services in the form of infrastructure, land management and a reasonable level of property rights are as important for natural-resource production as for other sectors of the economy.

In addition, agriculture and extractive industries have specific requirements that must be met for the unleashing of their potential for structural transformation. The provision of the right skills, transport and energy infrastructure, land management, and sector-specific regulations stand out. One of the biggest obstacles to the transformation of agriculture in Africa has been the dearth of research and skill-building that could have brought about productivity increases as has been the case in countries that experienced "green revolutions". The same holds for the extractive sectors. Although international investors can bring in qualified personnel from abroad, African countries are missing out on the opportunities to create new capabilities offered by these sectors because the domestic skill base is insufficiently tailored to the sectors' requirements (see also Box 6.4). In terms of infrastructure mining often needs huge amounts of energy that far surpass what is available and are needed by other sectors; agriculture needs more efficient transport links from rural areas to urban centres. Given the land-intensity of natural-resource production, efficient land management is crucial for success and among the primary obstacles to this sector in Africa. Finally, sector-specific regulations such as the rules governing ownership, exploration and exploitation concessions and licences and resource-specific taxes are evidently very important.

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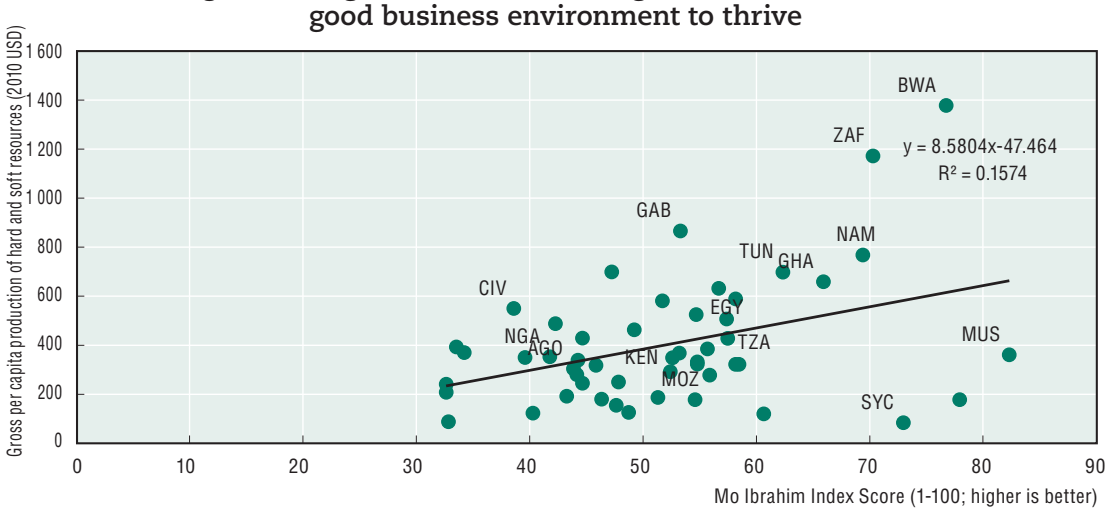
Figure 6.8. **Agricultural and mining commodities need a good business environment to thrive**



Note: Selected countries are highlighted for illustratory purposes: Angola (AGO), Botswana (BWA), Cote d'Ivoire (CIV), Egypt (EGY), Gabon (GAB), Ghana (GHA), Kenya (KEN), Mauritius (MUS), Mozambique (MOZ), Namibia (NAM), Nigeria (NGA), Seychelles (SYC), Tanzania (TZA), Tunisia (TUN), South Africa (ZAF).

Source: Authors' calculations based on data from Mo Ibrahim Foundation (2012), 2012 Ibrahim Index of African Governance: Data Report, http://www.moibrahimfoundation.org/downloads/2012-IIAG-data-report.pdf Bundesanstalt für Geowissenschaften und Rohstoffe (BGR) (n.d.), Data on mining production provided for this report and FAO (2012), FAOSTAT, (database), http://faostat.fao.org

StatLink http://dx.doi.org/10.1787/888932807645

Box 6.4. **Investments in human capital and applied research and development play a crucial role for the resource sectors and structural transformation**

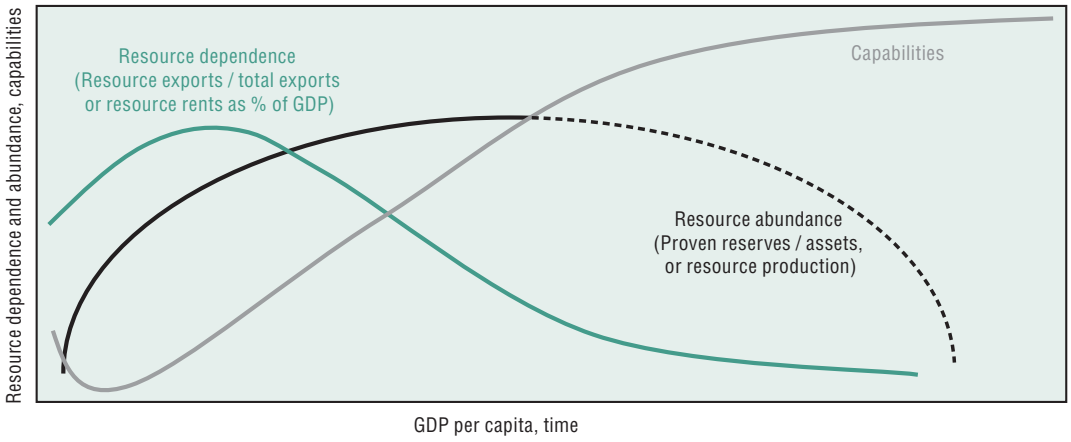
The takeover by the **United States** of world leadership in manufacturing was propelled by the research and education institutions originally established to serve the mining industry. The developments in the mining sector were accompanied by a continuous process of research and learning, which generated technological progress, brought down costs and resulted in the expansion, rather than the depletion of natural resource stocks. The United States Geological Survey (USGS), a large-scale governmental science project, for example, provided detailed maps of great practical value to miners, as it was highly responsive to their needs. The provision of engineers from schools designed to train mining specialists, such as the Columbia School of Mines, promoted the expansion of the sector further. These mining schools, which later evolved into the University of California at Berkeley and Stanford, among others, became the basis for technology-driven development in many industries thereafter and thereby laid the foundations for structural transformation (Wright and Czelusta, 2004).

In **Sweden**, structural transformation based on the resource sectors was driven by government interventions targeting research and education. The focus of universities was shifted towards natural sciences. Newly founded technical institutions soon became a source of innovation. Vocational training institutions assured the dissemination of knowledge and supply of qualified technical personnel. Moreover, study trips and training of Swedish engineers abroad facilitated technology transfer. Later on, the long-term focus on technological upgrading and exchange also paved the way for the emergence of the telecommunications sector. Sweden's knowledge clusters originating from the forestry sector were well equipped to react rapidly to technological breakthroughs which drove the expansion of telecommunications and information technology (IT) (Blomström and Kokko, 2007).

Applied research to promote productivity plays a major role for structural transformation. In **Indonesia**, the availablility of new rice varieties was instrumental in boosting productivity in the agricultural sector, a major driver of domestic demand (Gelb and Grasmann, 2010).

Where natural resources find a favourable environment initial dependence can quickly be overcome, even as the natural-resource sectors keep growing. Figure 6.9 illustrates the historical paths of countries that turned natural-resource wealth into structural transformation and long-term growth. Their experiences suggest that, at low levels of development, resource commodities, whether soft or hard, are the main income earners and account for large shares of exports and GDP. In other words, the economy's dependence on resources is high. This is to be expected, as resources are comparatively easy to produce and export. In a small or underdeveloped economy the resource sector will therefore account for most exports and a significant share of GDP. As investment pours in, production expands quickly and often further reserves are proven. Both abundance and dependence increase. As the resource sector expands it creates opportunities for the rest of the economy: resource production requires a large range of supplies, from food for its workers to higher technology activities such as software design, chemical analysis and customisation of machinery. At the same time resource exports generate important revenues for the state that can be invested in human capital (education and health) and public capital (infrastructure and public services) thereby creating opportunities for economic activities that are relatively intensive in these types of capital. The original comparative advantage in natural resources can thus be used to push the production possibility frontier outwards and create new comparative advantages through diversification. If the country manages to use its resource endowment in this way, over time resources will become less important as the rest of the economy becomes larger.[22]During this process resource production and the amount of proven assets are even likely to continue growing[23], as new technology and an improving regulatory framework lead to new discoveries, but resources will lose in importance relative to the rest of the economy. In the case of hard and energy resources, abundance will finally decrease as the existing reserves are depleted or become unviable for economic (relative price of labour and capital), social (harm done to neighbouring communities) or environmental (environmental damage of extraction, climate change) reasons. This need not be the case for soft resources which do not face depletion as long as they are not exploited beyond their rate of regeneration.[24] Using data on natural resource rents as percentage of GDP for resource dependence and subsoil assets per capita for resource abundance, Figure 6.10 shows this trend holds globally and the world continues to be on the upward sloping section of the abundance curve.

Figure 6.9. **The ideal path from resource discovery to abundance without dependence**



Source: Authors' illustration.

StatLink http://dx.doi.org/10.1787/888932807664

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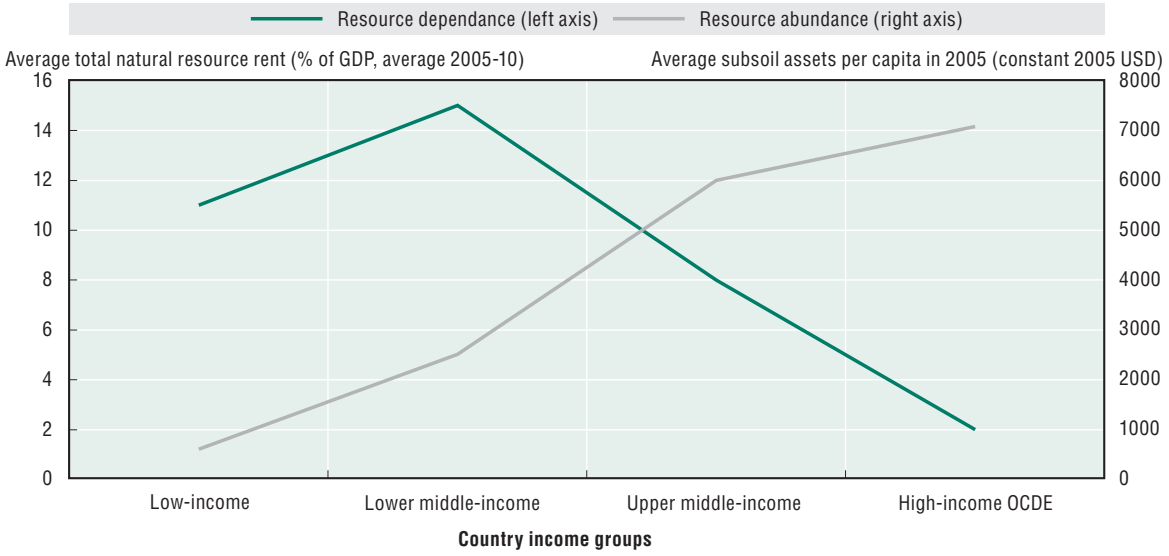
Figure 6.10. **The observed path through the resource spectrum**



Note: Country income groups only include countries with subsoil assets and exclude high-income non-OECD countries. Resource abundance is measured as subsoil assets per capita, resource dependence is rents as % of GDP.

Source: Authors' calculations based on data from World Bank (2012a), The Changing Wealth of Nations, http://data.worldbank.org/data-catalog/wealth-of-nations.

StatLink http://dx.doi.org/10.1787/888932807683

Where the conditions faced by the primary sector are poor and support is absent, however, structural transformation is inhibited because the resource types that offer most opportunities cannot develop. The high costs that result from poor conditions are the main factor.[25] The higher the costs faced by natural-resource producers, the higher the resource rent must be to allow for profitable exploitation. Yet it is the natural resources with lower rents, especially agriculture and base metals, that offer most opportunities for structural transformation through linkages and employment. Where these resources cannot be profitably exploited they remain either dormant, as in the case of many unexplored metal and mineral deposits (see section on "The primary sector in Africa past and present"), or at subsistence level as in the case of most African agriculture and artisanal mining. Yet a subsistence economy is insufficient for structural transformation as it creates no demand for new products and no surplus savings to invest in new activities. In such a situation the majority of workers remain stuck in low-productivity activities based on natural resources with few ways out.

High-rent resources, on the other hand, can thrive in any environment, but offer much less in terms of linkages and employment and instead can quickly lead to dependence and therefore need strong management. High-rent resources, such as oil and to a lesser extent also gas and some deposits of precious metals and diamonds, do not require much in terms of favourable conditions.[26] If energy resources were included in Figure 6.8 the relationship between resource production and governance would disappear. This is primarily positive, as these resources enable countries to gain access to major revenues irrespective of gaps in infrastructure and government capacity. However, hydrocarbons offer fewer possibilities for diversification than other resource types and have very low values of connectivity with other products (Hidalgo, 2011). In other words, the capabilities linked to the production of oil and gas offer only very limited opportunities for learning processes that make possible successful advances into other activities. Moreover, oil and gas production is more capital intensive than mining and far more so than agriculture, offering fewer opportunities for employment and consumption multipliers. Instead, as most examples of African oil exporters

show, the large rents in this sector can crowd out other sectors and create a rent-seeking economy that is incapable of overcoming dependence. Nevertheless, several countries have proved that high-rent resources can be turned into broad-based growth through strong and focused management. Botswana's management of its diamond sector is the best example from Africa. See Box 6.5 for the examples of Malaysia and Indonesia.

Box 6.5. **Indonesia and Malaysia: Two examples of turning oil dependence into structural transformation**

Indonesia succeeded in controlling oil dependence through counter-cyclical spending and transformation into agriculture. The government of the Suharto period had come to power 1966 with a firm commitment to stability. Pertamina, the national oil company experienced a crisis in 1975 as a consequence of mismanagement by the military associates of the president. This failure enhanced the credibility of a more technocratic team of economic advisers with a sound understanding of the risks inherent in mineral exploitation, enabling them to implement controls on spending. So even though the government officially respected the law requiring it to balance its budget, the technocrats were able to slow spending without public disclosure. This established *de facto* a counter-cyclical budget and resulted in a surplus, which enabled the government to react proactively to the end of the oil price boom in 1981. The government stabilised the exchange rate by devaluation, and cut subsidies and spending. This prevented adverse effects of exchange rate appreciation on non-oil traded sectors and encouraged a wide range of exports and manufacturing. Structural change was promoted by using the country's oil resources to increase agricultural productivity. Applying broad-based development policies, the government made possible the spread of new disease-resistant and high-yield rice varieties. Oil resources were used to develop deposits of natural gas for export and as an input to fertiliser production. The fertiliser, which was distributed to farmers at subsidised prices, increased agricultural yields significantly (Gelb and Grasmann, 2010).

Malaysia diversified its economy and emerged as a successful middle-income country based on its commodity sectors. The country, which used to be an agrarian economy up to the 1960s, used its oil, forestry sector and palm oil to drive structural transformation and growth. Even though the industrial sector had been increasingly prioritised by development policy, the agricultural and rural sector remained the focus of development policies with the objective of commercialising production (Gelb and Grasmann, 2010). This led to a steep increase in the export crop sector (mainly rubber and palm oil) both in the area of cultivated land and production between 1960 and 1990 (Rahman, 1998). Within the oil sector, the state-owned oil company Petronas played a central role in exploitation and negotiating technology transfers from multinational firms. It thereby built up expertise and know-how and is now a Fortune 500 company that competes successfully in the international market. Even though Petronas is not publicly listed, information on its profits, dividends paid to government and its contributions to the government budget are published and publicly discussed, which enables civil society to hold the government to account. Malaysia's federal system and robust democracy, coupled with constituencies rooted in the non-oil sector, forced political parties to compete for solutions to the main problems facing voters. That was probably one major factor driving the reduction of poverty from 50% at independence to 3.6% in 2008 (Akitoby and Coorey, 2012). Structural transformation and a diversification of Malaysia's economy were facilitated by macroeconomic stability, high rates of saving and investment, and economic openness. Moreover, Malaysia invested heavily in energy and infrastructure and built an extensive network of highways which links it to neighbouring countries, as well as advanced telecommunication systems. By 2009, exports of manufactured products represented 70% of total export value, and 45% of Malaysia's total export value were electronics for the US and European markets (Akitoby and Coorey, 2012).

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3. The primary sector in Africa past and present

In brief... What has been holding back Africa is not the large share of its primary sector in itself, but the poor performance of this sector. The lack of agricultural transformation distinguishes Africa from other regions and exploration for mineral resources has remained below its potential while the negative side effects of extractive resources have often been managed poorly. There is some improvement. The recent boom in commodity prices has brought the expected growth effects, but exploration has also expanded much beyond previous efforts, largely driven by demand from emerging partners in the East and the South. Although exports of processed products have grown at a slightly slower pace than those of raw commodities, they have by no means been crowded out but gained significantly on the back of the trade boom in natural resources. At the same time, the massive inflows of foreign investment have helped job creation, particularly in the mining sectors, which are more labour-intensive than oil. In the future the resource price is likely to stabilise at a level higher than before the boom and the interest in Africa's resources will remain, opening a window of opportunity that Africa should exploit.

In spite of its potential, the primary sector in Africa has often been seen as contributing little to economic development. Previous attempts to diversify frequently came at the expense of commodity production, particularly agriculture, and resulted in slow growth. Agriculture was branded as backward and extractive industries as enclave activities that offer few opportunities for employment and generation of important expertise for higher value-added activities. The terms of trade of commodities were assumed to be on a perennial downward path (Prebisch, 1950; Singer, 1950). As a result, economic policies in African countries have often conferred market power on the purchasers of agricultural and mineral commodities rather than on the producers (Ndulu et al., 2008). Some of this was done on purpose, as in the case of export credits, which were frequently granted to ensure domestic processing, and export taxes which raised the price of exporting commodities for the same purpose (Radetzki, 2008). However, much of it was the result of a political economy stacked against commodity producers. Marketing boards, for example, were originally devised to ensure producers of soft commodities of stable prices for their products. But when urban political interests took over these boards, they soon degenerated into mechanisms to extract rents from the rural sector (Ascher, 1999).[27] Exchange rates were frequently over-valued, with the intention of making cheaper the import of investment goods necessary for industrialisation. The result, however, was to subsidise urban consumption and counteract structural transformation (Bruton, 1998). Slow growth was the result. The estimates reported in Ndulu et al. (2008) suggest that governments that adopted this mixture of policies lowered their countries' rates of growth by nearly 2 percentage points per annum 1960-2000.

Similarly, exploration for geological deposits of resources has remained below its potential. While the geological distribution of resources is bestowed by nature, resource abundance in economic terms is largely determined by the exploration conditions faced by investors. The value of known subsoil assets per square kilometre of sub-Saharan Africa is barely one quarter of that for high-income countries (Gelb, Kaiser and Vinuela, 2012; World Bank, 2012a). Assuming that at large levels of aggregations (like continents or country income groups) the distribution of resources should approach a common average, Africa's low ratio indicates that there are still many more resource deposits to be discovered there (Collier, 2011). Expenditure on mining exploration activity in Africa has long remained below USD 5 per square kilometre relative to an average of USD 65 in Canada, Australia and Latin America (Ncube, 2012). In addition to the overall difficult business environment highlighted in the preceding section, the low rate of exploration reflects inefficient incentive systems for exploration and insufficient public investment in geological knowledge of Africa.

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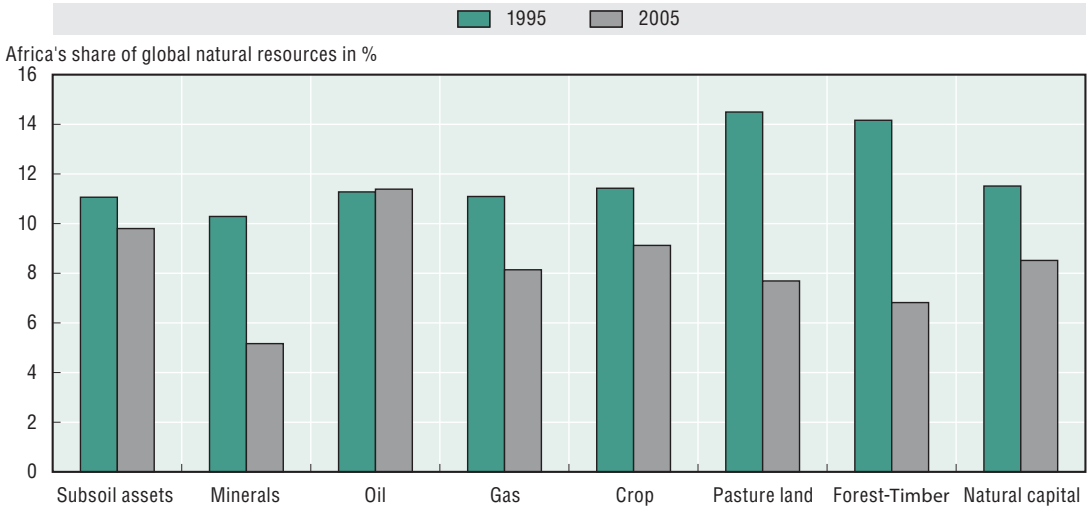
Accordingly, in spite of significant expansion of the primary sector in Africa over the last decade, benchmarking with other regions shows that much potential has been left untapped, reflecting difficult conditions. The strong demand and high prices for natural resources from which Africa benefited had the same effect worldwide. Resource production and exploration increased in all regions of the world, and mostly faster than in Africa. As a result, notwithstanding impressive growth and significant expansion of commodity output during the last decade, Africa's share of global natural assets, which represent the present value of proven resources[28], declined. Figure 6.11 shows that Africa's share of global natural capital shrank from 11.5% in 1995 to 8.5% in 2005. Mineral assets are particularly noteworthy: Africa's share dropped by half from 10.3% to 5.2%. Oil is the only resource in which Africa kept its share of global assets.[29] At the same time, Africa's share of global output (Table 6.2) dropped only in mining and there only by 2 percentage points (or by 15%; from 14% of global output to 12% of global output). Africa's share in global output in energy and soft resources increased by 1 percentage point each. While production increased at a similar pace everywhere, other world regions have thus been able to add more proven reserves through exploration and new technology than has Africa.

Figure 6.11. **Africa's share of global natural capital decreased between 1995-2005**



Source : Authors' calculations based on data from World Bank (2012a) The Changing Wealth of Nations, http://data.worldbank.org/data-catalog/wealth-of-nations

StatLink http://dx.doi.org/10.1787/888932807702

Especially agricultural resources have seen much of their potential untapped. A look at the difference between output and potential for different resources well illustrates Africa's agricultural gap. Figure 6.12 compares Africa's share in global resource production with its share in global reserves in 2010. In the case of soft commodities, agricultural land is treated as the underlying reserve. While reserves and production are quite close in the case of energy resources, they are far apart in the case of agriculture. Some 24% of the world's agricultural land is found in Africa, but it produces only 9% of global agricultural output. This ratio has hardly changed over the last 40 years. Africa's share in world exports of agricultural products has been constantly declining, from over 10% in the 1960s to 3% in 2010. Most of Africa's production of soft resources is for domestic consumption, especially in the case of food commodities. Non-food agricultural commodities account for only 2% of Africa's agricultural production and Africa's share of global non-food agricultural commodities dropped from 8% to 6% over the last decade. Although the expansion of agricultural production is not a matter

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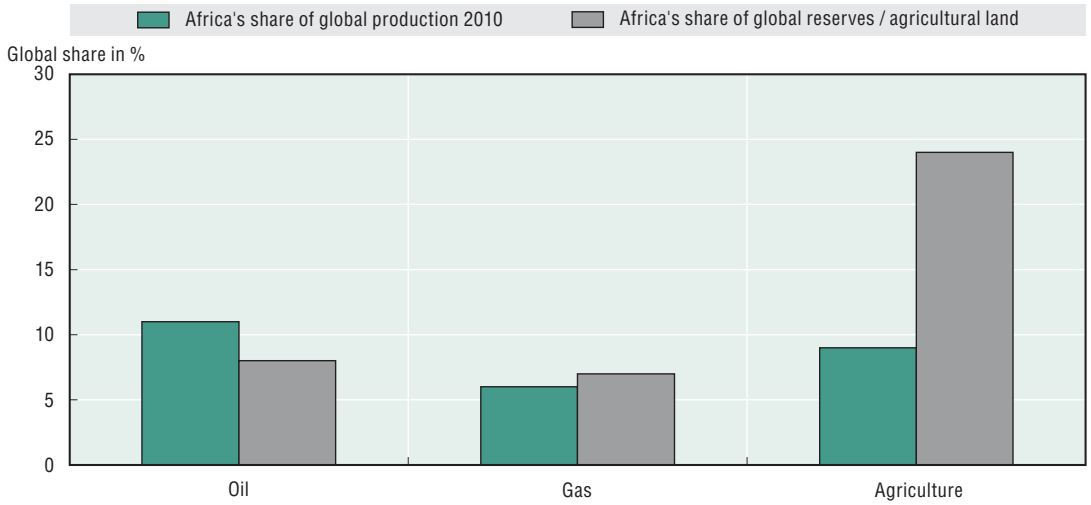
of exploring for new reserves, it is very much a matter of providing the right conditions for the sector and facilitating the implementation of state-of-the-art knowledge and its continued expansion through applied research.

In the search for oil and in its production, however, Africa has not lagged behind other regions. Oil rents are high and country conditions are less important. Oil stands out in Figure 6.11 and Figure 6.12. Africa has increased its share of world assets by 1% and it boasts a higher ratio of production to known assets than any other resource. That is largely because energy resources in general, and oil in particular, are much less dependent on country conditions than other natural resources. They boast higher rents,[30] can easily be exported in unprocessed form and are much less dependent on general infrastructure such as roads, railways and power stations than either hard or soft resources. Most metals, on the other hand, involve much higher production costs relative to their market price. Significant processing is required to make transport economically viable and deposit-specific technological challenges are significant.

Figure 6.12. **Production versus potential in Africa – soft resources have a long way to go**



Source: Authors' calculations based on BGR (Bundesanstalt für Geowissenschaften und Rohstoffe) (n.d.), Data on mining production provided for this report, FAO (2012), FAOSTAT, (database), http://faostat.fao.org, (data on soft resources), EIA (2012), "International Energy Statistics", www.eia.gov/cfapps/ipdbproject/IEDIndex3.cfm (data on energy), World Bank (2013b), World Development Indicators, http://data.worldbank.org/data-catalog/world-development-indicators (data on GDP and population).

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Where extractive resources boomed only a few countries seized the opportunity to aim for broad-based growth in the past. Many did not overcome dependence and continue to suffer from the "resource curse". Cross-country comparison shows that natural resource abundance (measured by reserves or production of natural resources) *per se* is linked to positive outcomes such as long-term growth, whereas dependence on natural resources (measured as the share of natural resource exports in total exports or the share of natural resource rents in GDP) comes with serious challenges (Brunnschweiler and Bulte, 2008; Gylfason, 2007).[31] As the preceding section has shown, initial dependence on natural resources in poor countries is to be expected, but can be overcome if managed well. However, many African countries have failed to turn resource wealth into inclusive economic development. Instead small elites control resource rents and good jobs remain scarce. Nigeria provides a sad example of a country that squandered much of its oil wealth through corruption. Angola stands out as an example of "Dutch disease", which describes the process of soaring price levels crowding out the non-resource economy.[32] Equatorial Guinea has a per

capita income level on a par with the European Union (EU), but because of extreme inequality most of its people continue to live in abject poverty.

Instead of managing volatility many governments exacerbated its effects through spending. The lack of financial access added to the problem. Natural resources are subject to substantial price volatility. In countries with a large share of natural-resource exports international resource-price volatility translates more or less directly into an unstable exchange rate and bouts of inflation, as there are relatively few other exports which could cushion the effect. The increasing uncertainty can quickly crowd out the non-resource economy which needs a more stable environment to prosper.[33] Cross-country comparison shows that controlling for volatility can eliminate most of the negative effects of natural-resources dependence (Van der Ploeg and Poelhekke, 2010). To manage volatility, an economy needs well- developed financial sector institutions that can provide liquidity in times of crisis and turn excess capital (in the form of savings during booms) into efficient investments. However, dependence on natural resources acted as a brake on financial sector development[34] and the relationship between the share of natural resources in GDP and the lack of access to finance across African countries remains positive. Government plays an important role, too. Instead of managing volatility through counter-cyclical government spending, many African governments exacerbated its effects by unsustainable spending and wasteful investments during boom times instead of building reserves for leaner years.

Combinations of rent-seeking and insufficient transparency led to waste and continued dependence. Research has shown that countries where non-competitive bidding and non-transparent contracting procedures exist are likely to face a large "corruption premium" on capital-intensive projects. Public investment in those countries is typically larger than average, but expenditures for maintaining public capital are extraordinarily low, which obviously undermines the efficiency of the investments (Tanzi and Davoodi, 1997). This is illustrated by the Ajaokuta steel mill in Nigeria, which was built by a parastatal body with government backing. More than USD 4 billion have been invested, but the mill has never been finished. After the end of the military government in December 1998, reports emerged about USD 2 billion, which had been siphoned off from the project into the pockets of leaders of the past government (Pritchett, 2000). In the same vein, revenues from natural resources can break the accountability link between government and citizens when governments can rely exclusively on such revenues without the need for any further tax collection from citizens. Consequently, the institutional environment will develop to ensure the government's power, not prosperity and common rights for all. This includes preventing the emergence of strong non-resource sectors in the economy as they could become the basis for the emergence of powerful groups that in the long run will demand political changes.

Environmental impacts often went unchecked. In the past, exploration, mine development and waste disposal have at times led to substantial land degradation, which adversely affected local habitats and compromised alternative land use. Air quality suffered mainly from the smelting of copper and other non-ferrous metals that led to toxic dust pollution, sulphur dioxide emissions and acid rain (Warhurst, 1994). In some cases mining-related operations depleted or degraded surface water, ground water and local aquifers through drilling, acid mine drainage, chemical leakages, soil erosion and waste piles. Nigeria's Ogoniland represents one particularly severe case of environmental pollution due to resource extraction. Although the oil extraction in the region stopped in 1993, there is still widespread environmental destruction and contamination (UNEP, 2011).

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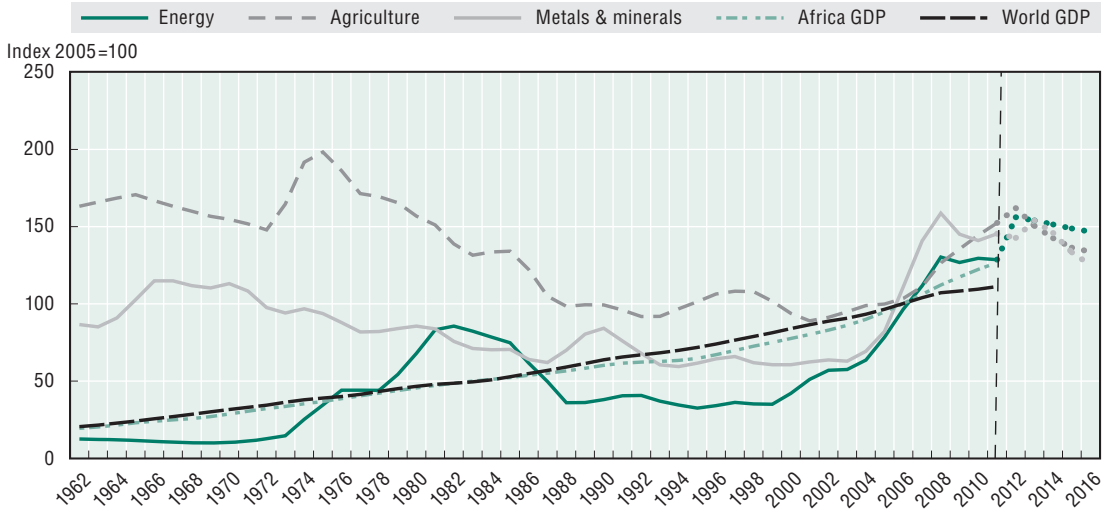
Some of this has changed. Improving terms of trade and the reversal of past policies have led to the recent revival of the primary sector, contributing to growth and structural change. Between 2000 and 2011 prices for metals and fuel more than tripled and reached unprecedented levels, overtaking their previous maximums from 1967 (metal) and 1982 (oil) in 2006 and 2007. Prices for agricultural commodities reached levels not seen since the 1970s and are currently 50% higher than they were in the 1990s. Although many countries in Africa are net resource importers, overall the continent has benefited significantly from the resource boom. Between 2000 and 2011 Africa's GDP grew by 64%, double the rate of world economic growth (Figure 6.13) and natural resources accounted for roughly 35% of this growth since 2000. At the same time, the renewed commitment (see Box 6.6) to agriculture has increased the sector's productivity, freed up labour and thereby contributed to structural change.[35] The long period of decline in agricultural productivity was associated with increases in employment in agriculture and the recent uptick in agricultural productivity is leading to the positive structural change outlined in the preceding section.

Box 6.6. **The Comprehensive Agricultural Development Programme: A sign of new commitment to agriculture**

The commitment of governments to agriculture is illustrated by initiatives such as the Comprehensive Agricultural Development Programme. The Comprehensive Africa Agriculture Development Programme (CAADP) is an Africa-led and owned agenda that serves to provide a common framework for policy and partnership renewal in the agricultural sector. CAADP's primary objectives are to increase investment in agriculture and improve agriculture policy and strategy design and implementation. Through these outcomes, CAADP is supposed to help meet the goals of higher growth, poverty reduction, and food and nutrition security. Specific benchmarks for participating countries are to allocate at least 10% of the national budget to the agricultural sector and achieve an annual agricultural growth rate of 6%.

Figure 6.13. **Africa has benefitted from rapidly improving terms of trade of natural resources. Prices will remain at a higher level than before 2000 but come down from their peak**



Note: All series are indexed to 2005=100 and shown as a 3-year moving average; 2012 onwards are projections.
Source: Authors' calculations based on World Bank (2012b), *Global Economic Prospects: Managing Growth in a Volatile World*, Volume 5, June 2012, World Bank, Washington DC and World Bank (2012a) *The Changing Wealth of Nations*, http://data.worldbank.org/data-catalog/wealth-of-nations.

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In spite of continued setbacks, indications suggest that Africa is also getting better at avoiding the resource curse. Ghana is a new oil producer and started production in 2010. Its Petroleum Revenue Management Act (Government of Ghana, 2011) is considered strong and transparent by international observers. It provides for the creation of a stabilisation fund and a heritage fund. The former cushions the impact of potential oil revenue shortfalls, while the latter provides an endowment to support the welfare of future generations. In addition, since 2011 Ghana's Ministry of Finance has successfully been hedging both oil imports and exports in order to preserve macroeconomic stability against volatile oil prices. Ghana has also been able to preserve its democracy despite the presence of oil. Nigeria has managed to embark on a democratisation process despite its oil dependence. Although problems with corruption and a difficult business environment continue, much progress has been made in the management of public funds. At the same time, because of budgetary pressure Nigeria and Egypt are in the process of abandoning, or at least significantly reducing, unsustainable fuel subsidies. More and more countries are signing up to initiatives that promote transparency of resource revenues to ensure citizen control and responsible spending. International regimes set up to prevent the trade in conflict minerals,[36] which often serve to finance violence, have proved very effective. Awareness of environmental challenges has increased as well. A recent example is Morocco's leading phosphate producer OCP, which has established activities for water saving, desalination and recycling to limit its use of this "scarce and costly" resource (OCP, 2012).

High global demand led to an expansion of natural resource production. Table 6.2. shows that resource production in Africa expanded significantly between 2000 and 2010 for all resource categories. Measured in real terms, both soft and energy resource production increased by about a third, and mining output by about a quarter, with important variation between different metals and hydrocarbons.

Table 6.2. **Africa's natural resource production 2000, 2010 and future potential**

	2000			2010					
	Africa's share of global production in %	Value of Africa's production (2010 USD million)	Number of countries 2000	Africa's share of global production in %	Value of Africa's production (2010 USD million)	Number of countries 2000	Real output growth 2000-10 in %	Difference in countries	Future potential
PGMs	55	10 588	2	74	14 191	4	34	2	By 2017 33% output increase
Cobalt	43	490	6	62	1 775	8	262	2	By 2017 87% output increase
Diamonds	45	4 265	16	54	4 967	17	16	1	By 2017 14% output increase
Chromite	51	1 578	4	42	2 442	4	55	0	
Manganese	32	493	4	30	3 131	8	535	4	
Phosphates	28	4 607	10	26	5 662	10	23	0	
Gold	24	25 568	36	19	19 947	39	-22	3	By 2017 53% output increase
Uranium	17	111	3	19	1 013	4	813	1	
Copper	3	2 871	11	8	7 806	12	172	1	By 2017 86% output increase
Nickel	5	1 225	5	5	1 535	5	25	0	
Iron ore	5	4 637	10	4	6 404	9	38	-1	By 2017 466% output increase
Mining total	14	59 592	44	12	73 286	44	23	0	
Oil	10	216 001	18	11	284 875	19	32	1	
Gas	5	39 036	14	7	68 423	18	75	4	15-20% growth additional to normal expansion from new fields in Mozambique and Tanzania
Coal	6	21 266	15	4	23 759	13	12	-2	
Energy total	10	276 303	11	377 056		36			
Food	8	195 082	54	9	260 910	54	34	0	
Non food	8	5 618	54	6	5 729	54	2	0	
Agriculture total	8	200 675	54	9	266 605	54	33	0	
Timber	12%	77 267	46	13%	87 229	54	13%	8	

Note: Agriculture total does not include timber. Natural gas valued at average European price.
Source: Authors' calculations based on BGR (Bundesanstalt für Geowissenschaften und Rohstoffe) (n.d.), Data on mining production provided for this report, FAO (2012), FAOSTAT, (database), http://faostat.fao.org/, (data on soft resources), EIA (2012), "International Energy Statistics", www.eia.gov/cfapps/ipdbproject/IEDIndex3.cfm (data on energy), World Bank (2013c), "Commodity Price Data - Pink Sheet", http://econ.worldbank.org/WBSITE/EXTERNAL/EXTDEC/EXTDECPROSPECTS/0,,contentMDK:21574907~menuPK:7859231~pagePK:64165401~piPK:64165026~theSitePK:476883,00.html.

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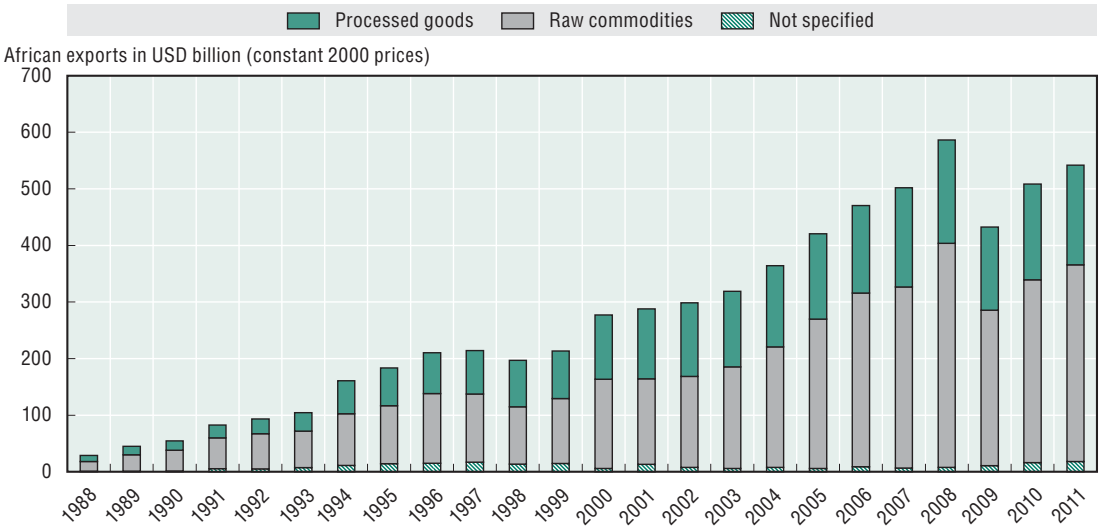
On the back of high prices and increased output, Africa's exports boomed and showed that growth in manufacturing exports can go side by side with a strong natural resource economy. However, reflecting terms of trade, commodity exports grew faster than those of processed goods. Among the main arguments brought forward against growth based on natural resources is that it threatens to crowd out the manufacturing sector, which can be the engine of structural transformation by providing productive jobs for low-skilled labour. Between 2000 and 2011 Africa's exports of raw commodities expanded by 120% in real terms from USD 160 billion to USD 350 billion (both in 2010 prices). Instead of disappearing, however, processed goods from Africa equally expanded their reach, albeit only at half the rate of commodities. Exports of processed goods grew by 60% from USD 110 billion to USD 180 billion (both in 2010 prices – Figure 6.14). The difference in the speed of growth by comparison with raw commodities resulted in processed goods dropping from 40% to 30% in Africa's export basket. Contrary to scenarios of a deindustrialisation of Africa, however, the higher share of natural resources merely reflects the change in terms of trade, documented above. In the mining sector, for example, most of the recent increase in prices has gone to miners, not processors. Refining charges accounted for 30% of the price of refined copper in the 1990s but are down to less than 10% today.

Figure 6.14. **Africa's exports benefitted from a natural resource boom, but processed goods did not lose out**



Source: Authors' calculations based on UN (2013), UN ComTrade, (database), via http://wits.worldbank.org/wits

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Despite the capital intensity of the extractive sectors, the expansion of natural-resource production has created a large number of jobs. The previous section highlighted the importance of agricultural employment. Although most of these jobs are of low productivity they form the livelihood of almost half of Africa's population and an important source of demand for other products and services. Hagbladde, Hazel and Reardon (2009) estimate that one dollar of income from agricultural activities generates 50 cents in non-agricultural rural income. Although extractive industries are highly capital-intensive, they have generated a large number of productive jobs in Africa over the last decade. Greenfield FDI into natural resource sectors in Africa are estimated to have created about 600 000 jobs between 2003 and 2012 (fDi markets, 2013).[37] Of these 400 000 were created in mining, which, with three jobs per USD million of investment, is ten times as employment intensive as oil. Estimates of employment multipliers in mining range from 0.5 to three additional jobs in supply firms for every job created in mining (McMahon and Tracy, 2012; McMahon and Remy, 2001; Kapstein and Kim, 2011). Assuming a multiplier of two this would translate into 800 000 FDI-related

jobs in mining. In addition, an estimated 6 million Africans find their livelihood in informal artisanal mining (BGR, n.d.), although these are not the types of jobs that drive structural transformation as their productivity is much lower than that of jobs in formal firms (La Porta and Shleifer, 2011), artisanal miners benefited from high resource prices.

In the future, demand for natural resources will remain strong but the boom of the last years is likely to cool down. Growth patterns of the last decade and a general trend of growing natural- resource intensity in countries with per capita incomes under USD 16 000 (Komesaroff, 2012) suggest that demand for minerals will continue to be strong as China, India and other emerging economies continue to grow in the long term. However, this growth seems to be cooling off somewhat at the moment and China's growth pattern is likely to shift from investment to consumption, implying lower intensity in demand for hard and energy resources (but potentially higher intensity in demand for food commodities). Most price forecasters agree that stabilisation at a level somewhat below the current peaks is likely in the medium term (Courvalin and Currie, 2012; IEA and OECD, 2012; World Bank, 2012b; see also Figure 6.13). A drop back to the much lower price levels of the early 2000s, however, is unlikely because production costs have risen significantly, as new types of deposits have come on line that can only be profitably exploited at current price levels. A significant drop in prices would lead to supply constraints which in turn would support higher prices.[39]

Nevertheless, driven by recent discoveries, the expansion of proven reserves and resource production in Africa is set to accelerate. Recently important discoveries have been made in both oil and gas in a number of East African countries, from Uganda to Mozambique. In particular the gas discoveries off the East African coast in Tanzanian and Mozambican waters are very large and have attracted much international attention to the region, which until then had been a blank spot on the map of African subsoil resources. So far the finds amount to 100 trillion cubic feet, more than ten times Africa's current annual output and rivalling the world's largest fields, such as those in Qatar and Western Australia (Bloomberg, 2012a). Africa can also catch up in mining. Current projections are for output to expand at a significantly higher rate than in other world regions. The US Geological Survey (USGS) estimates Africa will expand its metal and mineral production of 15 important metals by 78% between 2010 and 2017, compared to only 30% in the Americas and Asia. In West Africa the resumption of mining for base metals such as iron ore and bauxite (the basis of aluminium) in Guinea[40] and Sierra Leone will quadruple the African output of these metals over the next years and most likely lead to significant expansions of known reserves. Cobalt and copper production from known reserves will expand by more than 80% in the Democratic Republic of Congo (DRC) and Zambia respectively. Over the long run, soft resources hold arguably the greatest potential for expansion, as the productivity gap between Africa and other world regions closes. To realise this potential, however, concerted action is needed and will be discussed in the last section of this chapter.

With a comparatively high price level remaining for some time and significant expansion of production over the next years, Africa faces a window of opportunity to create economic structures that can provide employment and income for all on the back of its resource wealth. First, the previous long decline in natural resource prices from the late 1970s until about 2000 (see Figure 6.13) had tilted the balance of competition far towards international investors, who received very favourable conditions from governments, often leaving little for domestic investment. Higher international demand gives African governments more leeway to negotiate for a bigger take of natural resource revenues. Second, the main supply constraint is at the raw commodity level and the terms of trade between raw and refined products have shifted. Primary production, Africa's comparative advantage, should be the main beneficiary of higher prices. This mechanism works most strongly in the case of hard

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and energy resources, where refining margins have dropped significantly over the last decade. Unfortunately, it does not yet work well in the case of smallholder agriculture, where market power often lies with distributors that have a monopoly on purchases and do not pass on higher prices. Africa is thus set to benefit from an expanding primary sector, offering employment and linkage opportunities and bringing in more revenue that can be invested in structural transformation. The next section focuses on how Africa can make the most of this opportunity.

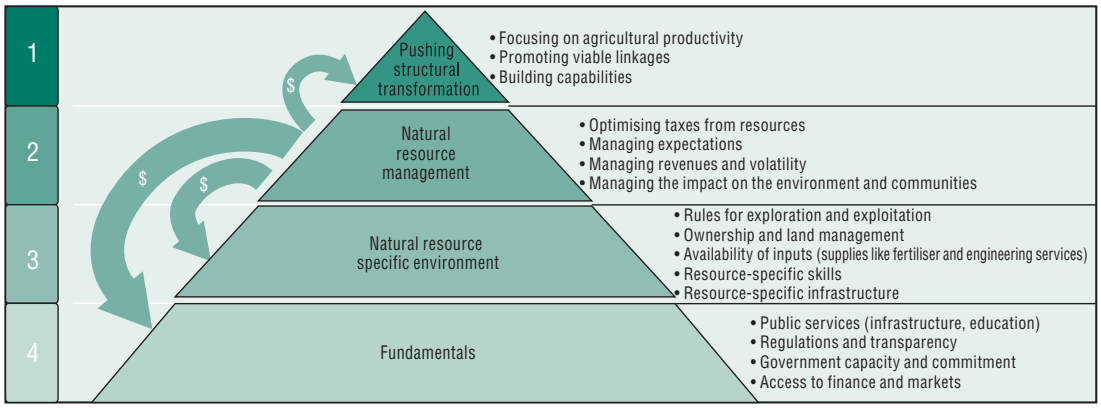
4. Getting it right: A four-layer approach to natural resource-based structural transformation

Examples of how to turn a country's resource wealth into good economic outcomes for all are to be found in all regions of the world and for every resource type. They show that resource production can *i)* create revenue, which can be invested strategically to promote growth and structural transformation; *ii)* stimulate growth in several sectors through linkages into and out of resource sectors; *iii)* support integration into the global economy through foreign investment. While the geological distribution of resources is given by nature, resource abundance in economic terms is largely determined by the exploration conditions faced by investors.

Natural resource-based structural transformation requires a four-layer policy approach that combines investment in fundamentals with a push for transformation. Figure 6.15 illustrates this. As the preceding sections have shown, irrespective of the sector, new activities with potential for structural transformation need a favourable environment if they are to thrive. Providing the fundamentals such as high-quality public services, a favourable institutional and regulatory environment, capable government and access to finance and markets constitutes the first layer. Where this is provided, entrepreneurial activity can bloom across the spectrum, in agriculture and extractives but also in manufacturing and services. The fundamentals also comprise transparent, accountable and inclusive governance systems which ensure that revenues are used for broad-based growth in the interest of society as a whole. The environment specific to the natural resource sectors constitutes the second layer for structural transformation based on natural resources. Extractive-resource exploration and exploitation need regulations that provide incentives for investment (see also Box 6.10), and all natural resource-related activities require effective systems of land management and ownership as well as a supply of skills and research specific to the resource sectors. Agriculture is often held back by insufficient supplies of fertiliser, a crucial input. Managing the special opportunities and challenges of natural resources constitutes the third layer and applies mainly to extractive resources. Optimising revenue from resource production in the form of a balanced tax system is paramount. The investment needs to provide the right conditions for structural transformation in Africa are immense and taking a fair share of resource revenues is crucial. Yet the past has shown that prudent management of revenues and spending is at least as important. Managing the impact of resource extraction on communities and the environment requires prudent management as well. The fourth and top layer is the realm of active government policies pushing for structural transformation. This push must differ from past attempts in two crucial aspects. First, it must focus on making agriculture more productive. Second, it must focus on viable linkages for which a business case exists. Most of these will be backward linkages, but forward linkages might be possible. In either case the creation of capabilities must remain a core objective.

Figure 6.15. **Natural resource-based structural transformation**

A 4-layer policy approach



Source: Authors' illustration.

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Evidently, one size does not fit all. Africa exhibits great diversity in natural-resource endowments and levels of development. Strategies for structural transformation must reflect this diversity. Despite recent new entrants such as Chad, Mauritania and Ghana in oil and Cameroon, Congo Republic, Ghana and Tanzania in gas, energy resources remain the most concentrated type of natural resource. Only 19 African countries produce significant amounts and four countries (Algeria, Angola, Libya and Nigeria) accounted for 77% of oil production and 87% of reserves in Africa in 2010 (EIA, 2012). In contrast, all African countries produce food and non-food agricultural commodities and 44 countries produce metals or minerals. Nevertheless, concentration is present as well. Four countries (DRC, Ghana, South Africa and Zambia) accounted for 70% of all mining production in 2009 (BGR, n.d.) and 15 countries account for 75% of Africa's agricultural production (FAOStat, 2012). The level of dependency on resources varies greatly too. Poor countries are always resource-dependent, middle-income ones may be. Table 6.3 shows the level of resource dependence measured as the share of gross resource production in GDP. In the poorest countries, resource production accounts for the lion's share of GDP (or even more than that, as gross production figures are used), reflecting the findings of this chapter's analysis of structural transformation. At higher levels of GDP two groups emerge: middle-income countries with a relatively high share of resources in GDP and middle-income countries with a low share of resources in GDP. Those with a high share of resources in GDP are exclusively oil exporters. The group with a low share of resources in GDP combines resource-poor countries such as the Seychelles, Mauritius and Cape Verde (not counting the beauty of nature as a resource), but also Botswana and South Africa, which rank seventh and eighth respectively in terms of per capita resource production in Africa.

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Table 6.3. **2010 per capita resource production in Africa, large diversity in endowments and dependency**

Country	GDP per capita (current 2010 USD)	Gross resource production per capita (current 2010 USD)					Resource production as share of GDP (in %)
		Hard	Energy	Soft - Food	Soft - Non-Food	Total	
Equatorial Guinea	20 703	3	15 053	108	12	1 5176	73
Libya	9 957	1	8 529	332	6	8 868	89
Gabon	8 768	536	4 744	311	19	5 610	64
Angola	4 322	31	2 944	270	3	3 248	75
Congo, Rep.	2 970	7	2 262	182	3	2 454	83
Algeria	4 567	11	2 034	335	3	2 383	52
South Africa	7 272	698	474	470	4	1 646	23
Botswana	7 427	1 145	34	233	0	1412	19
Sudan	1 994	13	439	617	10	1 079	54
Tunisia	4 194	88	292	606	4	990	24
Egypt	2 698	15	430	487	5	937	35
Nigeria	1 242	0	514	348	5	867	70
Namibia	4 876	441	0	324	3	769	16
Mauritania	1 045	438	69	261	0	768	74
Ghana	1 319	162	9	494	3	668	51
Cote d'Ivoire	1 161	17	86	487	46	635	55
Morocco	2 842	117	1	509	6	634	22
Swaziland	3 503	80	28	499	2	608	17
Zambia	1 253	370	0	192	27	589	47
Chad	761	0	324	235	6	565	74
Cameroon	1 147	1	99	406	22	528	46
Mali	613	112	0	399	14	525	86
Guinea	474	128	0	348	12	489	103
Niger	349	36	1	426	1	464	133
Benin	741	0	0	405	23	428	58
Central African Republic	451	5	0	381	7	393	87
Zimbabwe	595	155	22	178	37	392	66
Malawi	339	5	0	329	51	385	113
Rwanda	529	9	0	352	7	367	69
Mauritius	7 584	0	0	358	3	361	5
Guinea-Bissau	551	0	0	346	4	349	63
Burkina Faso	536	59	0	243	30	332	62
Tanzania	511	40	5	267	15	327	64
Sao Tome and Principe	1 215	0	0	322	0	323	27
Uganda	515	0	0	306	17	323	63
Madagascar	421	3	0	305	10	318	76
Kenya	795	0	0	268	24	292	37
Togo	527	19	0	250	11	280	53
Senegal	1 034	27	1	249	2	279	27
Sierra Leone	325	20	0	224	6	250	77
Burundi	242	0	0	241	4	246	102
Congo, Dem. Rep.	199	100	9	106	2	217	109
Mozambique	394	5	38	153	20	215	55
Ethiopia	358	4	0	185	10	199	56
Gambia, The	608	8	0	179	0	187	31
Liberia	247	0	0	148	32	181	73
Cape Verde	3 345	0	0	178	0	178	5
Comoros	736	0	0	155	0	155	21
Djibouti	1 203	3	0	123	0	126	10
Lesotho	1 004	3	0	111	6	120	12
Eritrea	403	0	0	87	1	88	22
Seychelles	11 130	0	0	83	1	84	1
Africa	1 689	73	373	332	11	788	47

Note: Data is presented in descending order by total resource production. Gross resource production values above 100% of GDP are explained by a large foreign share in production costs and profits.

Source: Authors' calculations based on BGR (Bundesanstalt für Geowissenschaften und Rohstoffe) (n.d.), Data on mining production provided for this report, FAO (2012), FAOSTAT, (database), http://faostat.fao.org/, (data on soft resources), EIA (2012), "International Energy Statistics", www.eia.gov/cfapps/ipdbproject/IEDIndex3.cfm (data on energy), World Bank (2013b), World Development Indicators, http://data.worldbank.org/data-catalog/world-development-indicators (data on GDP and population).

Box 6.7. **Botswana, South Africa and Tunisia: Strategies for structural transformation that reflect diverse endowments and capabilities**

Botswana's exceptional role as a major diamond provider enabled it to use its bargaining power to promote forward linkages. However, other attempts at creating manufacturing capacity failed. Through interaction with DeBeers, the lead diamond producer, the government acquired expertise in the organisation of the industry and exploited it to make the interests of DeBeers coincide with its own. In the 1980s processing was promoted through the establishment of a cutting and polishing industry for diamonds in order to create employment, even though DeBeers strongly opposed the idea. Under government pressure three factories for cutting and polishing were established. However, none of them has ever been profitable. Some observers assumed that these losses might have been created artificially through transfer pricing, in an attempt to prevent further pressures from the government to establish downstream activities. These assertions have, however, never been investigated (Morris, Kaplinsky and Kaplan, 2013). In 2005 the government used its bargaining power when renegotiating mining licences with DeBeers. Under the new agreement, 16 factories for cutting and polishing were licensed for operation. The government and DeBeers set up a 50-50 joint venture, the Diamond Trading Company which controls diamond supply and is required to release a specified amount of diamonds to local manufacturing companies. It contributes to employment creation by setting targets for training domestic workers. Penalties for non-performance mean incentives for DeBeers correspond with national interests (Morris, Kaplinsky and Kaplan, 2013). As part of the sales agreement, DeBeers will further "transfer its London-based rough diamond aggregation and international sales activity to Botswana by the end of 2013. This has the potential to transform Botswana into a leading diamond trading and manufacturing hub." (DeBeers, 2011). An attempt to diversify into car manufacturing in the 1990s, however, failed spectacularly after initial success, mainly because of previously underestimated competition (Good and Hughes, 2002).

In South Africa, long experience of serving the domestic mining industry led to the development of local technological expertise and a network of local suppliers (Morris, Kaplinsky and Kaplan, 2013). The upstream industry, based on the South African platinum group metals (PGM) industry, illustrates market-driven linkage development backed by government interventions. PGM-related mining operations in South Africa are the largest consumers of PGM-related goods and services in the world. The presence of this core clientele in South Africa was a crucial stimulus for the establishment of local supplier networks. Its development was further facilitated by the existence of suppliers to other commodity producers in South Africa, whose expertise provided a strong foundation to build on. Increased competition on world markets maintained pressure for cost effectiveness, which led to constant improvements in technology (Lydall, 2009). South Africa is now a net exporter of mining equipment and specialist services (Morris, Kaplinsky and Kaplan, 2013).

Tunisia, which lacks major resource endowments, applied a broad-based strategy promoting agriculture, manufacturing and services for economic diversification and used its geographical proximity to Europe to integrate into its economy. To diversify its economy, Tunisia identified as priorities aeronautical and automotive components, information and telecommunications technology (ICT), and offshoring, textile, leather and shoes as well as agri-processing. Even though the amount of its arable soil is limited, Tunisia has been able to develop a strong agricultural sector. While relying on a small number of goods, the country has been able to diversify into a variety of agri-business activities. Using its proximity to the EU Tunisia intensified economic integration by entering into a free-trade agreement (OECD and UN, 2011).

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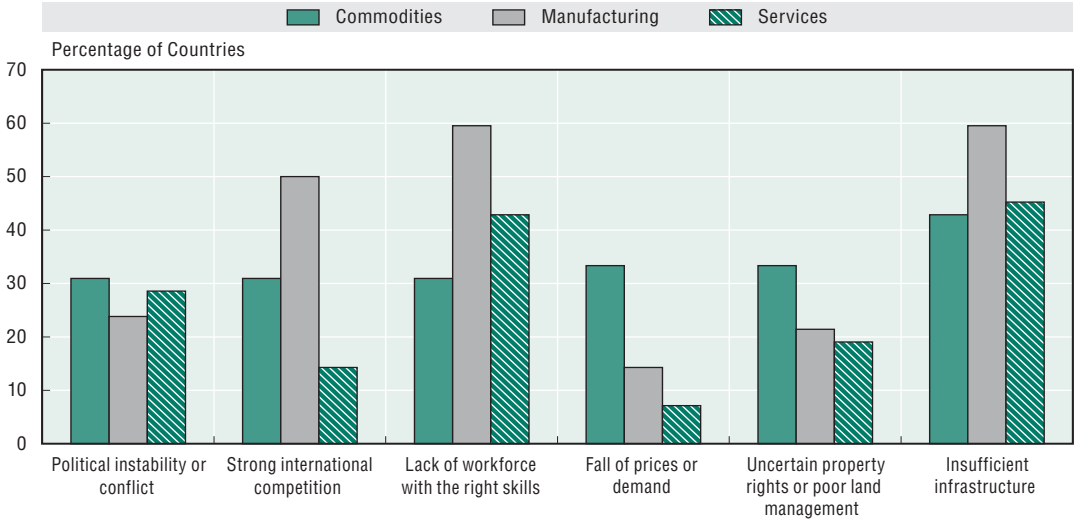
The rest of this section analyses the policy challenges in each of the four policy layers and draws lessons from the experiences of African and other economies.

4.1. The first two layers: Putting in place the right conditions for structural transformation based on natural resources.

In brief... Contextual factors such as the availability and quality of public services (including infrastructure and education), regulations and transparency, government capacity and commitment, and access to finance and markets make up a large part of the capabilities necessary for the acceleration of structural transformation. Many of the specific requirements of the natural-resource sectors are extensions of the fundamental conditions which all sectors of the economy need if they are to thrive. The following analysis, therefore, combines the perspective of the first two layers. Creating good conditions can be very costly; especially in Africa where many regions are sparsely populated and population growth puts pressure on education systems to expand. A realistic assessment of each individual country's situation and capacity needs to precede the formulation of feasible strategies for structural transformation. Specific bottlenecks should be tackled with targeted investments. In that way, the framework conditions for both enhanced structural transformation and the development of dynamic resource sectors can be improved (Venables, 2012).

Infrastructure is crucial for resource and non-resource sectors and a particular challenge for land-abundant Africa. In particular transport and energy infrastructure is an essential ingredient in a strong mining and agricultural sector. Both need good roads, perhaps railways, and power, which are also the basic bottlenecks in the growth of firms across Africa (Ramachandran, Gelb and Shah, 2009; AfDB, et al., 2012).[41] Figure 6.16 shows the answers by AEO experts on 42 countries to the question as to which were the main causes of negative change by sector over the last 20 years. The bars represent the percentage of countries where a given category was identified as an important cause of negative change. The strong impact of infrastructure on all sectors stands out. In over 40% of African countries insufficient infrastructure is seen as a major cause of poor past performance. Compared to more densely populated regions such as Asia or Europe, Africa is particularly challenged to provide its economy with the necessary infrastructure. Wood (2002) estimates that "Africa will need to invest at least twice as much of its GDP in infrastructure as will low-income Asia and will have higher recurrent charges for operation and maintenance."

Figure 6.16. **What were the main causes of negative change by sector over the last 20 years in Africa?**



Note: Answers represent the share of countries in the survey for which experts identified the given item as a main cause of negative structural change
Source: AEO country experts survey.

StatLink http://dx.doi.org/10.1787/888932807797

Energy provision remains the most important infrastructure obstacle, especially for industries based on natural resources. The importance of electricity for business development in Africa has been widely demonstrated (Harrison, Lin and Xu, 2013; Ramachandran, Gelb and Shah, 2009). It is cited as the most important obstacle to the growth of firms in many African countries. Nigeria is the most striking example, ranked as having the worst electricity supply in Africa, while its reserves of subsoil energy resources are the equivalent of several decades of electricity consumption in the whole of Africa. Iwayemi (2008) calls the prolonged dismal electricity industry performance in Nigeria "the most intractable infrastructural problem and policy challenge in the last half a century".[42] Electricity is crucial for structural transformation as it is a necessary requirement for most productivity-enhancing technology. At the most basic level electric light can enable people to use more hours of the day for productive activity. Simple machines can enable agriculture-based households to add economic activities such as sewing. The lack of energy also stands in the way of building on the resource economy. Energy is among the most important inputs to processing of any type of resource, hard, soft or energy. For many processing operations the cost of energy is among the most important determinants of economic feasibility. Allwood et al. (forthcoming) report that world production of materials requires about a third of total worldwide primary energy use per year. Table 6.4 shows that refining Africa's ore output of the four main base metals – aluminium (bauxite), copper, iron and nickel – would absorb more than Africa's total electricity supply in 2009. Improving Africa's energy supply would thus be a necessary condition for adding more value to resources. Under current conditions raw and semi-processed resources are best exported.

Table 6.4. **Energy needs for metal refining and Africa's energy generation capacity: A long way to go**

Country	2009 Electricity production (GWh)	2009 Energy need for refining of mining production (GWh), (bauxite, iron, copper and nickel only)	Energy requirement of base metal refining as share of total electricity output (in %)
Botswana	444	2 996	675
Tanzania	4 628	2 583	56
Congo, Dem. Rep.	7 830	7 738	99
Zimbabwe	7 878	411	5
Ghana	8 958	8 800	98
Zambia	10 308	15 946	155
Algeria	42 769	6 600	15
Egypt, Arab Rep.	139 000	7 200	5
South Africa	246 815	336 991	137
Africa*	664 051	764 210	115

Note: Only countries with information for both mining and electricity production are included in the Africa total. The total amount for Africa given in the last row includes countries with smaller amounts of mining output that are not listed in the table. The amounts reflect the production of ores for Aluminum (Bauxite), Steel (Iron ore), Copper and Nickel only. Calculations are approximate, using averages for ore content and energy needs per metal.

Source: Authors' calculations based on Ashby, M.F. (2013), Materials and the environment- Eco-informed material choice, Butterworth-Heinemann, Burlington, MA, Bundesanstalt für Geowissenschaften und Rohstoffe (BGR) (n.d.), Data on mining production provided for this report and World Bank (2013), World Development Indicators, http://data.worldbank.org/data-catalog/world-development-indicators.

Transport costs remain a particularly severe bottleneck and do not only affect infrastructure. Transport cartels and roadblocks hold back smallholder farmers and a lack of co-operation between countries limits the potential for large-scale mining. A recent World Bank report on the African food trade (World Bank, 2012c) identifies the lack of competitive transport services as a particular obstacle. Cartels are common and regulatory reform urgent. Roadblocks and corruption are other major obstacles (see also AfDB, et al., 2012). The report estimates that reform that delivers more competition could reduce the cost of transporting staples in West Africa by 50% within ten years. Small-scale producers such

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as farmers or artisanal miners are the primary losers from inefficient transport. However, large-scale mining is affected too. Investment in Guinea's vast iron ore deposits has long been held up by a struggle between the mining firm Vale and the Guinean government over exporting the ore via Liberia, which would require Vale to build less railway track. Similarly, the exploitation of Mozambique's huge coal reserves have for a long time been held back by uncertainty over the available transport routes.

Providing infrastructure for resource industries offers opportunities for the wider economy. In particular, the enormous infrastructure needs of mining operations can also provide opportunities. In Australia the provision of water pipelines to gold mines in the interior of the country made possible the irrigation of land and the development of significant wheat production (Doepel and Bolton, 2013). Roads and railways to large mining sites can bring much-needed transport infrastructure to remote areas. Where the power needs of ore processing require the construction of new generating capacity, such capacity can also serve the wider economy in the area. At about 28 megawatts the energy required to refine 10 000 tonnes of copper, roughly 2% of Zambia's annual production, for example, would be equivalent to twice Benin's current electricity generating capacity. Entering a partnership with resource-extraction firms to generate just a little more energy than what is needed for processing could have a large impact on the electricity supply in many African countries. As discussed elsewhere in this chapter, however, subsidising energy costs on the basis of gas or oil reserves should be avoided.

The supply of skilled labour has been a crucial element of resource-based structural transformation. Although the lack of a skilled workforce trails more pressing obstacles to business development in enterprise surveys in Africa, the relationship between skills and economic development has been amply demonstrated in the literature. Wood and Mayer (2001) show that skill per worker measured in average years of schooling is a strong predictor of the ratio of processed to unprocessed primary products in a country's exports. In many successful resource economies the supply of skilled engineers has proved crucial. In the United States and Sweden technical universities were established to support the resource sector. Later these institutes became the backbone of a range of research-intensive industries, Stanford University and the University of California at Berkeley being the most famous examples. In Chile the state provided support for engineers to study abroad. Today Chile is a major supplier of engineering services. The country also invested in research, training and extension services that led to the creation of highly profitable agricultural production. Australia's poor performance in the late 1800s and early 1900s was largely due to the lack of engineers and the lack of exposure to modern technology that would have made more deposits exploitable (Wright and Czelusta, 2004).

African countries must provide the right skill mix for their resource endowments. This requires anticipating skill needs and making the most of foreign investment. Last year's edition of this report highlighted the mismatch between the important role of agriculture in Africa's economy and the small number of students in agricultural faculties, representing only 2% of the total student body. At present few African engineering firms exist that could take advantage of the many opportunities offered by the exploration and the development of new extraction sites of hard and energy resources.[43] Anticipating the skills needs[44] of the economy based on its current and likely future structure and providing the right education to meet these needs are essential tasks African governments must fulfil. In addition, making the most of resource-bound foreign investments must be part of any skill-building strategy. Foreign investments in natural resources usually come with a high technology content that offers the potential for building advanced skills. Placing training and local employment requirements on foreign investment can ensure that a skill transfer takes place. In addition, educational institutions such as schools and universities should strive to be in close touch

with both foreign and domestic operators better to understand their specific skill needs and build co-operation programmes.

Applied research in natural resources has been fundamental to structural transformation elsewhere and has so far been Africa's Achilles heel. Fafchamps, Teal and Toye (2001) identify insufficient research into export crops as a major factor behind Africa's declining share in world exports of tropical products. Africa encompasses a wide range of climatic conditions, limiting the economies of scale that are possible in agricultural research. This makes Africa more similar to Latin America than Asia, where new seeds and other innovations can spread much more easily (Wood, 2002). Nevertheless, the failure to develop effective agricultural research in Africa has been holding back productivity in the sector and therefore been a serious obstacle to structural transformation. Similarly, applied research in extractive engineering, metallurgy, forestry and pulp and paper, as well as in chemistry, have been crucial elements of success in other resource-rich countries and are sorely lacking in most of Africa.

Making the most of Africa's abundance of natural resources requires countries to benefit from the full talent pool available – men and women. The OECD Development Centre's Social Institutions and Gender Index, which measures discrimination against women in areas such as access to resources, discrimination in the family and access to public space, shows that the sub-Saharan Africa region has the highest level of discrimination against women. Further, the UNDP Gender Inequality Index shows that sub-Saharan Africa shows the highest level of loss in human development because of gender inequality. The gender gap holds back structural transformation in general and the natural resource sectors in particular (Box 6.8).

Box 6.8. **Closing the gender gap to accelerate structural transformation**

While large-scale oil, gas and mining operations can create employment, there are often gender inequalities in access to jobs and in their quality. Eftimi, Heller and Strongman (2009) find that it is rare to find any large-scale extractive companies with more than 10% female employment, with many having less than 5%. This is the result of gaps in education, discrimination in hiring processes based on beliefs about "men's work" and the norm of the male as the primary breadwinner. The exclusion from large-scale mining means that women are more likely to be in informal artisanal and small-scale (ASM) mining, often associated with poor pay and safety risks. Although women's participation in African ASM varies from country to country, a common feature throughout the continent is that it decreases as mines become professionalised and large-scale (Hentschel, Hruschka and Priester, 2002).

Women's unequal access to resources holds back agricultural production. Women are in the forefront of agricultural production and food security, with 63% of female workers compared with 48% of male workers in Africa depending on agriculture-based livelihoods (Agarwal, 2011). Yet unequal access to, and control over, land, property and technologies prevents women from contributing to and benefiting from agricultural production equally, particularly as women are concentrated in low or unpaid positions in the sector. Even where women are afforded equal legal rights to land and property in national constitutions or land legislation, discriminatory attitudes or the failure to change administrative practices in rural areas may result in discrimination in practice. Further, men are often the only individuals named in land titles with the result that women miss out on consultations about land use. Changes in land use may also increase

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women's unpaid work burden in gaining access to food, water and fuel for the household (Eftimi, Heller and Strongman, 2009).

Countries have much to gain by removing discrimination and closing gender gaps. In large-scale mining, there is evidence that women employees typically take better care of equipment and are safer in operations (Eftimi, Heller and Strongman, 2009). Increasing women's access to formal and better-paid jobs in large-scale extractive operations and local suppliers will not only improve the status of women themselves but also have knock-on effects for the health and well-being of their families. In agriculture, the Food and Agriculture Organization (FAO, 2011) has estimated that if women farmers had the same access to productive resources as men, the resulting gains in agricultural productivity could lift as many as 150 million people out of hunger. Further, analysis by the OECD Development Centre has found that countries where women have equal rights in access to land produced around three times more annual cereal yields in 2009, compared to countries where women have no or few rights in access to land (OECD, 2012).

What policy actions are needed for a gender-sensitive approach? Countries should remove discriminatory laws and practices governing access to land and property; prioritise skills and technological training for women and girls; increase high-quality employment opportunities for women in large-scale extractive industries; improve conditions for small-scale mining; and ensure women's equal participation in consultative processes regarding natural resource development.

Poor property rights and land management systems are fundamental obstacles to a strong resource sector. Smallholder farmers need the opportunity to have access to sufficiently large pieces of land. To large investors overlapping rights often present considerable risks. Uncertainty about property rights and land management are a general problem for business development in Africa, but particularly so for the commodity sector (see Figure 6.16). Two issues stand out: for smallholder farmers stronger property rights are important to create incentives for investment and expansion and for large investors unclear and overlapping property rights present considerable risks. Most countries that have experienced successful resource-based structural transformation, such as Sweden, Indonesia and Malaysia, undertook, however, land reforms at crucial junctures. These reforms aimed at higher productivity through scale economies by giving individual farmers access to sufficiently large, coherent pieces of land and strengthening the links between effort and reward in the form of property rights. The generally poor state of land management and wide-scale absence of land register systems also impact on large extractive projects, as secure property rights or concessions over a site are among the primary conditions for the required large investments to flow in. Unfortunately, cases exist of large deals for agricultural or extractive projects between investors and central or regional governments where the customary usage of the land in question by the surrounding communities is ignored, often without the knowledge of the investing party. Such situations present a considerable risk of continuing conflict with the communities, which can endanger the project and have serious repercussions on the investing parent company (the Munden Project, 2013). To improve the state of land management, many African countries participate in the Land Governance Assessment Framework (LGAF) project (see Box 6.9).

Box 6.9. **Land Governance Assessment Framework (LGAF)**

Though past land-titling programmes in Africa were often unsuccessful, there is a renewed political commitment to improving tenure security. The success of these land tenure reforms in enhancing tenure security hinges on the appreciation of the diverse and dynamic nature of existing agrarian structures and tenure systems. These complex relationships demand context-specific analyses and interventions that recognise the plurality of the forms of access to land and control over it. The evidence suggests that many governments in Africa are fully aware of the complexities and are grappling with how best to address these issues. For example, several countries in Africa are participating in the Land Governance Assessment Framework (LGAF) that is jointly managed by the World Bank and the International Food Policy Research Institute (IFPRI). The LGAF is designed to bring stakeholders together in a country to take stock of existing land tenure practices, identify areas for interventions that would improve tenure security and monitor progress over time. The renewed interest in land tenure issues stems in part from increased foreign investment in land in Africa. As a result of this interest, many governments are also grappling with the issue of how best to screen commercial investments in land and how to engage local communities in the process. Important outstanding issues typically include: *i)* providing clarity on property rights, *ii)* valuation of land and *iii)* analysis of the economic and social costs and benefits of such projects.

The exploration and exploitation of extractive natural resources need good conditions and regulations that create the right incentives. Investing in public geological knowledge has proved important. The exploration and exploitation of mineral and hydrocarbon resources involve considerable risk and capital requirements. Public geological knowledge has been shown to be a very valuable tool in the exploration of the United States (see also Box 6.4), as it reduces the risk of exploration and improves the conditions for negotiating a fair agreement between exploiters and governments later on. In addition, regulations must reconcile incentives (Box 6.10). Exploration for new deposits is often done by small organisations that are willing to take on the often high risks of exploration and then sell their operation to one of the large multinationals once they achieve significant mining production. Exploration licences are often given for only a few years, subject to renewal by the government. Exploitation licences, on the other hand, are often provided for much longer periods of time. The possibility of losing an exploration licence after a few years of unsuccessful investment can be a strong disincentive to investing in exploration, especially where the risk of political change is high and where geological knowledge is scarce. Even where exploration is successful, the start of potential production requires significant additional investment and time. In the case of base metals the interval between finding a workable deposit and production of exportable concentrate can be up to 15 years.[45] Long gaps in time between initial investment and returns on this investment add to the capital needs of a project, decreasing the amount of risk that can be shouldered. In addition, the availability of public transport and electricity infrastructure is crucial for these smaller firms that are significantly more capital-constrained than the large mining houses. However, the latter have a lower appetite for risky exploration projects and much potential remains untapped because of the lack of infrastructure. The Africa Mining Vision (AU, 2009) recognises these challenges. Its action plan includes increased investments in geological surveys to improve public knowledge about deposits and continuous strengthening of government capacity to act as a strong partner and manager to the mining sector.

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Box 6.10. **The regulations that govern natural resource exploitation must align incentives for exploration and exploitation.**

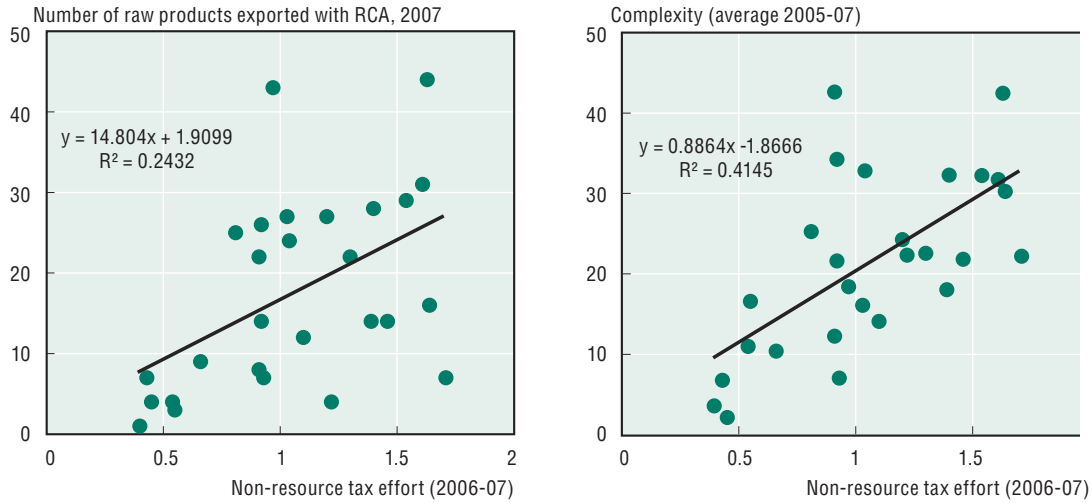
The case of the **United States** illustrates that even in a society with basically well-functioning institutions, the nature of resource-specific regulations was vital for the enormous economic contribution of natural resources to US industrialisation. The federal government initially claimed one third of all natural resources in the public domain and regulated mining activity closely for revenue purposes in the early 19th century. A leasing system for lead mines was maintained in several states, which required miners to obtain exclusive permits and bring their ore to officially licensed smelters from which a 10% royalty was collected. Because of noncompliance on all sides and the smelters' refusal to pay royalties, the system soon fell apart. It had been bypassed by federal agents who had sold mineral land as farmland for their own personal benefit so that three-quarters of mineral land passed into private hands. When gold was discovered in California the gold boom took place in a virtually complete absence of governmental authority. The principle of open access for exploration on the public domain was a *de facto* reality. Miners drew up simple rules among themselves to preserve order and minimise violent disputes. Many of the elements of these rules later became codified in the federal mining laws. Between 1870 and 1910, new resource deposits were continuously discovered in the US. This process was fuelled by permissive regulations and the *de facto* reality of open access for exploration in the public domain. The mining law included exclusive rights to mine a specific site upon proof of discovery, limits on the size of individual claims, and the requirement that a claim be worked at a certain frequency or else be subject to forfeit (Robinson, forthcoming).

The exploration and expansion of **Chile**'s resources were fuelled by public and private investments and regulatory changes. Even though the geological potential of the copper sectors in the US and Chile was very similar in the 19th century, Chilean production fell far behind that of the US between 1880 and 1920, mainly because of lower investment and major American technological breakthroughs. The large capital requirements and distant time horizons in the copper industry gave the US a comparative advantage, whereas the Chilean mining code discouraged the consolidation of mining claims at the time. In the early 20th century, however, large private investments in infrastructure fuelled the industry's development (Wright and Czelusta, 2007). During the 1990s, Chile's mining industry formed the basis for strong economic growth, based on successful exploration, mainly driven by the state-owned company Codelco, resulting in above-average investment activity. Chile's resources are owned by the state, and concessions for exploration and exploitation can be obtained from court. The rights for exploitation can be sub-contracted by the permit holder, which has resulted in Codelco holding more claims than it has the capacity to exploit. The system might therefore lead to suboptimal extraction levels, but generally enables exploitation by public and private actors (Korinek, 2013).

Competitive politics and broad-based tax systems are important elements of transparent, accountable institutions that share power between constituencies and are essential for structural transformation based on natural resources. Few elements of governance define the relationships between state and society better than the ways leaders come to power and the tax system through which citizens pay for the state. In Africa, party monopoly stands out as an obstacle, whereas competitive elections lead to better conditions. Harrison, Lin and Xu (2013) show that party monopoly is an important factor in explaining the productivity lag of firms in low-income countries in Africa compared to firms in other low-income countries. There are many factors involved: the suppression of open institutions that allocate resources to the most productive activities rather than to those elements that enjoy the ruler's favour is certainly chief among them. Bates, Fayad and Hoeffler (2012) confirm the importance of competitive elections for Africa. They find that in African countries where political leadership

was chosen in competitive elections governments exercised better (*i.e.* tighter) fiscal and monetary policies, spent more on agricultural research, witnessed higher educational achievement and provided more paved roads than in countries with authoritarian regimes.[46] Broad-based tax systems that strike a balance between resource and non-resource taxes reflect inclusive institutions. Where resource taxes crowd out other taxes, as in the case of many oil-producing countries, citizens do not pay for the state but nor do they get much in return. In Africa, non-resource tax effort, which measures non-resource tax collection relative to a country's tax potential,[47] has a positive relationship with measures of diversification and capabilities introduced earlier in this chapter (Figure 6.17). At the same time a strong reliance on resource rents is linked to lower levels of public capital (Bhattacharyya and Collier, 2013).

Figure 6.17. **Broad-based tax systems are important for structural transformation**



Note: The figures compare the relationship between non-resource tax efforts and a) the number of raw product exported with comparative advantage or b) average economic complexity, for a sample of 27 African countries

Source: Authors' calculations based on UN (2013), UN ComTrade, (database),via http://wits.worldbank.org/wits Simoes, A. (2013), *The Observatory of Economic Complexity*, http://atlas.media.mit.edu/ and AfDB, OECD, UNDP and UNECA (2010), *African Economic Outlook 2010*, OECD Publishing, Paris, http://dx.doi.org/10.1787/aeo-2010-en

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Access to markets is fundamental to structural transformation based on natural resources. Regional integration as well as better access to the markets of large partners could open new opportunities for all. The importance of market size and access is a standard finding of research aimed at understanding the drivers of growth and structural transformation in Africa. Being landlocked or small always comes with a significant burden on growth opportunities: see for example Ndulu et al. (2008) for country level evidence and Harrison, Lin and Xu (2013) for the firm level. Measures of openness to trade, on the other hand, are always correlated with positive growth and have even been shown to play an important role in mitigating the potentially negative impacts of natural resource dependence (see for example Van der Ploeg and Poelhekke, 2010). As pointed out in chapter 4, recent research on Latin America and the Caribbean shows that opportunities for structural transformation are higher for the Caribbean Community (CARICOM) as an integrated zone than for any of its members on their own (Hausmann and Klinger, 2009). The small scale of demand and supply that most African countries can muster individually has also been an important reason for the failure of past industrial policies. Natural-resource processing and advanced manufacturing often require large scale economies to be profitable. These can only be achieved where the

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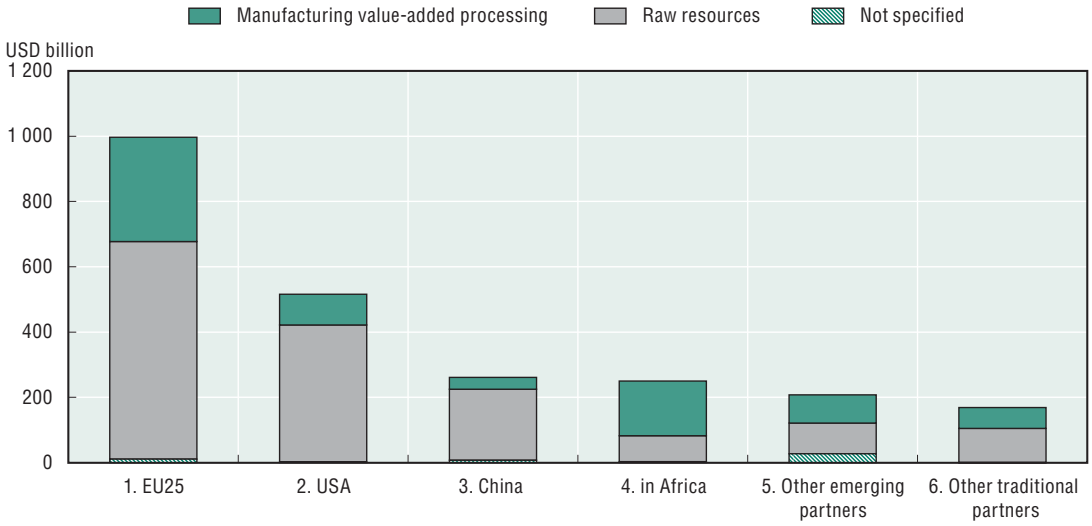
accessible market is sufficiently large and developed to generate the necessary demand for processed products and a sufficient supply of commodity inputs. Intra-African trade offers tremendous potential. Although it comes only fourth after Africa's trade with the EU, United States and China, it averaged more than USD 40 billion annually between 2005 and 2010 and boasts the highest share of manufactured products (Figure 6.18). Making the most of Africa's market requires strengthened efforts in regional integration. Stronger regional ties could also strengthen Africa's ability to negotiate better access to the markets of other regions that make up the bulk of Africa's exports. Better market access is of particular importance for structural transformation as tariffs on products escalate with increasing value added.

Figure 6.18. **Manufacturing intensity, by main destinations of Africa's exports (period 2005-10). Intra-African trade offers potential**



Source: Authors' calculations based on UN (2013), UN ComTrade, (database), via http://wits.worldbank.org/wits

StatLink http://dx.doi.org/10.1787/888932807835

Increasing effective market size includes the harmonisation of standards across countries. This is of particular concern for agriculture. Many African countries impose their own standards on seeds and fertilisers, arguing that they need to be adequate for the country's specific climatic and soil conditions. Given the large variety in these conditions across Africa, standards differ from country to country, preventing seed and fertiliser producers and importers from exploiting scale economies across markets. Because of the small market size of many African countries, the additional costs of meeting each country's standards are spread over a small volume of sales, in the best case increasing prices for farmers and consumers and in the worst case disrupting supply if the burden of a country-specific standard would render import or production unprofitable. This phenomenon lies behind dysfunctional fertiliser markets and high costs in many African countries (World Bank, 2012c). For standards to have a beneficial effect on exports and the development of linkages, they should ideally be international. Standards that apply to a sufficiently large market, such as the EU or a group of African countries, are a good second-best option.

4.2. The third layer: Managing natural resources

In brief... Layer 3 is crucial for the natural resources of countries that generate rents and can have significant impacts on the rest of the economy as well as on the environment. Resource rents can provide the revenue needed to reinforce the conditions in place for structural transformation (layers 1 and 2). At the same time, if not well managed, they can

wreak havoc through volatility and wastage as well as by replacing performance orientation with rent-seeking. Resource booms also carry the risk of crowding out other tradeable sectors by pushing up the exchange rate and the domestic price level[48] (Dutch disease). Finally, extensive exploitation also poses environmental problems that need to be managed. In the light of these challenges, this section reviews the questions of revenue optimisation and management. State ownership has not necessarily proved to be the most efficient tool of revenue optimisation. Taxing resource rents can be more effective, but comes with its own challenges, such as negotiating agreements that balance incentives for resource exploration and production with a fair take for society. Once revenues are in they must be well managed. Stable expenditures are crucial to counteract the volatility of resource-based revenues. This requires transparency and a good balance between savings, consumption and investment. The next challenge is to ensure that investments are efficient and not wasted. Layers 1, 2 and 4 of the four-layer approach to natural resource-based structural transformation provide the guidance for investment. Where investments are used to create the right conditions for productivity gains they can also help to overcome the challenges of Dutch disease.

The experience with state ownership in resource sectors is mixed and does not demonstrate that it is necessarily superior to private operations. Apart from the agricultural sector, where state involvement takes other forms than the ownership of production, large proportions of the hard and energy commodity sectors are owned and operated by states. This has mainly resulted from nationalisations in the 1960s and 1970s, driven by a perception that mining multinationals operated in an enclave fashion without paying attention to national needs and providing little opportunity for skill and technology transfer. In an attempt to speed up development, direct ownership was regarded as necessary to extract substantial portions of mineral rent, exert control over the industry and make sure it pursued national goals (Radetzki, 2008). Ample experience shows that state ownership was generally not successful in reaching those objectives.

The objective of exerting more control through nationalisation has not generally been achieved. In many cases, blurred principal-agent relationships have caused state enterprises to grow into political and economic powers outside any control and public accountability. In other cases, overlapping responsibilities and opaque structures invite rent-seeking and discourage new investments (Radetzki, 2008). This is illustrated by Cameroon's Société Nationale des Hydrocarbures (SNH), which has overall responsibility for managing the oil sector, and acts as a regulator and joint venture associate in all oil activities at the same time. In addition to that, its responsibilities overlap with those of two line ministries as well as other public agencies, a state of affairs which has led to an impenetrable and opaque web of financial flows (Akitoby and Coorey, 2012).

The objective of retaining a larger share of the rents from resource sectors has only partly been fulfilled. Even though the actual share of resource revenues accruing to the state increased after nationalisation in most cases, the overall rent has often decreased, so that public revenue in absolute terms declined. This was the case in Zambia, among others, where persistent inefficiencies and underinvestment after nationalisation, compounded by price declines, led to a reduction of public revenue from the copper sector (Box 6.11).

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Box 6.11. **Capturing mining revenues in Zambia: Ownership, negotiation and legislation**

Before Zambia's revision of its fiscal regime in 2008, the country's mining industry generated limited fiscal revenue to underpin the country's development needs. Moreover, since Zambia's independence in 1964 the share of mineral revenue as a percentage of total revenue was on a long-term decline. This negative trend persisted across periods of rising prices and output (pre-1974 and from 2000 onwards). Between 1980 and 2000, the revenue in terms of royalties, corporate and other taxes generated by the mining sector as a share of total revenue was around 4%. Both internal and external factors explain this low contribution.

In an attempt to channel more revenues to the state Zambia gradually nationalised its mining sector following independence. Between the first half of the 1970s and the late 1990s, the state managed the copper sector. The lack of modernisation and investment in the sector led to lower copper output. In addition, international copper prices started a long-term decline after the 1970s. The ensuing financial difficulties of the mines, the arrival of new political forces in the 1990s and Zambia's embarking on its structural adjustment programme triggered the privatisation of the mines. Between 2001 and 2007 copper output and prices were on the rise again, yet the average share of mineral revenue in total revenue during that period was even lower, at 1.6%.

It is striking that both public and private ownership modalities of the mines have yielded so little results in terms of the fiscal revenue. Under state ownership the sector suffered from underinvestment and poor management, exacerbated by the collapse of the world copper market. Under private ownership revenue flows suffered from exceptionally favourable fiscal incentives in the form of low taxes, low royalty rates and long "stability periods" of 15-20 years. Prompted by the recovery of the copper sector, Zambia reformed its tax code in 2008 to capture a larger share of the revenue. Given the difficulties and capacity requirements involved in renegotiating bilaterally settled "Development Agreements", the government introduced new legislation, the Mines and Minerals Act 2008, to replace pre-existing agreements. A uniformly applicable legislation leaves less room for collusive behaviour and individualised contractual arrangements.

The impact of the new mining code on fiscal revenue is already being felt. In 2011 copper export earnings reached a record USD 6.7 billion in 2011 (36% of GDP), up from USD 600 million (14% of GDP) in 2003. For the period 2013-25 the additional revenues from the mining sector following the revised mining code are estimated around an average 5% to 7% of GDP. According to new estimates, if the new mining code had been in place during the boom years of 1998-2007 Zambia could have raised additional fiscal revenues estimated at around of 18% of total revenues or 3% of GDP, which could have significantly boosted the country's ability to fund its economic and social development.

Source: Simpasa et al. (2013).

Concordant forms of evidence confirm that there is a sizeable (though not unlimited) potential for improving tax collection in the extractive sector without harming investment. In general, international evidence suggests governments should be able to collect 40% to 60% of resource rents for mining and 65% to 85% for petroleum (IMF, 2012b). In a sector dominated by foreign multinationals, ensuring that a fair share of the resource rents is captured domestically has proved a problem for many African countries in the past, for reasons ranging from governance challenges to shortages of capacity to negotiate with multinational extractive companies. Tax administrations are also often at a disadvantage in handling large corporations, particularly when it comes to evaluating transfer pricing arrangements. Box 6.13 discusses the African Legal Support Facility which provides assistance and training.

Optimising the taxation of extractive industry consists in striking the right balance between several, sometimes conflicting, policy objectives: between collecting tax revenues and making investment attractive; between collecting revenues today versus tomorrow; between ensuring revenue stability and sharing risk and commodity price upside with private actors; and between negotiating in pecuniary terms and negotiating about real sector linkages in terms of infrastructure, technology transfers and local content requirements. The stronger the country's capacity to develop a strategy, to negotiate and to handle the volatility and unpredictability of resource revenues, the more favourable will be the deals the country will be able to extract from multinational companies. Accordingly, stronger macroeconomic policy frameworks and investment in the economic fundamentals and institutions that allow affordable access to international capital markets are the ultimate keys to upgrading the management of the natural resource sector.

Box 6.12. **Mozambique's most recent gas contracts: Could more have been made of them?**

Mozambique is today at a crossroads. After years of strong, yet not pro-poor, growth, recent discoveries of immense natural resources bring hope for a change of direction. The magnitude of Mozambique's recent gas discoveries represents one of the most important opportunities for the country's future socio-economic development. The country's upcoming National Development Strategy recognises the promotion and development of human capital as a fundamental issue in respect of the management of its resource wealth. Striking the right balance between investment versus consumption of future revenues could boost poverty alleviation and economic development, ranging from infrastructure to health and education.

In September 2012 the publication of the draft Gas Master Plan made possible a first assessment of the future share of profits that would accrue to the government of Mozambique. The plan presents several scenarios for utilising its share of the natural gas, ranging from revenue generation through liquefied natural gas (LNG) exports to domestic use for supporting new mega-projects.

In terms of assessing the share of profits that will accrue to the government, two basic metrics are useful: the "government take" and the "effective royalty rate" (ERR). The former is the percentage of the profits that the government receives over the lifetime of the project, while the latter represents the minimum share of gross revenues that a government will receive over the course of a single year, taking into account cost recovery deductions.

According to UNICEF's Mozambique analysis, the contracts governing natural gas production in Mozambique's Rovuma Basin (the site of gas finds which rank amongst the largest in years) provide the government with only an estimated 30% of the profits (government take), well below the global sector average of 55%. Still less promising are the timelines according to which government revenue will come on stream, exemplified by the 3.5% ERR (which compares very unfavourably to global sector averages of 25-30%). The fiscal regime for the Rovuma Basin is also an example of heavy "rear loading"; in the early years, on more than USD 2 billion in gross revenue per LNG train, the government can expect to receive less than USD 100 million.

Source: UNICEF Mozambique (2013).

In practice, radical solutions to this optimisation exercise are rare and optimal fiscal regimes for extractive industries tend to combine policy instruments responding to several policy objectives; furthermore, one size does not fit all, and framework design needs to take into consideration resource-dependence, volatility and the expected time horizon of resource exploitation. For instance, a modest *ad valorem* royalty ensures revenues whenever production is positive. Adding a regular corporate income tax guarantees that extractive

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industries are taxed according to the normal return to equity at corporate level, just as in other sectors. Overlaying a specific tax on resource rents serves to exploit the particular revenue potential when prices rise above their normal trend and generate abnormal profits.

If the political economy of the country is such that periods of high commodity prices will result in severe political pressure to raise tax rates in the extractive industry, investors are better off having this political fact recognised and addressed up front. Ideally, contracts need to be designed *ex ante* to ensure that the country shares in the profits resulting from surges in commodity prices. However, countries can be locked into suboptimal contracts that are legacies of a period of weak government capacity and/or of poor governance. The country then needs to balance the risk of harming its reputation as an investment destination and the benefits from a more favourable share of commodity price rises. One policy option consists of building regular periods of renegotiation into contracts or into a framework mining law in order to improve the predictability and transparency of such processes. Another option can be to sign into law a provision that states that in the future the government will take a share of all additional profits and losses generated from rises in commodity price above a defined threshold. Such indexation has the advantage of sharing risks of gains and losses without having to renegotiate on a case-by-case basis and mitigates the damage to a country's reputation from outright renegotiating of contracts (Frankel, 2010).

Box 6.13. **Building capacity to negotiate fair and transparent contracts**

Why contracts matter

As this chapter recalls, successful experiences of natural-resource based development, as in Botswana, have seen strong institutions: *i)* effectively manage and allocate public revenues; *ii)* implement the right multi-sectoral policies and regulations; and *iii)* negotiate fair and transparent contracts. The latter provide the essential legal and financial basis for a long-term relationship between host states and private investors. They will:

- determine the sharing of profits between the country and the company, including issues of royalties and taxes;
- cover the issues pertaining to expenses and rent recovery costs, which are important as the parties are entering into long-term, capital-intensive projects;
- set standards in terms of local content, employment and environment, labour law, human rights, obligations and guarantees of the host state, stabilisation clauses, dispute resolution and arbitrage, competent jurisdiction and applicable law.

The case for support to negotiations and renegotiations

As a result of the lack of a capacity to enter into sophisticated transactions, cases of badly negotiated contracts are not uncommon in Africa, with negative implications for the economies at large: major delays may arise or even jeopardise the project; a change in the country's reputation may affect the volume of foreign investment; and when states deem the contract unfair, they tend to respond by terminating the agreement altogether.

Similarly, renegotiations should be carefully conducted. Many African countries entered into natural-resources contracts at a time when the prices of minerals, oil and gas were relatively low: the agreements and contracts were then structured in a way that would attract foreign investment, often to the detriment of host countries. With the lasting boom of commodity prices, a number of them have reformed laws and renegotiated contracts to secure more equitable revenue sharing and better overall deals. For example, the government of the Democratic Republic of Congo (DRC) successively adopted a new mining code (2000), reviewed mining agreements (2007) and made it compulsory by decree for all contracts in the oil, mining

and forestry sectors to be published (2011). Whether those initiatives helped improve the mining sector environment and secure long-term investment still remains to be seen; much depends on the many other aspects of public policies. Botswana, by contrast, built up the fundamentals of a strong sector by renegotiating legal and fiscal provisions on major projects in the mining sector, such as the Selebi Phikwe copper/nickel mine project. Strengthening the negotiating skills of African states is thus of paramount importance because of asymmetric technical capacities when facing major private companies. To this end, the African Development Bank set up the African Legal Support Facility (ALSF) in 2008 to assist African countries in the negotiation of contracts and complex commercial transactions related to natural resources by securing the services of competent legal support to act as government counsel. In 2012 alone, the ALSF received ten requests for legal assistance and training on natural resources contracts negotiation.

Source: African Legal Support Facility (ALSF).
www.aflsf.org/

A sustainable approach to revenue management that balances necessary investment with savings seems more appropriate for developing countries than the conventional advice that only the interest generated from revenues stored in an external sovereign wealth fund should be consumed. Managing revenues according to the permanent-income hypothesis ensures sustainability by preserving the wealth for future generations, and addresses the issue of the volatility of resource revenues which can lead to pro-cyclical spending patterns. However, the argument for front-loading consumption to match current needs is strong. Many African economies currently face problems of widespread poverty and a lack of access to capital for necessary investment (Berg et al., 2012; Baunsgaard et al., 2012). Where such investments are well placed, both incomes and consumption are likely to rise as development progresses, leaving future generations better off than the present one (Venables, 2012).

The main targets of investment for resource revenues should be the bottlenecks in the general and resource-specific environment (layers 1 and 2 in Figure 6.15) and the generation of additional private investment. Improving these framework conditions benefits both the resource sector and structural transformation. By enabling capability gains and productivity increases throughout the economy these investments are also a good way to enable growth in the face of worsening terms of trade in non-resource sectors as the result of Dutch disease effects (Venables, 2012; Sachs, 2007). Along similar lines, public investment can be used to boost private investment; either directly, by increasing access to finance through development banks, or indirectly, by refraining from sovereign domestic borrowing, thereby reducing interest rates for the private sector (Venables, 2012).

Investing resource revenues presents several challenges: efficient investment opportunities suitable for the economy's absorptive capacity need to be identified. Further, the maintenance costs associated with public investments must be accounted for. Even though the advantage of efficient up-front investment over saving has received theoretical backing (*e.g.* Takizawa, Gardner and Ueda, 2004; Venables, 2010; Van der Ploeg, 2010; Van der Ploeg and Venables, 2011a; and Araujo et al., 2012, as cited in Berg et al., 2012), the experience of many resource-rich countries shows that these investments do not necessarily have growth-enhancing effects, but on the contrary place a massive burden on a country (Gelb, 1988; Auty, 1990). The lack of investment efficiency stems from investment projects that were not well thought through (illustrated by examples of investments in processing facilities defying comparative advantage as discussed above) or lobbied for by special interest groups

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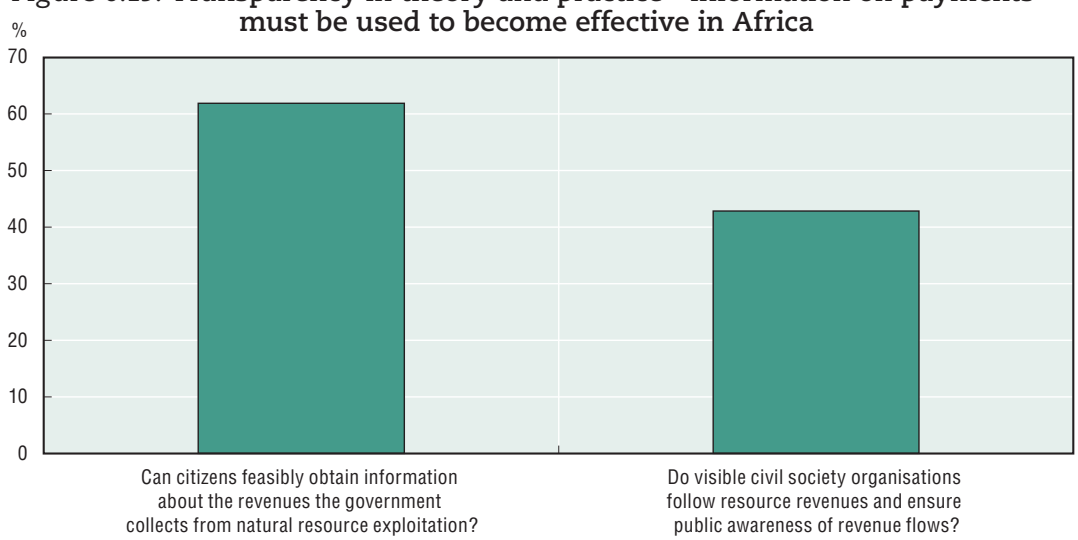
in defiance of public welfare. Bottlenecks in absorptive capacity need to be accounted for when taking the investment decision. Furthermore, recurrent costs for operation and current expenditures are frequently not factored into the decision on investment projects, which can lead to a rapid decline in their productivity in the medium term (Berg et al., 2012).

To ensure that public investments are efficient and sustainable, initial revenue should be "invested in investing" (Collier, 2011). Whenever revenues cannot be invested efficiently, they should be stored in a stabilisation fund, together with the portion of revenues that is saved. Basing an investment decision on the project's efficiency thereby decouples government spending from revenue inflows and reduces the distortive effects of volatile revenue flows (Berg et al., 2012). Evaluating an investment project's efficiency and economic sustainability, while factoring maintenance costs into the investment decision, requires substantial capacity. Initial investments could therefore be targeted at increasing the capacity of governments to select, implement and evaluate future investment projects and handle the challenges constituted by sudden revenue inflows (Venables, 2012).

At the same time, transparency and accountability are crucial in constraining profligate government expenditures and ensuring truly counter-cyclical revenue management. In that respect, Chile has established a successful, innovative system. The country has a target for its budget surplus, which, at the same time, fixes a target for its deficit. To allow for some flexibility to be able to react to previously unforeseen circumstances, the government may run a deficit larger than the established target if *i*) output falls short of potential, or in the event of a recession, or *ii*) if the price of copper is lower than its ten-year equilibrium price. Two expert panels assess whether these conditions are fulfilled, which ensures the necessary flexibility to increase spending in times of crises, but reins in any attempts at explaining profligate expenses through slower-than-expected growth by formally establishing whether that has been the case. The Chilean model could be applied by other resource-rich countries and strengthened to adapt it to conditions of (potentially) weaker institutions. The procedure could be given legal force, and specific requirements for the qualifications for the experts on the panel could be fixed. Furthermore, to ensure the separation of decision-making powers and of the independence of the experts on the panel, provisions similar to those safeguarding independence for central bankers could be applied (Frankel, 2010).

Figure 6.19. **Transparency in theory and practice - information on payments must be used to become effective in Africa**



Note: Numbers reflect the percentage of positive answers from the AEO country experts survey.
Source: AEO country experts survey.
StatLink http://dx.doi.org/10.1787/888932807854

Several regional and international initiatives are targeting transparency as the key to better resource and revenue management. The information which thereby becomes available needs to be put to use to hold governments and multinationals accountable. Box 6.14 provides an overview of the wide range of international initiatives aiming to improve natural-resource management. The push for transparency has a positive impact, as the AEO country expert survey shows that in 62% of participating countries citizens can feasibly obtain information about the revenues collected by governments. However, in many countries more needs to be done to foster the ability of citizens to translate this information into action. Civil society organisations actively follow information on natural resource sectors and disseminate it to ensure public awareness in only 42% of countries for which this information is available (Figure 6.19).

Box 6.14. **"Locking in" better resource management from the outside: Regional and international initiatives**

A number of international initiatives aim to improve natural-resource management worldwide. They seek to affect the incentives of policy makers and steer their decisions in favour of a more effective management of natural resources for development, usually by strengthening domestic drivers of change. In the absence of a "silver bullet" mechanism to address governance weaknesses, so wide a range of international initiatives, public and private, binding and voluntary, may help alter the domestic political economy context and reform the dynamics of resource-rich countries.

African initiatives seek to shift incentives towards a pro-development path in resource-rich countries. The new pan-African impetus to boost development prompted the adoption of the Africa Mining Vision and its action plan. It puts emphasis on home-grown, African-driven initiatives to harness the development potential of the extractive sector. The specific role granted to the African Peer Review Mechanism (APRM) to scrutinise and advance better governance in the extractive sector is also an encouraging development. Natural resources also stand high on the agendas of other regional initiatives, such as the International Conference of the Great Lakes Region (ICGLR) and the agendas of many of the Regional Economic Communities (RECs) in Africa, such as the Economic Community of West African States (ECOWAS) directive on mining, the South African Development Community (SADC) Protocol on Mining, etc.

At the global level, a number of initiatives are particularly relevant for natural-resource exploitation in Africa by multinational enterprises. They include the Extractive Industry Transparency Initiative (EITI), the Kimberley process, the OECD Guidelines on Due Diligence for Responsible Supply Chains, and from a regulatory perspective, the US Dodd-Frank Act and the EU transparency and accounting directives. Private companies are sought to be held accountable via regulatory processes combating corruption (*e.g.* US anti-corruption legislation such as the Foreign Corrupt Practices Act), accounting disclosure obligations (*e.g.* the US Dodd Frank Act or EU Transparency and Accounting Directives), and appeals for commitment to abide by codes of conduct and due diligence principles (*e.g.* OECD guidelines or the recent Conflict-Free Gold Standard of the World Gold Council). Managing reputational risks is an increasingly important motivation of businesses and governments. The emphasis tends to be laid on making revenues more transparent, while enhancing the transparency and accountability of governments' expenditure is just as important (Kolstad and Wiig, 2008; AfDB, et al., 2010).

These initiatives focus on increasing transparency, which is supposed to lead to more accountability and in turn to better management of the resource sectors, taking into consideration the broad interests of society. The thrust of most of these initiatives is to promote transparency, as a voluntary good practice or an obligation, in the supply chains for natural resources and contracts and revenues from natural resources. The stakeholders concerned

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are resource-rich governments and/or private companies. The strategy relies on the principle that greater transparency should lead to greater accountability and better management of natural resources; this can be done through naming and shaming governments mismanaging their resources, as well as through preventing them from doing so, or at least pressuring them not to divert or capture natural resources revenues. The decision by the International Monetary Fund (IMF) at the end of 2012 to withhold USD 225 million of loans to the DRC because of its failure to publish adequate details on mining contracts in 2011 illustrates the type of constraints used to promote a more transparent management of natural resources (Bloomberg, 2012b).

The approach currently emerging in Africa is one where greater emphasis is put on identifying synergies among various initiatives, and linking natural resources to broader development considerations. As a result, shifting away from the dangers of a resource curse entails not only a better management of natural resources, but also the harnessing of natural resources to the structural transformation of Africa, and to other African initiatives such as the Programme for Infrastructure Development in Africa (PIDA) and the Accelerated Industrial Development of Africa (AIDA). Provided such pan-African and parallel regional initiatives generate sufficient involvement by domestic stakeholders, the continental and regional frameworks offer a distinct avenue to altering the domestic balance of interests in resource-rich countries.

These initiatives have the potential to create new incentives, for both policy makers and economic actors, which may modify power relations and rent-seeking and patronage behaviours. The challenge remains to translate this potential into reality. That will require greater attention to the effective translation of generic policy designs into specific actions within, as well as across, policy frameworks, and in each of the countries concerned. In doing so, greater consideration should be given to how such initiatives can positively affect incentives for reforms and the balance of interests and power in resource-rich countries, i.e. the political feasibility of creating a virtuous cycle of development-oriented reforms.

Source: ECDPM
www.ecdpm.org

Where governments lack the capacity to implement fiscal regimes to optimise revenues and spend them efficiently, barter contracts might offer a possibility of acquiring desired public goods in exchange for extraction rights. The complex process of awarding the rights for resource extraction, setting up systems of taxation to capture fair shares of the rents and managing the revenue for strategic investments could be circumvented by asking for the provision of public goods and capital as a form of payment. Angola, Nigeria, Zambia and Zimbabwe have already experimented with barter-type agreements with Chinese consortia. Although many problems with the actual implementation of such deals are apparent, theoretically they offer several advantages. Low-capacity governments could bypass revenue collection, redistribution among government entities and the allocation to different projects, in the process of which significant shares of revenue are often lost. Other than that, these agreements could shift the burden of smoothing revenue fluctuations from governments to investors, channel foreign infrastructure into developing countries and facilitate government commitment to long-term projects which might otherwise be difficult to complete. To maximise the benefit for resource-rich nations, investors could be asked to offer comparable projects for the provision of public goods. The best offer would then be relatively easy to identify for governments in a competitive bidding process (Ross, 2012). In the absence of such competition and clear investment priorities on the part of the government, barter contracts risk fragmentalising the budget process through supply-driven projects.

When deciding about how to spend resource revenues optimally, expectation management is crucial. Subsidies as an instant way of letting the public share in the wealth of natural resources often lead to enormous disruptions of market mechanisms, as illustrated

by the problems in Egypt. The management of expectations has several dimensions. While spending ministries need to be aware of budget envelopes, the expectations of citizens as to what to expect from a windfall need to be realistic. On the one hand, citizens should hold government accountable for delivering the benefits of a country's resources. On the other hand, over-inflated expectations will not be met (Venables, 2012). The use of subsidies to let the public share in the resource wealth is a dangerous route to take. It can disrupt the economy enduringly and effectively limit a government's scope of action to rectify the imbalance. Egypt currently experiences distortions between very high domestic demand, existing resource wealth and insufficient production which are essentially driven by prices biased through subsidies. Originally a means to share the country's resource wealth with the population, Egypt has put in place a massive energy price subsidy scheme, which now risks undermining the very resource wealth it was meant to spread. Because of the subsidy, energy consumption is much higher than in comparable economies, and the government has incurred heavy losses from providing cheap fuel. However, the current political situation makes any revision of the system unlikely, while it keeps aggravating economic problems (see Egypt country note).

Direct distribution of resource revenues to citizens is another possible option. However, it might not generally be appropriate for the conditions in many African countries. This idea is based on the hypothesis that citizens "know how to spend their money better than does their government" (Frankel, 2010), and, at least theoretically, has several advantages. First, at least parts of the revenue are diverted from government, thereby limiting the distortion of incentives for government. Second, it gives citizens a powerful incentive to hold government accountable and monitor revenue management. Currently, a direct distribution system is in place in Alaska, where oil earnings are invested in the Alaska Permanent Fund. Half of the investment earnings from the fund are then distributed on a per capita basis. While the system is generally considered a success in Alaska, it needs to be handled with caution in countries with lower average incomes and weaker government systems. First, there is no guarantee that distribution funds will be any safer from misuse than other types of revenue management, and, second, distributive allocation potentially causes difficulties, as communities which are adversely affected by resource extraction might demand larger payments, which, if granted, could spark extensive migration of dividend seekers (Ross, 2012).

Box 6.15. **Managing environmental aspects of resource production**

To limit adverse effects of resource production on the environment, multi-stakeholder involvement is crucial. This ensures that a comprehensive assessment is made of potential threats to the environment and of potential for their prevention. In Kenya, effective partnerships have evolved between the state and private actors to manage the problems resulting from competing uses of water from Lake Naivasha. Commercial horticulture, agricultural smallholders and renewable energy creation use its water, and increasingly put the ecosystem's sustainability at risk. Coalitions between the public and private sectors have addressed these problems and come up with innovative solutions. These include capacity development and payments for ecosystem services by companies operating downstream to upstream smallholders to ensure more sustainable practices which have a positive influence on water quality and quantity (ODI, ECDPM and GDI/DIE ,2012).

Market-based mechanisms provide lead firms[51] with incentives to come up with innovative solutions for managing environmental hazards stemming from their activities. (Lead firms can be defined as small, medium, or large firms that have forward or backward commercial linkages with a significant number of micro, small and medium-sized enterprises). Having to pay for the full damage their activity inflicts on the environment, polluters have incentives to minimise the consequences of their actions. Leaving them the freedom to choose how to

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minimise adverse effects stimulates the development of innovative solutions (Warhurst, 1994). In Morocco, best practice examples have been developed by the leading phosphate producer OCP, which has established activities for water saving, desalination and recycling to limit its use of this "scarce and costly" resource (OCP, 2012). In Benin, solar-powered drip irrigation is used to promote agricultural productivity. This innovative technology is environmentally beneficial as it replaces fuel-based pumps. Moreover, it has enabled greater and more varied agricultural production and increased farmers' incomes (OECD and UN, 2011).

The rehabilitation of production sites needs to be built in to the overall cost assessments and should be included in contracts with lead firms. Extractive industries, in particular, often leave large areas of land unfit for alternative use even after active resource production has ceased. Restoration often involves substantial costs, and therefore needs to be accounted for from the very beginning. Contracts with lead firms should therefore include regulations requiring them to rehabilitate production sites. The successful restoration of barren cement quarries in Kenya has become an international best practice case. Cement production had turned the area into industrial wasteland. Bamburi Cement, the lead commodity firm, accordingly hired an environmentalist to rehabilitate the site. The area has now been turned into Kenya's largest wildlife sanctuary and is a habitat for a large number of species (Lafarge, 2013). In Tanzania, the rehabilitation process of the Golden Pride mine includes a water management programme, rehabilitation of tailings (ore residue) and the waste dump, and a related reforestation programme (Piper, 2012). As companies have failed to fulfil their obligations to restore or transform abandoned sites, it is sensible to plan for these cases. Australia has recently legislated a new bonding mechanism to create a separate fund from which the restoration of abandoned mines will be financed (ABC News, 2012).

Continued demand for new, environmentally sustainable techniques could turn Africa's position as a latecomer to industrialisation into an advantage. Increasing environmental awareness, efforts to reduce carbon emissions and the need for a "social licence to operate" could fuel the development of innovative equipment and technology. As "latecomers" in industrialisation, African countries could be at the forefront in developing low-carbon technologies with low energy requirements for extraction and processing and mechanisms for waste management which are more environmentally friendly than existing ones in "traditional" processing hubs (UNCTAD and UN, 2012; Korinek, 2013).

4.3. Layer 4: Promoting structural transformation

In brief... Building on layers 1 to 3, the top layer comprises specific actions that governments, private sector investors and development partners can undertake to promote structural transformation through the natural resource sectors. Boosting the productivity of agriculture has proved an essential first step in most stories of successful broad-based development, be they from the distant past of OECD countries or from more recent experiences in East and South Asia. Africa stands out as the continent that is still waiting for agricultural transformation. Extractive industries offer a range of opportunities to set in motion a lasting process of structural transformation. The key is to seize the opportunities for the creation of employment and new capabilities that this sector offers. All stakeholders have a role to play in this process. Many examples have shown that this is possible.

4.3.1. Boosting the productivity of agriculture

The structure and characteristics of the agricultural sector differ markedly from those of the extractive industries. Accordingly, tailored interventions are necessary to boost agricultural productivity. For agricultural productivity to grow and drive structural transformation, farmers dispersed over a particular geographical area must be given access

to new technologies, many of which originate in the public domain but are embodied in inputs sold to farmers by investor-owned private firms. Farmers' output is also typically purchased by investor-owned private firms. Successful agriculture thus has a multilevel "hourglass" industrial structure, in which public-sector agricultural research and a few private firms provide inputs to a multitude of dispersed farmers, whose output is in turn purchased, traded and processed by a small number of private traders before being sold to a multitude of geographically dispersed consumers. In agriculture, dispersed farm households each earn small profits from their land and labour, which they reinvest in household enterprises both on and off the farm. Some farmers' savings may be mobilised through the banking system or through taxes, but most of the resource transfer to drive structural transformation occurs within farm households. The enabling conditions for this kind of success differ markedly from those for the mining sector, which is why the agricultural sector is to be discussed individually in the following section.

Agriculture is still the backbone of many African economies. Most of Africa's labour force still works in agriculture: the proportion is as high as 80% in a number of countries. Agriculture also accounts for large shares of GDP in most countries. In recent years, between 15% and 20% of GDP for the sub-Saharan region as a whole has originated in agriculture. More importantly, there is a steady rise in the number of people in Africa who have no choice but to earn their living by farming, in spite of rapid growth in non-farm employment, because the continent's total population growth is so fast and its non-farm sector is so small. In short, Africa's economies remain heavily rural and very poor, with rising numbers of farmers, in spite of rapid transformation into non-farm activity. The fate of those left behind by the transformation, including their ability to migrate and share in the benefits of structural change, depends on productivity growth within the farming sector. Recent evidence suggests that this growth did begin in the 2000s, and can continue to accelerate for a variety of crops across Africa. The implication is that if profitable, locally adapted technologies are made available and market failures can be overcome, smallholders can become more productive over time.

Large, formal firms seem to be less affected by the constraints on raising agricultural productivity, and linking them to smallholders could catalyse productivity increases. Very little is still known about the nature of the "binding" constraints on raising agricultural productivity in Africa. Four market failures are identified by Udry (forthcoming) as particularly salient: *i)* credit constraints; *ii)* imperfect insurance; *iii)* learning externalities; and *iv)* insecure property rights. The idea is that the presence of any one of these market failures could lead to underinvestment by farmers. This is, indeed, part of the story. But an equally important part of the story has to do with marketing and logistics because so much of African agriculture is landlocked, with very high transaction costs. As Collier and Dercon (2009) point out, there are good reasons to believe that large formal firms are less vulnerable to these market failures and that by partnering smallholders, they can be an important catalyst for productivity growth in agriculture. For example, formal firms are less likely to face credit constraints, for a variety of reasons. They keep records that can be audited, per unit costs of monitoring are lower, they often have collateral, and they often have access to international capital markets. Incomplete insurance is likely to lead to underinvestment in innovation by farmers. It also means that negative shocks can completely wipe out whole groups of smallholders. Large formal firms are more likely to have access to insurance for the same reasons that they can have access to credit. In addition, they will be more willing to experiment because they have deeper pockets. Learning requires costly experimentation and its benefits are impossible to internalise completely. Larger organisations are better able to internalise these costs, allowing faster learning. In addition, learning may be organised more systematically in large organisations. As a result, a larger organisation may be able to diffuse knowledge more cheaply, effectively and quickly.

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Where production is reliable and of high quality, agricultural commodities offer potential for increased value-addition through processing. As UNECA's most recent Economic Report on Africa shows (UNECA, 2013), the adequate availability of high-quality raw material supply is a crucial determinant of success. This is illustrated by African experiences in the cocoa value chain. While the share of processed products of cocoa exports in Ghana has doubled since 2007, progress is much slower in Nigeria and stagnant in Cameroon, mostly due to problems with raw material availability and quality. The same is true for coffee processing in Ethiopia. Vertically integrated firms in Kenya's fresh vegetable industry demonstrate that holistic approaches, which take into account supply issues and processing, seem to be most promising.

Recent evidence from Ghana illustrates the way in which the commercialisation of agriculture can successfully link African farmers to global markets. Blue Skies was founded in 1998 and is an exporter of fresh-picked fruit to Europe. Its main innovation is that it exports all its fruit to European supermarkets within 48 hours of picking. Produce is sent from the farm to the factory in Accra, where it is cut, packaged, and then immediately shipped to Europe by air. This not only ensures the fruit's freshness and quality, but also creates more local employment as the produce is picked and packaged in Ghana. Additionally, Blue Skies has begun collecting the excess juice from the factory and selling it on the local market, to achieve an economy of scope. The company sources its produce using an outgrower scheme that has formal contracts with 146 partner farmers. One of the company's 11 agronomist team members visits each farmer on a weekly basis to monitor production and provide technical assistance, ensuring that the farmer meets strict European import standards. In addition to providing technical advice, Blue Skies also extends credit to some of its farmers at a subsidised rate of interest. This strong collaborative structure enables Blue Skies to link rural producers with global markets. Farmers also appear to have benefited significantly, as many have been able to build better houses and some villages have been connected to the national electricity grid. Blue Skies has so far expanded operations to Brazil, Egypt and South Africa, and keeps storage centres in Senegal and The Gambia as well. These different sources enable them to remain globally competitive even when a local shock occurs. However, the company still faces many challenges, especially with land issues, as their partner farmers often have dubious claims to the land they use to grow fruit for the company. Another challenge is the reliance on air transport, which is expensive and vulnerable to shocks such as the 2010 Icelandic volcano that disrupted European air travel. Tapping into local markets has also been difficult, as most of the operations are located in free trade zones, which provide benefits but require import duties to be paid if the company wants to sell fruit to the local market. However, Blue Skies still emerges as one of the strongest examples of African agriculture succeeding globally and benefiting locally.

Governments across Africa have already begun to co-operate with the private sector to facilitate a commercialisation of agriculture. Three types of interventions seem to be important: *i)* divestment from activities in which the public sector does not have comparative advantage; *ii)* co-ordination of investments in training, infrastructure, logistics and research and development; and *iii)* policies to encourage FDI.

The experience of Burkina Faso shows that divestment can be a sensible strategy where the public sector does not have a comparable advantage. Like other West African cotton producers, Burkina Faso's cotton sector has a long history of government intervention in input and output markets. Initially, successes and productivity gains were achieved based on government promotion of research and technological innovation and support to farmers' organisations. By the late 1980s, however, the inefficiencies of the system, dominated by the parastatal firm Sofitex, became more and more apparent. Audits of the cotton sector disclosed excessive costs arising from waste, overcharging, duplication of responsibilities,

suboptimal financial management and adverse incentives to control costs. The system had also given rise to accusations of corruption and opportunistic behaviour by farmers. Subsequently, substantial parts of Sofitex's profits were used to finance political parties while prices paid to producers declined. Ultimately, this led to a collapse of production in the early 1990s and started a gradual reform process which would last for the following 14 years. This, coupled with investment in local institutions, allowed a smooth transition towards market liberalisation (Kaminski, Headey and Bernard, 2009). Sofitex engaged the private sector to provide functions for which it had no comparative advantage, such as input provision, transport services and cotton ginning while the state maintained research facilities and established a professional association around the cotton sector consisting of farmers, bankers, government officials, the private sector and research institutes. Following the reforms, cotton production tripled between 1995 and 2007 resulting in increased export earnings of USD 165 million. The number of households farming cotton nearly doubled from 95 000 to 175 000 which in turn generated 235 000 new jobs that have directly and indirectly benefited around 1.8 million people. The reforms had big effects on household incomes, which grew between 19% and 43% (depending on estimates), and poverty, which declined from 62% to 47%.

The case of Ethiopia's cut-flower industry provides an example of the ability of government to help co-ordinate activities and attract FDI. Ethiopia has a number of advantages over competing African countries in the cut-flower industry including a reliable state-owned airline and closer proximity to European markets, but until as recently as 2000 there had been little initiative by the government or private sector to develop this potentially lucrative enterprise. In 2002 the newly formed Ethiopian Horticulture Producers and Exporters Association (EHPEA) approached the government for support. In response to these requests the Ethiopian government supported the new industry by way of air freight transport co-ordination through the state-owned Ethiopian Airlines, access to land and credit on favourable terms, canvassing for foreign investment in the cut flower industry, and the removal of restrictions on the bulk import of pesticides and fertilisers for the flower industry (Gebreeyesus and Sonobe, 2012). In addition, the government, with the support of the Dutch government and the EHPEA, had an active role in the development of a course to build capacity in the new cut-flower industry and has worked with the private sector to develop certification procedures to ensure the quality of exports. In response to these efforts, the number of cut-flower firms grew from ten in 2004 to 81 by the end of 2009, while earnings grew from USD 3.7 million to USD 100 million over the same period. The sector is now one of the top five foreign exchange earners in the country and a significant source of jobs for rural labour.

Madagascar has also had success in the development of the fresh vegetable industry through the creation of the Export Processing Zone in 1989 (Minten, Randrianarison and Swinnen, 2006). This zone gives investors who export 95% of their goods a corporate income tax holiday for 2 to 15 years and import duty and tax immunity. Textile and clothing manufacturers make up the bulk of the firms located in this area but in recent years there has been increased investment in high-value vegetable production destined primarily for European markets. The production of vegetables for export, primarily green beans, through micro-contracts has now grown to include almost 10 000 smallholder farmers in the highlands of Madagascar. Survey analysis has shown that these farmers on average have higher revenues and greater income stability than non-contract growers. In addition, with greater exposure to new agricultural products, and hence new farming techniques, provided through contract farming (a common arrangement for many high-value value chain developments), there have been spillovers from the development of the green bean value chain into household food production, with rice productivity 64% higher on contract farmers' plots than on those of their neighbours (Minten, Randrianarison and Swinnen, 2006). In contrast to previous studies of contract farming (Delgado, 1999; Reardon and Barrett, 2000; Reardon et al., 2003),

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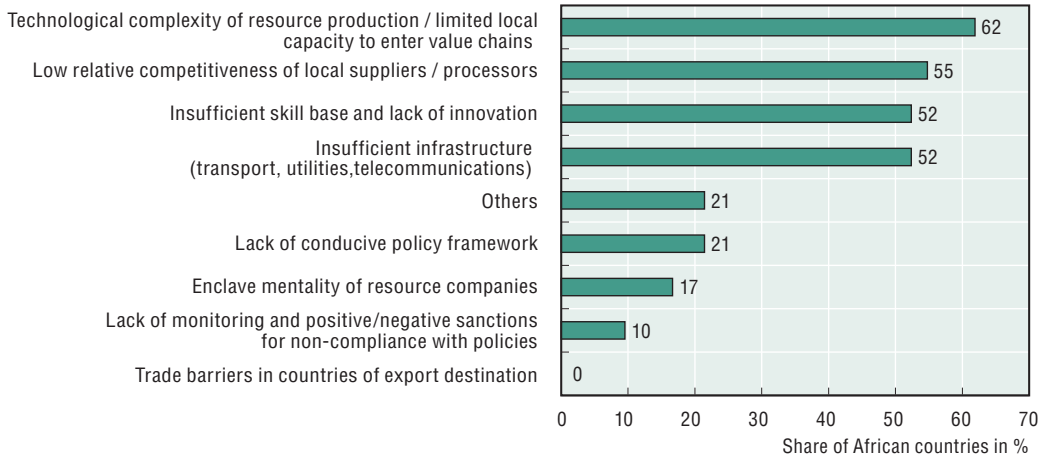
the Madagascar case also shows that smallholders are able to successfully participate in and integrate into global value chains (Minten, Randrianarison and Swinnen, 2006).

4.3.2. Promoting linkages

The resource economy can fuel the development of internationally competitive supplier industries. In the short run, the establishment of domestic supply networks can provide local jobs and stimulate technology spillovers. In the long run, these can lead to local capacity and expertise which can result in supplier industries that are competitive internationally, as demonstrated by experience from Australia and South Africa. On the topic of promoting linkages see also the latest *Economic Report on Africa* (UNECA, 2013).

Among obstacles to linkages the biggest hurdles are those of catching up on technologies, competitiveness and skills. Therefore diversification via backward linkages might be easier to realise for developing countries. Chiefly because of international competition and the complex technology and economies of scale by which resource processing is often characterised, the establishment of downstream linkages has proved challenging for developing economies (Ascher, 1999). This is confirmed by the AEO's country experts survey (Figure 6.20), in which technological complexity, low competitiveness and a lack of skills and innovation are named as the main obstacles to linkage development. As processing industries are often intensive in energy and capital while usually offering lower returns, the development of mining-related services and intermediate goods by focusing on backward linkages offers more opportunities, with greater multiplier effects and lower capital requirements (Korinek, 2013). Nevertheless, forward linkages can be an option if the conditions are right. The latest *Economic Report on Africa* (UNECA, 2013) explores this in more detail.

Figure 6.20. **Obstacles to linkages: Catching up on technologies, competitiveness and skills are the biggest hurdles in Africa**



Note: Several answers were possible.
Source: AEO country experts survey.
StatLink http://dx.doi.org/10.1787/888932807873

In terms of jobs, backward linkages into the supply chains of resource producers offer significant potential for employment creation. An examination of the mining sector in Zambia shows that for every ten direct jobs in mining, approximately seven are created in first-tier mining suppliers. The incomes generated in mining and supplier industries stimulate non-mining industries, which grow and hire new employees. That way, the total number of jobs created in connection with mining in Zambia is almost five times as high as the direct

employment in the sector (McMahon and Tracy, 2012). A study of the gold sector in Ghana, where 2.8 jobs were created in supply for each direct job in mining, confirms these results. Counting employment created in supply industries, their suppliers and industries which grew because of increased demand from people employed in mining and mining supply, the total employment (including informal employment) generated was 28 times as much as in the gold-mining operations themselves (Kapstein and Kim, 2011). A study by the World Bank investigating the employment effects of mines in Latin America, Canada and Spain found a range from 0.03 to 3.1 jobs created in mining supply firms for every direct job in the lead firms (McMahon and Remy, 2001).

Backward linkages are one channel for technological spillovers from lead commodity firms. The traditional assumption, based on Singer (1950), that there is little opportunity for technology transfer from commodity sectors is incorrect. This misunderstanding limited their promotion through targeted policies in the past. However, deposits of hard and energy commodities in particular have location-specific characteristics which require tailored know-how and technology. These can be developed domestically and supplied to international resource producers. Further, the need to comply with global standards, the demand for differentiated products and fast diffusion of information technology contribute to dynamic technological upgrading (Kaplinsky, 2011).

A focus on indigenisation has led to weak backward linkages in Angola, Tanzania and Zambia. Zambia is an example of significant breadth but little depth of upstream linkages. Large mines source between 60% and 86% of goods and services required for their operations domestically. Even though that looks promising, many of these local suppliers are in reality mere importing intermediaries. The level of local value-added in these operations is minimal. In Angola domestic value-addition due to backward linkages has mainly been limited to local labour. The government puts a strong emphasis on the employment of Angolan nationals and the upgrading of their skills to meet these targets. This is accompanied by preferential treatment of national suppliers. Resource producers are required to source exclusively from national firms all goods and services that do not require high capital value or specialised know-how, if their price does not exceed that of imports by more than 10%. While local procurement initially remained limited to basic goods and services, there was a significant increase in the share of Angolan labour in domestic value-added between 2003 and 2009. In Tanzania limited legislation on local content, inconsistent policies and weak monitoring have led to poor development of backward linkages. There are no provisions that limit imports of supplies by lead firms or require them to employ or train nationals. Quite to the contrary, mines have access to duty-free imports, whereas suppliers do not, which highlights the importance of policy harmonisation. Even though requirements for mining companies to source supplies locally have been introduced recently, no clear targets were established, there are no provisions for monitoring and incentives and sanctions do not exist. This has resulted in weak upstream activity, which is mainly limited to three companies providing geochemical services, which had set up their operations during the time that the state had exclusive control over the gold-mining industry (Morris, Kaplinsky and Kaplan, 2013).

A specific focus on local value-addition has rendered Nigeria's efforts more successful. Nigeria has been successful in achieving considerable local value-added. The importance of differentiating between indigenisation and addition of local value has long been recognised in its policies. The Nigerian Content Act from 2010, for example, explicitly requires any operators in the Nigerian oil and gas industry to provide a Nigerian content plan. The quality of this proposal is factored into the bids for licences. They are not allocated based only on price criteria but might be awarded to companies with superior local content proposals if their price does not exceed the lowest bid by more than 10% (Morris, Kaplinsky and Kaplan, 2013; UNECA, 2013).

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Opportunities for developing backward linkages arise from a market-driven process of increased outsourcing and can be supported by active co-operation between government and the private sector. Increased global competition forces firms to concentrate on core activities. At the same time, increasingly developed local competences adapt to the needs of the resource industry. In that way both the breadth and the depth of local supplier networks can increase. This has happened in Ghana, South Africa and Zambia to differing extents, reflecting the time elapsed since the introduction of resource production in the country. This market-driven process can be complemented by government policy to improve the business environment (Kaplinsky, 2011).

To be an engine of structural transformation, backward linkages should exhibit three major components. First, local businesses in the supply chain of lead firms have to be commercially viable and able to operate independently. Second, they have to fulfil their purpose of employment creation, technological upgrading and economic diversification. And third, backward linkages have to involve substantial local value-added instead of simply indigenising the import functions of lead firms. The development of supply industries exhibiting those characteristics can be supported by close co-operation between government and lead firms to provide the necessary framework conditions. These entail the competitiveness of local firms, availability of skills and a system of innovation, and a favourable business environment in general. Further, the commitment of foreign investors to integrate local supplier networks and build up local capacities is crucial.

Government plays a major role in shaping framework conditions for upstream linkages by eliminating common market failures. This is illustrated by the successful participation of local government in the development of a commercial potato sector in China, where local government intervention at almost every stage of the process facilitated this development. Local government played a role in infrastructure development, researching new varieties of potato, establishing a potato trade association, lobbying the central government for increasing freight car quotas, and attracting processing firms (Zhang and Hu, 2011). Thanks to the constant intervention of local government, many of the constraints on smallholder development which arose continuously throughout the process could be circumvented as they developed.

Local content provisions can be an effective policy tool to foster backward linkages. Especially in the case of foreign firms investing in commodity sectors, governments can use their bargaining power to force them to further the development of local supplier networks. The strategies of lead companies, which are major determinants of the successful development of backward linkages, can thereby be influenced in favour of national interests.

Local suppliers can be promoted through preferential treatment regulations. In this way, commodity firms are forced to source their supplies exclusively from domestic firms where their prices do not exceed those on the international market by more than a pre-specified margin. For that purpose it is important, clearly, to define domestic firms as businesses in which nationals own at least 51% of share capital. Furthermore, lead firms can be obliged to provide plans for increasing local value-added in their input chains. That way the risk of simply promoting the outsourcing of import functions is reduced. In order to ensure realistic conditions, these regulations have to be tailored to the state of domestic supply networks. Therefore, it can be useful to state clearly in which cases inputs may be sourced from international markets if they are not available locally (Morris, Kaplinsky and Kaplan, 2013). In that event, provision can be made for firms to engage in supplier development programmes to ensure further progress in building up an upstream industry.

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Promoting the introduction of common standards reduces transaction costs and benefits the upstream industry. Harmonisation is crucial to prevent adverse effects on trade. If standards in respect of safety and security or information technology can be harmonised among different lead commodity firms in a country, the cost of access for local suppliers can be reduced and profitability raised. As individual efforts to promote common standards are costly and slow for suppliers themselves, government has a strong role to play in facilitating co-operation among suppliers and lead firms (Korinek, 2013). However, given the small market size of most African countries, diverging national standards can inflict significant costs when applied to tradeable goods. Harmonisation across countries is therefore crucial.

Box 6.16. **Namibia's experience**

The infrastructure, institutions and expertise Namibia has established by upgrading the standards for its meat production will be useful for further diversification. Namibia managed to upgrade the quality of its meat to the highest international standards and was thereby able to increase its unit value and market share in the EU (Stevens and Kennan, 2005). This was achieved mainly through a process led and managed by the government-owned, privately financed Meat Board of Namibia. The board introduced a scheme of full traceability and strict veterinary and animal welfare standards conforming to EU requirements. As a result, Namibia now produces meat that is "... hormone-free, hygienic and reared according to higher welfare standards", (Bowles et al., 2005) and is accordingly of a quality suitable for supply to foreign commodity firms operating in Namibia as well as catering businesses in the United Kingdom. The expertise in product upgrading to meet international standards could make it easier to upgrade other domestic agricultural goods with potential for the international bio trade sector (UNEP, 2012).

Infrastructure development integrating the needs of lead firms and suppliers could particularly promote cross-linkages between mining and agriculture. The deployment of multi-use infrastructure could provide new opportunities for agricultural producers to supply firms in the mining sector. At the same time, the infrastructure might facilitate their entry into export markets. In Mozambique, the Beira Agricultural Growth Corridor (BAGC) has been established in a partnership between the government, the private sector, local farmers and the international community. The initiative is meant to increase agricultural productivity and enhance the incomes of local farmers through marketing subsistence farming and channelling private investment to the region, which is home to rich coal reserves. It will thereby address the issues of low labour productivity and a lack of skills, which are the reasons why most supplies are currently sourced from Maputo which in turn are primarily imported (Doepel and Bolton, 2013).

The formation of relationships between lead firms and suppliers can be facilitated by provision of information such as enterprise maps. As many international commodity firms have little knowledge about existing suppliers in developing countries, the provision of information about them via enterprise maps or databases helps facilitate exchange and the initiation of contact. The same is true for potential suppliers, who can benefit from information on the requirements of lead commodity producers and current sourcing structures. Enterprise maps containing information on firms active in resource sectors can make the development of linkages easier. Such enterprise maps have been developed for Ethiopia, Ghana and Tanzania by the International Growth Centre. The maps contain sector profiles, detailed supply chains, and in-depth information on major companies within each sector as well as their sources of inputs. This information can be very useful both for

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governments seeking to identify potential areas for the promotion of backward linkages as well as for domestic firms aiming to enter supply chains (Sutton and Kellow, 2010; Sutton and Kpentey, 2012; and Sutton and Olomi, 2012). Further supplier databases have been set up by Small Business Enterprises (SBE) in South Africa and Exxon Mobil in Chad (Jenkins et al., 2007). As the enterprise maps have public-good characteristics, it makes sense to provide them centrally.

Enhancing the competitiveness of small and medium-sized enterprises (SMEs) in the supply chain by improving their access to finance and upgrading their capabilities can establish the necessary preconditions for the development of upstream linkages. In internationally integrated markets, lead commodity firms cannot downgrade their needs and requirements, as they have to remain competitive themselves. So the capacity of local suppliers needs to be upgraded for them to become viable partners for outsourcing or viable alternatives to internationally established suppliers (Baxter, Isaiah and Shen Xiaofang, 1996). For this to happen the public and private sectors should co-operate to minimise costs and maximise the outcomes of such programmes by tailoring them to the actual needs of the lead firms.

To enable local SMEs to become part of supply chains, their access to finance needs to be increased. Especially in developing countries, suppliers are mainly firms in the upper size range of SMEs (Baxter, Isaiah and Shen Xiaofang, 1996). Small suppliers usually have limited access to working capital, and therefore often fail to provide inputs at competitive prices. Especially in resource-rich countries, exchange rate fluctuations weaken their competitive position. Contracts with international firms are often denominated in US dollars. Appreciation of the domestic currency coupled with strong demand often leads to rising input prices. Small suppliers in particular are often forced to pass these increases on to their clients, which undermines their competitiveness. A widespread practice of input parity pricing instead of local competitive prices is another disadvantage for domestic manufacturers relative to their international competitors (Lydall, 2009). Increased access to finance can strengthen local suppliers and help them to cushion these adverse effects. In Nigeria this was done via the Nigerian Content Support Fund (NCSF). This fund, worth USD 350 million, was set up exclusively to provide domestic supplier companies with capital, explicitly focusing on procurement and fabrication, engineering and construction services. In combination with aligned local content provision, this expansion of funding opportunities enabled Nigeria to raise its local content from 5% in 2004 to 35% in 2010 (Otti, 2011).

Local capabilities can be enhanced by requirements for local employment, thereby giving lead firms incentives to participate in training programmes to upgrade the capabilities of suppliers. Local participation in the value chain can be achieved through requirements to train and employ locals both in the lead firms and their supplier networks. This can be implemented by regulating preferential employment of domestic workers by law wherever a lack of local workers cannot be proved. That provides employment to locals and exposes them to technologies in use by lead firms. A dynamic process of skills transfer and linkage development can thereby be initiated as local employees become familiar with the operations and supply needs of lead firms. Foreign firms active in developing countries often say that local suppliers cannot meet their requirements because they lack managerial and technological capacity (Baxter, Isaiah and Shen Xiaofang, 1996). This process brings their interests into line with regulations requiring the provision of plans to recruit and train locals. Provision of such plans can be required at predetermined intervals in order to track progress and monitor compliance. Furthermore, companies can be required to contribute financially to national programmes of technical training focused on skills needed in upstream sectors (Morris, Kaplinksy and Kaplan, 2013; Saggi, 2002). This investment in building up domestic supplier networks can pay off in the long term for lead firms through reduced input costs and

improved reputation (IFC, 2013). According to lessons learned in a successful SME training programme in Mozambique, the process should be planned and implemented in several phases. After a general preparation stage, training plans should be developed according to the skill gaps identified. In implementation of these plans, business and technical training should be provided to close those gaps. Individual improvement plans should reinforce those efforts. After an intermediate assessment of progress, further targeted mentoring should be provided. The training phase concludes with a final appraisal to provide a basis for continuous improvement of the training programme (Jaspers and Mehta, 2008).

Box 6.17. **Examples for SME training**

In Mozambique, efforts by a lead commodity firm to upgrade the capabilities of local suppliers have proved very successful. The government realised the risk of using a capital-intensive, single-site project to foster development, and so put heavy emphasis on the development of linkages from the outset (UNECA and AU, 2011). The Mozlink programme, run by the lead commodity firm Mozal, an aluminium smelter, together with the International Finance Corporation (IFC) and the Investment Promotion Centre of Mozambique, was set up to build the capacity of local suppliers so they could successfully compete for procurement contracts with Mozal and other international companies. Between 2002 and 2007 45 SMEs were trained. Over the course of the project, Mozal's operational spending on Mozambican companies increased from USD 5 million to USD 17 million per month. The number of domestic companies which supplied inputs to Mozal increased from 40 to 250, and the quality of management, maintenance and safety in SMEs was increased by 20% on average. Because of the great success of the programme, a successor will be implemented by Mozal, Sasol, Cervejas de Mocambique and Coca Cola in co-operation with the IFC to create opportunities for local companies to enter the value chains of big multinational companies operating in the country (Jaspers and Mehta, 2008).

In Ghana, the capabilities of mining supply firms were upgraded to increase their access to capital markets. Training was provided by the Renaissance Africa Group (RA), a private investment bank, to diversify the bank's portfolio. Domestic Ghanaian firms are usually small-sized and face constraints in technical and management capabilities, which in turn limit their access to finance. To gain access to the mining supply chain, however, the capacity to deliver on new contracts, as well as funding possibilities, is necessary. RA therefore supports upgrading processes of local supply firms, and trains their staff for negotiations with financial institutions. It also assists in the due diligence process. Throughout the process, firms are made familiar with the requirements of international markets in respect of their creditworthiness and the soundness of their business model. At the same time, they receive support in addressing any weaknesses identified (Gidi, 2011).

Efforts by lead firms to increase local procurement can benefit all parties. The development of local supplier networks benefits not only the domestic economy through employment creation and technology spillovers, it is also advantageous for the lead commodity firms themselves. By actively co-operating with governments, they can make it easier to co-ordinate policies for the effective promotion of reliable, competitive supply networks in their vicinity. In the long run, these supplier networks will lead to cost reductions for lead firms. Furthermore, commodity firms become more socially responsible companies and thereby improve their reputation internationally and locally (IFC, 2013).

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To set up successful local procurement programmes, the commitment of lead firms and a well thought out approach are necessary. Lead firms can use their purchasing power to support local suppliers by adapting their procurement strategies. Usually the procurement processes of lead firms aim to source goods and services at the lowest possible cost and with the highest possible reliability. This strategy puts developing suppliers at a disadvantage, as they are not as well-known and are less predictable, and innovative solutions do not meet standardised specifications. To facilitate the development of world-class local suppliers, these standard procurement practices have to be adapted (Korinek, 2013). To be effective, local supplier development must be reflected in the lead firm's vision and driven and supported from the top of the organisation (Morris, Kaplinsky and Kaplan, 2013). To support the process, the establishment of a local development unit for suppliers and contractors as well as a steering committee is useful. It is important to identify an entity to take over the programme from the very beginning, and to involve local organisations and local government closely to ensure sustainability beyond the programme's lifetime. Ideally, an assessment of the potential for linkage development should be undertaken as early as possible in the lead firm's operations. This will help bring major contractors into line with the firm's local-content strategy and help manage community expectations. To make sure local conditions are adequately taken into account, a local expert should be involved in the design of the programme. Early feedback will help to tailor the programme to location-specific characteristics. For successful implementation and involvement, management support at all levels is necessary. For communications and expectation management, it is important to be aware of local culture and to allow time for adaptation (Newmont and IFC, 2009).

Major elements of effective programmes include rigorous conditions for supplier identification, training programmes, access to finance, favourable payment conditions and transparent communication of procurement requirements. The provision of tailored training to potential suppliers to help them meet the requirements of lead firms has proved successful in many cases. In addition, local suppliers have to be granted access to funding opportunities for them to grow and to improve their performance. For the same reason, payment mechanisms have to be designed to favour local companies and increase their cash flow. For the identification of potential suppliers, a targeted approach to optimise resources, in combination with rigorous selection criteria for entry into the database to guarantee quality, is to be recommended. Upcoming procurement opportunities should be communicated transparently and as early as possible to allow realistic budgeting and preparation for bids. And finally, there needs to be an awareness that local SMEs are usually only willing to pay fees for training and mentoring after their effects have been demonstrated (Newmont and IFC, 2009).

Box 6.18. **Examples of lead firm support to supplier development**

Zimele is an example of a private sector initiative to promote supplier development in South Africa's mining industry. Zimele is a corporation which evolved in 2000 from the small enterprise initiative set up by Anglo-American and DeBeers in 1989. It looks for opportunities for local SMEs managed or owned by previously disadvantaged people to supply goods or services to the Anglo group. Furthermore, it supports SMEs more broadly by providing finance, skills transfer and technical assistance. These objectives are pursued by identifying needs in Anglo's purchasing departments and sourcing required inputs from local SMEs. SMEs receive tenders they can handle, are paid promptly and supported with training. Zimele also provides loans and takes minority stakes in SMEs, always with clear exit strategies. As a result, the amount Anglo spends on inputs sourced from SMEs has been increasing rapidly. By 2006 Zimele had invested

in 100 companies and disinvested from 70 of them. Of those, 90% survived. Success factors of the project include, as evaluation criteria, clear exit strategies, signalling the need to become profitable, the focus on the creation of viable businesses instead of jobs, and commercial sustainability (Van Rendsburg, 2006).

In Madagascar, the Ambatovy nickel and cobalt mine established a local supplier network via its Ambatovy Local Business Initiative (ALBI). Following a "buy locally, hire locally" policy, the ALBI programme seeks to maximise local procurement. Accordingly local businesses able to respond to the company's needs are registered in a database used by the lead company and its suppliers, which currently has 2 000 entries. Furthermore, ALBI provides mentoring and training to local SMEs focusing on areas such as accounting, project management, leadership, quality control, contract administration, procurement, environment, health and safety, industrial relations, and change and growth management. By the end of 2010, more than 500 local SMEs across 54 sectors had received purchasing orders from Ambatovy worth USD 1.2 billion. In addition, training and assistance are given to the local farmers from whom the mine purchases inputs for its catering facilities. In addition, farmers have benefited from roads established along pipelines (Ambatovy, 2010).[52]

Experience from the Nigerian oil industry shows that transparent communication and effective management of expectations are crucial for mutual buy-in. In a survey from 2010, 75% of the oil firms claimed to have supply development programmes for local firms. These include different forms of vertical co-operation such as information exchange; assistance in improving quality, delivery times and reliability; joint product development; technological upgrading; and training. Only 27.5% of the suppliers themselves, however, perceived the lead firms to be making any efforts to promote the emergence and development of local firms. Moreover, that was mainly attributed to lead firms being compelled to do so by local content requirements. The suppliers assumed that multinational firms could not support local providers of input because of their objectives of maximising profits and some even assumed that standards were raised unnecessarily to prevent locals from making successful bids (Morris, Kaplinsky and Kaplan, 2013).

In Zambia, lead firms in the copper sector engage with suppliers in various ways. Some developed forward purchasing agreements (FPAs) with capable suppliers. In this way, buyers commit themselves to purchase specified amounts of goods and services from one supplier over a long term. Suppliers in turn have to meet short lead times. In combination with advance payment systems this fostered upgrading processes as suppliers were enabled to base their investments on longer-ranging revenue flow. Support from lead firms also included logistics arrangements through which supplies were picked up from predefined collection points, which reduced suppliers' transport costs and lead times. Furthermore, lead firms exchanged information, and provided quality feedback (Morris, Kaplinsky and Kaplan, 2013).

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Conclusion

This chapter started with the proposition that African economies today are facing nothing less than the formidable challenge of creating more and better jobs, not just by sustaining the pace of growth, but also by making it more inclusive. Compared to Africa's historical trend, the pace of GDP growth has indeed been impressive and is likely to continue. Growth has averaged 5.1% since 2000, doubling the average growth rate of the 1990s and this report predicts a continued favourable outlook for the coming years (Chapter 1). However, the employment-to-population ratio, which measures the share of the working-age population in active employment, has remained virtually unchanged over the last 20 years. It reached 60% in 2011, compared with 59% in 1991.

To be job-intensive growth must be accompanied by structural transformation: that is, the reallocation of economic resources from activities with low productivity to more productive ones. This contains two elements: the rise of new, more productive activities and the movement of resources and labour from traditional activities to these newer ones, raising overall productivity and with it wages and the quality of jobs. Africa's record of structural transformation is mixed. Productivity growth has been slower than in other regions of the world, but, after a decade of readjustment, labour has started moving in the right direction since 2000 – from less to more productive activities. Africa thus compares well with Latin America, which continues to experience net movements of labour into less productive activities, but the gap with Asia is widening.

To accelerate this nascent structural transformation, African countries must make the most of existing sectors and capabilities. With a few exceptions (notably the small island states) natural resources of agricultural and extractive origin account for an important share of economic activity and exports in most African countries. Several countries around the globe have shown that natural resource sectors can drive structural transformation when governments put in place the right conditions and policies and focus on managing their resource wealth for the common good. From past mistakes it is also known that pushing for structural transformation without regard for existing capabilities and a strong primary sector is unsustainable. Strong demand from emerging partners and historically favourable terms of trade of natural resources offer a great opportunity for African countries to seize.

However, only a few African countries can claim to have developed a primary sector that lives up to its potential. Agriculture, in particular, has long been penalised for its perceived backwardness instead of receiving the support that could have turned it into a driver of structural transformation as in China or India. But extractive resources have not faced an optimal environment, either. Despite the last decade's global resource boom, Africa's resource wealth grew more slowly than elsewhere, indicating that there is much room for improvement.

The key message of this chapter is that structural transformation towards more productive activities and better jobs is closely linked with a strong natural resource sector. While dependence on any set of products, but especially dependence on high-rent extractive commodities, can stand in the way of diversification and inclusive growth, countries with a diversified commodity sector also tend to have more diversified activities in other sectors. Many of the crucial ingredients for structural transformation such as infrastructure, education and skills, good institutions and regulations, government capacity, a balanced tax system, financial access, and sufficiently large effective markets are also necessary conditions for strong agriculture and extractive industries, with off-shore oil being an exception.

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The four layers of policies for natural resource-based structural transformation laid out in this report are challenging, but can help African countries choose the right path. Evidently, each country differs in its endowments and level of development so that a broad-brush analysis such as the one presented here necessarily requires adaptation. The more diversified African economies need to worry less about overcoming dependence and more about providing the research, skills and regulatory environment that allow natural resources to further drive structural transformation. Countries such as Uganda, Tanzania, Mozambique and Kenya, where significant production of hydrocarbons will start soon, have the opportunity to learn the lessons of failure and success of their peers and build a policy framework that takes into account all four layers of natural-resource based structural transformation. This includes putting in place the right conditions for diversification and strong natural-resource sectors; optimising revenue from resources through taxation and negotiation managing its investment, taking into account absorptive capacity; actively pushing structural transformation through support to agriculture; and working with foreign investors and domestic firms to create strong linkages and learning opportunities around commodities.

Africa's natural resources also require commitment from its partners. Rising global demand for natural resources has boosted Africa's exports and brought large amounts of foreign investment to the continent (Chapter 2). Yet not all foreign involvement has been unequivocally positive, especially where done without regard to transparency and sustainability. Investors and partner countries can do much to improve this state of affairs. Transparency initiatives and multi-stakeholder dialogues are a positive force in this respect. Further, international firms can do much to partner local firms and schools to ensure that local jobs and capabilities are created. Partner countries can do more to allow for African exports of processed goods. As global trade negotiations are stuck and regional agreements flourish, care must be taken to ensure that Africa receives the access to traditional and emerging markets it needs for structural transformation to become a reality.

Finally, strong co-operation among African nations themselves is fundamental to natural resource-based structural transformation towards economic structures that can provide income and employment for all. The African market promises immense opportunities but suffers from limited access. Similarly, to get the best deal from investors it is important to agree on minimum standards and preventing races to the bottom.

Where partners and African countries work together towards the common goal of making Africa's structural transformation happen, the chances are better that they will succeed.

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Notes

1. See Herrendorf, Rogerson and Valentinyi (2011) for an overview of and many references on this subject.

2. Herrendorf, Rogerson and Valentinyi (2011) document this pattern for a panel of mostly developed countries over the past two centuries, and Duarte and Restuccia (2010) document a similar process of structural change among 29 countries over the period 1956-2004.

3. The converse is not true, however: not all countries with structural change also achieve poverty reduction. Structural change into protected or subsidised sectors comes at the expense of other activities, and is therefore not associated with sustained growth out of poverty for the population as a whole. Structural change is effective at reducing poverty only when people move from lower into higher productivity activities.

4. For comparability with the results in M&R (2011) the sample of African countries here was restricted to the nine countries in their original sample (namely Ethiopia, Ghana, Kenya, Malawi, Mauritius, Nigeria, Senegal, South Africa and Zambia).

5. Algeria, Angola, Cameroon, Egypt, Ethiopia, Ghana, Kenya, Malawi, Mali, Mauritius, Morocco, Mozambique, Nigeria, Rwanda, Senegal, South Africa, Tanzania, Uganda, Zambia.

6. After adjusting for the Balassa-Samuelson effect; see Rodrik (2008).

7. The productivity gaps described refer to differences in average labour productivity. When markets work well and structural constraints do not bind, it is productivities at the margin that should be equalised. Under a Cobb–Douglas production function specification, the marginal productivity of labour is the average productivity multiplied by the labour share. So, if labour shares differ greatly across economic activities, then comparing average labour productivities can be misleading. The fact that average productivity in mining is so high, for example, simply indicates that the labour share of value added in this capital-intensive sector is quite small. In the case of other sectors, however, there does not appear to be a clearly significant bias. Once the share of land is taken into account, for example, it is not obvious that the labour share in agriculture is significantly lower than in manufacturing (Mundlak, Butzer and Larson, 2008). So the sixfold difference in average labour productivity between manufacturing and agriculture does point to large gaps in marginal productivity.

8. Hirschmann (1981) argued along similar lines, noting that the degree of technological "strangeness" relative to ongoing activities determines how easily linkages can be developed.

9. See for example the IMF's most recent *Economic Outlook for Africa* (IMF, 2012a).

10. Note that Rodrik uses industry data beginning in the 1990s for his analysis of unconditional convergence. Import substitution policies had largely been abandoned by then.

11. The raw material input, for example in the form of ore, is evidently essential, but only one of many inputs into the processed product. Energy is another one. In the United States aluminium smelting alone consumes 5% of total electricity production, which is equivalent to a third of Africa's electricity production (Emsley, 2011). In most of Africa, however, electricity is a scarce good. At about 28 MW the energy capacity required to refine 10 000 tonnes of copper, roughly 2% of Zambia's annual production, for example, would be equivalent to two times Benin's current electricity- generating capacity.

12. For example distance to markets: the higher the manufacturing value-added of a product, the higher the transport costs and the more important proximity to the customer. Chile decided against a copper-processing industry because the additional transport costs for copper products such as wire and sheets from Chile to consumer markets in Europe and the US would have been higher than the price difference between these products and simple copper concentrate

13. Barely one quarter of industrial exports are true manufactures, and two major categories, automotive products from South Africa and clothing exports from low-income countries, are both supported by special incentive programmes (Gelb, 2009). In 2011, however, Africa's most important manufactured export products were floating platforms for off-shore oil extraction, a product type directly related to natural-resource extraction, not processing.

14. See Ramachandran, Gelb and Shah 2009 for an overview. The 2012 edition of this report (AfDB et al., 2012) highlighted the links between Africa's business environment and the youth employment challenge. Most analyses are based on the *World Bank Enterprise Surveys* (World Bank, 2013a).

15. Note that the party monopoly finding might be reflecting other underlying country-specific factors as it is measured as a dummy and a significant number of African countries exhibit party monopolies.

16. compared to 60% in Brazil, 40% in India and 14% in China (all 2011).

17. See Hidalgo (2011) for an analysis of the East Africa product space and opportunities for diversification based on the capabilities present in the region.

18. Coal is ambiguous as it could arguably also be included in the hard commodity category, based on its physical properties and method of extraction. Nevertheless, it is classified as an energy resource in the international trade statistics that are the basis for this classification.

19. The inputs for renewable energy (sun, wind, water and biomass) differ considerably in terms of their inherent characteristics and are therefore only treated tangentially.

20. Counting a range of sectors that can be related to natural resource use (*i.e.* including first processing steps such as textiles, basic chemicals, food processing and basic metals, but also energy generation), total greenfield FDI into

21. The link between primary completion and these resources is also positive, but not significant. The reasons could be simply a lack of observations, or the fact that other human capital measures than primary completion are more relevant to per capita resource production.

22. The overall size of the economy plays an important role. The smaller the economy relative to the resources it produces the higher the share of resources in the economy will remain even as the rest of the economy develops. The core of the argument made here is the decreasing relative position of the resource economy.

23. Between 1995 and 2005 subsoil assets in high-income OECD countries, which as a group exhibit very low dependence on natural resources, more than doubled in value (World Bank, 2012a)

24. Unfortunately, in the case of timber, most exploitation in Africa goes far beyond the natural rate of regeneration and threatens severely to reduce, if not entirely destroy, many tropical forests. See World Bank (2012a) for an assessment of net savings and resource exploitation beyond sustainable rates.

25. The worse the existing level of infrastructure, public services and the regulatory environment, the higher the costs incurred by resource extractors to make up for these shortcomings in the form of investment in new roads or railway lines or high expenses in transaction costs and security personnel.

26. This is especially true for offshore oil production, which is largely independent of infrastructure or other conditions in the country. The only regulation that matters is the tax regime.

27. Ascher (1999) provides a vivid account of the degeneration of Ghana's cocoa sector as a result of the capturing of the marketing board by urban-based political interests.

28. "Proven" reserves are those that can be extracted given geology, technology and market conditions (Gelb, Kaiser and Vinuela, 2012).

29. In terms of new discoveries Africa managed to outpace world growth. African proven oil reserves increased by 59% between 2000 and 2010 compared to a world average of 33%.

30. Although the investment needs for oil exploration and exploitation are enormous, production costs usually remain significantly below market prices.

31. Stijns (2005) confirms the negative impact of resource dependence but finds no relationship between resource abundance and growth. Van der Ploeg and Poelhekke (2010) confirm this result, but find abundance to be good for growth once they control for volatility.

32. An apartment rents for USD 10 000 to USD 15 000 a month, while a labourer makes USD 50 a month (*The Economist*, 2011)).

33. "Aghion et al. (2009) show that with macroeconomic volatility driven by nominal exchange rate movements, firms are more likely to hit liquidity constraints and thus cannot afford to innovate which depresses growth, especially in economies with poorly developed financial institutions" (quoted from Van der Ploeg and Poelhekke, 2009).

34. a)Inflation discourages people from holding liquid financial assets which are the basis for banking (Gylfason, 2004). b) In volatile countries, lending to natural resources is more attractive as other sectors carry higher risks, limiting the incentives for financial sector development (Besley and Persson, 2011; Maino, Imam and Ojima, 2013)

35. The relationship between agricultural productivity and structural transformation is the subject of a large literature. The key points are the following: *i)* in models assuming non-homothetic preferences and a closed economy (*e.g.* Matsuyama, 1992; Gollin, Parente and Rogerson, 2002 and 2007), a rise in agricultural productivity releases labour for the modern sector (effect A), as people get richer, they spend more on manufactured goods and services, and higher wages in these sectors attract rural migrants; *ii)* in models assuming homothetic preferences but a constant elasticity of substitution below one (*e.g.* Ngai and Pissarides, 2007), any relative increase in the productivity of a sector leads to a relative decrease in its employment share because its relative price decreases (effect B) and thus, in a closed economy, the agricultural sector shrinks as productivity increases; iii) in an open economy, there is an additional effect which works through trade (effect C) - a rise in the productivity of a sector can make this sector grow in size if the country now has a comparative advantage in this sector.

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36. Such as the Kimberly process for diamonds and the OECD Council Recommendation on Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas (OECD, 2011).

37. fDiMarkets estimates the number of jobs created for each project by extrapolating known job figures from existing greenfield FDI projects that have similar characteristics. The estimate of 600,000 jobs is an upper bound estimate. Job creation is not known for every project. The "known" figure of created jobs by greenfield FDI in natural resource sectors is about 100 000 jobs.

38. Although FDI projects in soft resources and in manufacturing industries are significantly more employment-intensive, investment volumes in these sectors were smaller and job creation lower.

39. "For example, analysts estimate that the highest cost Canadian heavy-oil producers need Brent crude to be trading at least at USD 85 a barrel to cover their costs. In September 2012 prices fell close to the USD 85 level, triggering talk in the market of imminent output cuts. The role of high-cost producers is also evident in the iron ore market. About a third of Chinese miners need prices to stay above USD 100 a tonne to remain profitable, but prices this year fell as low as $90.75 a tonne, forcing some miners to shut down production." (*Financial Times*, 2012)

40. Some uncertainty remains. At the time of writing (March 2013) Vale's massive investment project into iron ore in Guinea was suspended.

41. Oil is much less dependent on general infrastructure. Onshore it relies on pipelines, offshore on boats.

42. Collier (2011) confirms that more than USD 6 billion has been spent on electricity infrastructure while generating capacity remained at more or less the same level.

43. As part of the implementation of the Africa Mining Vision an African Minerals Skills Initiative has been created to address some of these issues.

44. It is useful to distinguish between skills and knowledge. Both are important, but skills are harder to obtain. Knowledge can be acquired through learning materials such as books, the Internet etc. Skills, on the other hand, are abilities that can best be obtained through practice. Schools and universities are best adapted to instilling knowledge, but learning skills requires a high practical content such as in vocational training, internships or on-the-job learning.

45. Private conversation with Marc-Antoine Audet, CEO, Sama Resources Inc., Côte d'Ivoire in December 2012.

46. The superior performance of competitively elected governments holds only for the African sample of countries.

47. See the 2010 edition of this report (AfDB et al., 2010) for an explanation of the methodology

48. Directly estimating the impact of exports of extractive resources, Harding and Venables (2013) find that one dollar of such exports on average decreases non-resource exports by 65 cents, increases imports by 20 cents and leaves 15 cents for savings. For a sub-Saharan Africa sub-sample they find the effects to be 55 cents fewer exports, 35 more imports and only 10 cents into savings.References.

49. This has been interestingly referred to as "fox type" approach by Galvao Ferreira (2012), an uncoordinated and flexible approach to addressing complex and context specific challenges in natural resources.

50. Such required broadening of focus is to some degree reflected in an initiative such as Publish What You Pay (PWYP), which now also encompasses issues such as Publish What You Earn and How You Spend as well as Publish What You Pay and What You Extract (see www.publishwhatyoupay.org/about/publish-what-you-earn-and-how-you-spend).

51. Lead firms can be defined as small, medium, or large firms that have forward or backward commercial linkages with a significant number of micro, small and medium-sized enterprises.

52. In September 2012, however, local farmers accused Ambatovy of destroying agricultural produce through its widespread use of toxic pesticides to protect its workers from mosquitoes (AFP, 2012).

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Part three

Country notes

The content of the country notes reflects the political developments in the countries at the time this report was sent to print (24/04/2013).

An updated analysis, dated 27/05/2013, is available on www.africaneconomicoutlook.org/en/countries.

ALGERIA

- **Algeria's economy continues to register a good performance with real GDP growth estimated at 2.5% in 2012 (from 2.4% in 2011), but that growth could be boosted by enhancing the country's potential, particularly in natural resources like hydrocarbons, to generate more wealth and employment, especially for young people.**
- **Strong social demands were contained thanks to subsidies to consumer prices, wage increases and social transfers, all of which hiked up government expenditure, but broad balances were maintained with a budget deficit equal to 3.3% of GDP, foreign debt amounting to 2.5% of GDP, a current-account surplus equal to 8.2% of GDP and foreign-exchange reserves of USD 190.7 billion at end-December 2012, or three years of imports.**
- **Thanks to the exploitation of its natural resources, hydrocarbons in particular, Algeria has registered tangible progress over the last 20 years, notably in respect to the modernisation of its economic and social infrastructure, poverty reduction, lower unemployment and improved human development.**

In 2012, the Algerian economy grew by 2.5%, up slightly from 2.4% in 2011. Excluding hydrocarbons, growth has been estimated at 5.8% (up from 5.7% in 2011). Inflation is increasing and is estimated at 8.9% (up from 4.49% in 2011). Despite the financial authorities' good performance, thanks to modernisation reforms, the budget deficit widened to 3.3% of GDP in 2012 (as against 1.3% in 2011) due to the continuation of the expansionary fiscal policy initiated in 2011 to meet strong social demands in terms of purchasing power, jobs and housing. The oil and gas sector is the country's main source of revenues, having generated about 70% of total budget receipts. The economy is projected to grow by 3.2% in 2013 and by 4.0 % in 2014.

The country's external position remained comfortable in 2012, with a trade surplus of about USD 27.18 billion. The current-account surplus is estimated at 8.2% of GDP and official foreign-exchange reserves have been estimated at USD 190.7 billion at end-December 2012, or the equivalent of more than three years of imports of non-factor goods and services. Oil and gas export earnings made up more than 97% of total exports.

Algeria has enormous possibilities to boost its economic growth, including huge foreign-exchange reserves derived from oil and gas. A development strategy targeting stronger, sustained growth would create more jobs, especially for young people, and alleviate the housing shortage the country is facing. The national strategic option is therefore to revitalise the process intended to diversify the economy starting with the non-oil sector while deepening the reforms needed for the structural transformation of the economy.

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Macroeconomic indicators

	2011	2012(e)	2013(p)	2014(p)
Real GDP growth	2.4	2.5	3.2	4
Real GDP per capita growth	0.3	0.4	1.1	1.9
CPI inflation	4.49	8.9	4.9	4.7
Budget balance % GDP	-1.3	-3.3	-1.5	-2.1
Current account balance % GDP	9.9	8.2	7.5	7.5

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

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ANGOLA

- **Angola's economy rebounded strongly after experiencing slow growth due to oil and financial crises. Economic growth is expected to reach 8.2% in 2013, and 7.8% in 2014, driven by the expansion in the oil and gas sector and a public expenditure programme designed to encourage economic diversification.**
- **The government has embarked on ambitious reforms to improve governance but the business environment remains challenging in terms of institutions and infrastructure settings. Nonetheless, the creation of the Sovereign Wealth Fund (SWF) will help insulate the economy from volatile oil prices.**
- **The country has made significant strides in a variety of human development indicators, including poverty, health and education but still ranks low in the Human Development Index (HDI) at 148th place out of 187 countries surveyed and continues to provide only a rudimentary social safety net in the form of fuel and utility subsidies.**

The Angolan economy rebounded strongly after several years of low growth attributable to the lingering effects of the global financial crisis. Real gross domestic product (GDP) grew at an estimated rate of 7.9% in 2012 (up from 3.9% in 2011) on account of the strong performance of the energy, transportation and construction sectors. The outlook for 2013 and 2014 remains positive, with economic growth projected to reach 8.2% and 7.8%, respectively. This will be driven by a combination of continued expansion in the oil and gas sector and a public expenditure programme designed to encourage economic diversification.

The implementation of the 2009-12 Stand-By Arrangement (SBA) programme of the International Monetary Fund (IMF) helped the country to regain macroeconomic stability, achieve an improved fiscal position, a more comfortable level of international reserves, a stable exchange rate and lower inflation. Furthermore, large domestic arrears were settled, and progress was made in strengthening fiscal transparency and accountability. However, the country continues to face massive developmental policy challenges, including the reduction of the dependency on oil, the diversification of the economy, the rebuilding of the economic and social infrastructure, the improvement of the institutional capacity, governance, public financial management systems, human development and living conditions of the population. These factors are constraining the pace of diversification of the economy and preventing small- and medium-sized enterprise (SME) development and job creation. Unemployment remains significant at about 25%, and the incidence of poverty remains high at 36.6% of the population.

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Much of the country's growth over the past decade can be directly attributed to the exploration of natural resources. Oil still accounts for nearly 80% of government revenue, 90% of exports and 47% of the country's GDP. This makes the economy heavily dependent on oil revenues and vulnerable to oil price shocks. In an attempt to further diversify the economy, a 5 billion US dollar (USD) Sovereign Wealth Fund (*Fundo Soberano de Angola*) was created in October 2012. The fund was endorsed by the IMF, which had long advocated such an instrument to help insulate the economy from volatile oil prices. Nonetheless, the main challenge rests on the government's ability to ensure transparency, accountability and equitable distribution of the country's natural resource earnings. Moreover, as Angola continues to access non-concessional financing to meet its development needs and expands the exploration of its natural resources, the government will need to guarantee the preservation of the country's debt sustainability, while ensuring greater transparency and accountability in the management of oil revenues.

Macroeconomic indicators

	2011	2012(e)	2013(p)	2014(p)
Real GDP growth	3.9	7.9	8.2	7.8
Real GDP per capita growth	1.1	5.2	5.5	5.1
CPI inflation	13.5	10.3	8.7	9.3
Budget balance % GDP	10.2	7.8	4.8	3.5
Current account balance % GDP	9.6	8.2	8.1	7.6

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

BENIN

- **Benin's economy is slowly recovering after experiencing a difficult period in 2009 and 2010; growth is estimated to have reached 3.6% in 2012 and is projected to consolidate in 2013 and 2014.**
- **To reach its growth targets, the country will have to step up reforms of the port of Cotonou as well as its efforts in the management of public finances, modernisation of the administration and improvement of the business climate to nurture development of the private sector.**
- **Benin will also have to remove constraints weighing on the exploitation of its agricultural and mining natural resources and on its geographical location; the main target here is the country's deficiencies in the infrastructure and services needed for exploiting these resources.**

Benin's economic activity seems to have begun to recover since 2011, after having come under severe pressure in 2009 and 2010 from the combined effects of the global economic crisis and the floods that hit the country. The growth rate of the real economy increased from 2.6% in 2010 to 3.5% in 2011, then to 3.6% in 2012. The recovery in growth has been the result of combined efforts to revive agriculture and repair the infrastructure after the floods of 2010. The country has also benefited from good rainfall. These elements of positive growth were partially offset by the impact of a sharp increase in January 2012 in the price of adulterated petrol called "*kpayo*". The economic outlook for 2013 and 2014 is positive and should confirm growth recovery, supported by good results from the 2012/13 cotton season and recovery in port activities.

An important growth factor will, nonetheless, be the maintenance of macroeconomic stability by sustaining progress in the country's reform of public finances and in its administrative modernisation in 2013 and 2014. Benin is facing here a threefold objective: to further mobilise its domestic resources; to make public spending consistent with its poverty-reduction strategy; and to improve the country's business climate in order to help develop the private sector. The government, which has stated its determination to put an end to illegal trading in petroleum products, is expected take corrective measures to offset the impact of the short-term rise in prices likely to result from this action, in particular on the most vulnerable sections of the population. On the social front, the government needs to maintain its efforts through its 2011-15 growth and poverty-reduction strategy (GPRS), as the country is suffering from persistent poverty and serious backlogs in reaching the Millennium Development Goals (MDGs) by 2015. More than 36% of the Beninese population are still living below the poverty line.

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Benin has strong agricultural potential, an opening to the sea and a small amount of raw materials (limestone, sand, granite and timber). Its limited exploitation of these assets has, however, prevented the country from initiating needed structural changes in its economy. To achieve better management of its natural resources Benin still needs to overcome several structural constraints, namely poor water management, inadequate agricultural modernisation, and antiquated infrastructure and services associated with the exploitation of these resources.

For structural transformation and continued growth, Benin faces two main challenges: first, to implement its strategic plan for the revival of the agricultural sector (PSRSA), which is expected to further diversify the economy and increase processing of agricultural products; second, to transform Benin from being a transit country to becoming a logistics and export hub, in particular thanks to an integrated and efficient infrastructure and transport services system.

Macroeconomic indicators

	2011	2012(e)	2013(p)	2014(p)
Real GDP growth	3.5	3.6	4.1	4.6
Real GDP per capita growth	1	1.1	1.6	2.1
CPI inflation	2.7	6.7	3.1	3
Budget balance % GDP	-1.8	-1.5	-2.3	-2.3
Current account balance % GDP	-10	-9.5	-10.4	-10.6

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

BOTSWANA

- **In 2012, Botswana's economy was adversely affected by the global slowdown, which led to a decline in the country's major export commodity, diamonds; real GDP registered lower growth at 5.8%; and short-term prospects indicated a further slowdown with growth expected to decelerate to 5.6% in 2013 and to 5.5% in 2014.**
- **On the political front, the focus in 2013 is on the 2014 elections, which are expected to be free and fair, reflecting Botswana's mature democracy and entrenched political stability.**
- **While Botswana has made remarkable progress in social and human development, as reflected by impressive education and health indicators, the level of poverty remains a major concern for an upper-middle-income country, with 20.7% of the population classified as extremely poor.**

Botswana's economy grew by 8% in 2011, continuing the recovery that had begun in 2010 after the global economic downturn of 2009 and had been aided by improved global demand for diamonds, the country's major export commodity. Estimates for 2012, however, indicate that the recovery has been difficult to sustain, with the growth rate declining to 5.8%. Deceleration in real gross domestic product (GDP) was due mainly to the mining sector, which declined by 8.0% while the non-mining sectors grew by 9.7%. Projections in the medium term indicate moderate economic growth of around 6% per annum through to 2014, predicated on gloomy global prospects and the associated slow recovery of the mining sector.

In addition to these slack prospects, the country continues to face challenges related to its overdependence on the mining sector. Amongst other major challenges confronting the government are the national unemployment rate of 17.5% and a poverty rate higher than 20%, combined with high income inequality. As part of the country's National Development Plan (NDP-10), the government is addressing these challenges through a number of initiatives including the adoption of a new National Economic Diversification Strategy, which focuses on private-sector-led economic diversification.

Botswana's prudent management of its vast diamond resources stands out in Africa as an exemplary case of harnessing natural resources effectively and efficiently for human development, a case that can be emulated in other countries. At independence, Botswana was one of the poorest countries in the continent, ranking amongst the least developed countries of the world, with a per capita GDP of about USD 70. Within about four decades, the country transformed itself into an upper-middle-income country, thanks in part to its mineral (diamond) discoveries and an effective use of the revenues from them. It has avoided the "resource curse" that tends to characterise other countries endowed with natural resources and has had one of the fastest growing economies in the world, with, in the first three decades of independence from 1966 to 1999, an average annual growth rate of about 9%. More importantly, it is commendable that the government has recognised that its diamond resources cannot last forever, and has thus, since 1968,

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endeavoured to put in place appropriate policies to prepare for the depletion of its mineral base. To this end, main actions have involved accumulating funds for the future, building infrastructure, and investing in health and education. These policies have left the government in a relatively strong position to facilitate a soft landing once the diamond reserves are depleted, possibly by 2029.

Macroeconomic indicators

	2011	2012(e)	2013(p)	2014(p)
Real GDP growth	8	5.8	5.6	5.5
Real GDP per capita growth	6.8	4.7	4.6	4.5
CPI inflation	8.5	7.2	6.2	5.9
Budget balance GDP	-8.4	-1.2	-5.5	-4.6
Current account balance GDP	2.4	6.5	7.4	6.3

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

BURKINA FASO

- **According to preliminary estimates, GDP growth in real terms in 2012 will be 8%, driven by a good harvest and a favourable international environment. A similar economic trend of 7-8% is projected for 2013, thanks to strong performances by the primary and tertiary sectors. Nevertheless, the possibility of climatic shocks, volatile commodity prices (oil, gold) and regional insecurity, resulting from the Mali crisis, pose a threat.**
- **The country is slowly recovering from the social crisis of 2011, and the fact that the joint general and local elections held in December 2011 took place without any major incidents is a positive sign of the normalisation of the social and political situation. In terms of social progress, poverty persists despite a decade of sustained growth and programmes for vulnerable groups. Most of the indicators of the Millennium Development Goals (MDGs) will be unachievable by 2015.**
- **The economy still depends heavily on agriculture, forestry and livestock farming as well as the exploitation of mineral resources. In addition to mining, which keeps growing year-on-year, the pressure of the 3.1% population growth (one of the highest in West Africa) on extensive farming creates a major risk of accelerated degradation of the environment in a context of recurring climatic vagaries.**

The economic outlook for 2013 is good, with provisional forecasts predicting growth of 6.7% or higher, compared with 8.0% in 2012. Growth will remain in the 6-8% range thanks to the vitality of the primary and tertiary sectors, which are the driving forces of the economy. The primary sector is the cornerstone of Burkina Faso's economy, driven by food crops (11.0% of GDP), cash crops (3.5% of GDP) and livestock (11.3% of GDP). These three sub-sectors influence the secondary and tertiary sectors. The primary sector's strong vulnerability to climatic vagaries makes the pillars of Burkina Faso's economy fragile. Gold production – the main pillar of the secondary sector – experienced a sharp slowdown in 2012, with negative growth of 0.7% compared with strong growth of 39.4% in 2011. This downturn was caused by delays in opening the Bissa Gold mine. Growth should pick up again in 2013, with production expected to increase by at least 10.4%. Inflationary pressures will be contained at 2.2% in 2013 (down from 3.6% in 2012), and therefore below the convergence of the Economic and Monetary Union of West Africa (UEMOA).

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Burkina Faso is involved in an economic-growth acceleration programme. It intends to implement a new growth model based around the growth poles, including the Bagré pole, the first of its kind. The aim is to ensure that natural resources are exploited efficiently, especially in the agricultural sector, by growing the value chain of certain promising sectors (livestock goods, fruit and vegetables, shea butter, sesame) through agribusiness to reduce the country's dependence on gold and cotton. To enhance its competitiveness and promote intra-regional trade, Burkina Faso is also developing infrastructure to integrate roads, energy and information and communication technologies (ICTs).

The political sphere in 2012 was marked by simultaneous municipal and general elections in December. The general election brought about a new distribution of roles between the opposition and coalition led by the President, which took a majority of seats (70 out of 127). However, it is a slim majority, which prevents the coalition from unilaterally removing the constitutional restriction (particularly Article 37) limiting the president to two terms of office. Political observers believe this constitutional matter will remain a major concern for the country's short- and medium-term stability. In the midst of this, government measures taken in 2011 to tackle the social crisis have had mixed results. The Mali crisis presents a new threat that could damage social stability. The government is faced with three main political and economic challenges: rapidly resolving the Mali crisis, which could affect budgetary decisions, resulting in greater spending on security and defence (and consequently lower spending on other items); improving the functioning of institutions, especially the judicial system; and implementing good governance.

Macroeconomic indicators

	2011	2012(e)	2013(p)	2014(p)
Real GDP growth	4.4	8	6.7	6.8
Real GDP per capita growth	1.3	4.9	3.6	3.7
CPI inflation	2.8	3.6	2.2	2.1
Budget balance % GDP	-1.4	-0.5	-1.5	-2.3
Current account balance % GDP	-1.2	-3.5	-5	-4.4

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

BURUNDI

- **Economic growth should be 4.3% in 2012, less than forecast, due to lower overall demand and sluggish investment in key sectors.**
- **With the consolidation of peace, structural and social reforms have made headway, but investors, especially in the private sector, are still wary.**
- **Abundant natural resources could substantially boost growth and job-creation if developed and well-managed.**

Burundi is steadily emerging from a deep socio-political crisis that has destroyed its means of production. The economy has grown an average 4% a year since 2005 but is still fragile because of its dependence on the primary sector, which is a major part of gross domestic product (GDP) and a big source of jobs.

Bad weather dealt a blow to agriculture in 2012 and food-crop production slumped, though coffee and tea output was good. The revival of economic activity in recent years can be attributed to an expansion in services and manufacturing, driven by investment in industry and construction.

Inflation increased to an average 14.5% in 2012, due to relatively high world food prices and a 30% drop in local farm output in the first quarter. At the end of March, inflation topped 25% (before falling to 11.8% by the end of December), aggravated by government increases in water and electricity prices.

The government continued to pursue structural and financial reforms in order to strengthen the productive base, improve the business climate and revive economic activity. Budget operations were restrained in line with spending priorities set out in the poverty-reduction and growth strategy framework (PRGSF/CSLP 2), adopted in February 2012. The government also focused on increasing transparency in public finances. Burundi is still vulnerable when it comes to debt management and, despite some progress, excessive indebtedness is a risk because of the structural imbalance in trade and the susceptibility of the economy to external shocks. Uncertainty also persists over future budgetary aid, heightened by an unpredictable world economy, notably the euro area budget crisis. So the focus should be on raising more domestic revenue through continuing tax reforms.

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Burundi has abundant natural resources, especially minerals and hydro-electric potential, the development of which could substantially boost economic growth and job-creation. For now, the mining sector is characterised by the expansion of subsistence mining by individuals that has limited economic benefits. This situation is a result of the long civil war and a lack of basic infrastructure, especially energy.

Macroeconomic indicators

	2011	2012(e)	2013(p)	2014(p)
Real GDP growth	4.2	4.3	4.6	4.9
Real GDP per capita growth	1.9	2.3	2.8	3.1
CPI inflation	9.6	14.5	8.6	5.8
Budget balance % GDP	-8.4	-8	-8.7	-9.5
Current account balance % GDP	-12	-16.2	-16.2	-17.8

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

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CAMEROON

- **The economy bounced back in 2012, stimulated by the recovery in the oil sector and strong domestic demand, which was in turn driven by investments in infrastructure. This trend should continue in 2013 and 2014.**
- **Relative macroeconomic stability could be undermined by the maintenance of subsidies on oil products.**
- **Despite ongoing social policies, Millennium Development Goal (MDG) indicators highlight the scale of challenges to be met against a background of strong population pressure.**

The rebound in the economy initiated following the 2008/09 financial crisis continued in 2012, with growth estimated at 4.9%, versus 4.1% in 2011. Supported by higher oil production and strong domestic demand tied to the launch of large infrastructure projects, this positive performance should continue in the 2013-14 period.

In 2012, budgetary policy remained expansive with increased investment spending and spending on subsidies. According to estimates, the budget balance should remain in deficit, at 3.5% of gross domestic product (GDP), compared to a deficit of 2.7% in 2011. The monetary situation was characterised by a fall in net external assets (NEA) and an increase in domestic credit. Inflation, which should reach 3% (compared with 2.9% in 2011), can be explained by electricity price increases as well as the impact of flooding on harvest stocks. With a 32.6% share of exports, oil remains the main export. Estimates based on 2012 first-quarter performances indicate that several external balances will remain in deficit. The debt level remains manageable, with a ratio of public debt stock/GDP of around 16.7%.

Cameroon has abundant natural resources. However, revenues obtained from the exploitation of these resources, and from oil in particular, have not been sufficiently channeled into structural investments in infrastructure and the productive sectors. The decline of the agricultural and forestry sectors in the country's economic structure over the past decade attests to this. Recently, the State has undertaken steps aimed at reviving the productive sectors, particularly by strengthening infrastructure. While efforts to maintain macroeconomic stability are continued, poor governance persists and impedes the optimal use of public resources for the country's socio-economic development.

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Macroeconomic indicators

	2011	2012(e)	2013(p)	2014(p)
Real GDP growth	4.1	4.9	5	5.2
Real GDP per capita growth	1.9	2.8	2.9	3
CPI inflation	2.9	3	3	3
Budget balance % GDP	-2.7	-3.5	-3.9	-4.2
Current account balance % GDP	-4.5	-5.3	-5.3	-6.2

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

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CAPE VERDE

- **Cape Verde remains a model for political rights and civil liberties in Africa, and its economic governance is sound despite unfavourable external factors and rising public debt levels.**
- **However, the country's economic performance continues to be undermined by the economic and financial crisis around the globe, and in the euro area in particular.**
- **High unemployment, persistent inequality and rising living costs could lead to social instability.**

The slowdown observed since the end of 2011 persisted in 2012, due to economic stagnation around the globe, and in the euro area in particular. Reduced foreign aid and sluggish foreign investment resulted in gross domestic gross domestic product (GDP) growth dropping from 5.0% in 2011 to a projected 4.0% in 2012. Remittances inflows held up, however, and tourism did well. Tourism and ancillary activities remained the driving force of the economy in 2012, accounting for around 30% of GDP and 90% of total exports. Yet the deteriorating global economic outlook and the euro zone sovereign debt crisis is likely to continue to weigh on Cape Verde's economic performance. However large new public investments are expected to provide support to domestic demand and raise the GDP growth to 4.8% in 2013. Over the medium term, the resumption of structural reforms will be critical if Cape Verde is to sustain the high growth rates of the past decade.

Macroeconomic and fiscal management remained sound in 2012. Tighter fiscal policy and prudent monetary policy resulted in low inflation (2.5% in 2012 against 4.5% in 2011), an improvement in the external position and a recovery of international reserves to 3.8 months of imports in September 2012. Credit growth slowed considerably, however, reflecting sluggish demand and increased credit risks. The budget deficit equalled -7.3% of GDP. The government has already adopted corrective measures to improve revenue collection and scale back public investment in 2013. Cape Verde is still on track to achieve all the Millennium Development Goals (MDGs) by 2015, and remains a regional model of good governance, political rights and civil liberties.

In spite of its past success, Cape Verde is facing challenges to keep growing at a sustainable and inclusive way. The country's lack of non-renewable natural resources and poor conditions for agriculture keep it highly vulnerable to external shocks. Tourism, the main driver for economic growth, has successfully tapped into natural resources such as biodiversity, landscape and the environment. Hotels and restaurants, for instance, grew almost six times faster than the national economy between 2000 and 2010, accounting for almost 16% of GDP in 2010. Yet it supplied only 4.6% of all jobs in 2010, compared to 2.5% in 2000. The government of Cape Verde has therefore been seeking to promote a more balanced economic development. The Third Growth and Poverty Reduction Strategy Paper (GPRSP III), yet to be adopted, reflects the government's attempt to address the country's structural challenges and adapt the country's development model to its new non-Least Developed Country (LDC) circumstances.

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Macroeconomic indicators

	2011	2012(e)	2013(p)	2014(p)
Real GDP growth	5.0	4.0	4.8	5.0
Real GDP per capita growth	4.0	3.0	3.8	4.0
CPI inflation	4.5	2.5	2.4	2.5
Budget balance % GDP	-7.5	-7.3	-8.9	-8.9
Current account balance % GDP	-16.4	-14.1	-15.0	-16.4

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

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CENTRAL AFRICAN REPUBLIC

- **Growth in 2012 (3.1%) was lower than forecast, and the outlook for 2013 and 2014 has deteriorated and become highly uncertain since the rebel attacks in December 2012, which led to the fall of François Bozizé's regime.**
- **Efforts made in the area of public finance enabled the government to conclude an agreement with the IMF in June 2012 and to re-establish relations with the African Development Bank (AfDB) and the World Bank, which had suspended their budget support in late 2010.**
- **Despite having substantial natural resources, the Central African Republic has not yet achieved the structural transformation needed to create strong, sustainable growth and reduce poverty.**

The increasingly fragile political and security situation has not only worsened the economic outlook for 2013, it has also made it highly uncertain. Despite the peace deal signed in Libreville on 11 January 2013, resulting in a national unity government, the Seleka rebels launched an offensive on the capital, Bangui, on 22 March 2013, setting up a new regime. Chief rebel Michel Djotodia proclaimed himself president, while former president François Bozizé was forced into exile. The events also sparked extensive looting and the destruction of public and private property in Bangui.

Real GDP growth in 2012 was 3.1%, below initial forecasts of 4.2%. The performance was lower than expected because of bad weather causing a slowdown in agriculture and because of the worsening security situation. A decline in agricultural production and higher prices for petroleum products pushed inflation above the levels that were forecast.

Concerning public finances, efforts to maintain budgetary discipline continued in 2012. These efforts enabled the country to re-establish relations with its main development partners. In June 2012, the government signed an economic and financial programme with the International Monetary Fund (IMF) through an Extended Credit Facility (ECF). The African Development Bank (AfDB) and the World Bank provided budget support for the reforms, which had been suspended since 2010. However, it is difficult to predict to what extent the economic and financial reforms supported by the country's technical and financial partners will be enforced over the next two years given the current political turmoil.

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Social developments such as eradicating extreme poverty, reducing infant mortality and providing access to basic sanitation remain slow. Some factors did show a marked improvement: the primary-school enrolment rate, promotion of gender equality, the ratio of girls to boys in primary schools and the supply of drinking water.

The Central African Republic has substantial natural resources, but their exploitation has not yet led to the structural transformation needed for stronger, sustainable growth. Recent encouraging progress in the management of natural resources has enabled the Central African Republic to comply with the Extractive Industries Transparency Initiative (EITI). The country's political fragility, deficient basic infrastructure and prevailing business climate make a structural transformation of the economy very difficult.

Macroeconomic indicators

	2011	2012(e)	2013(p)	2014(p)
Real GDP growth	3.1	3.1	3.2	4.6
Real GDP per capita growth	1.2	1.1	1.3	2.6
CPI inflation	0.7	3.5	2.4	2.9
Budget balance % GDP	-2.9	-3.5	-3.4	-3.4
Current account balance % GDP	-7.2	-7.0	-5.4	-5.3

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

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CHAD

- **Economic growth picked up to 7.2% in 2012 (from 1.6% in 2011) and is projected to reach 7.4% in 2013 and 11.5% in 2014.**
- **Improvement in the budgetary situation will depend not just on better world oil prices but on the government's ability to curb its spending, increase the country's non-oil resources and maintain external balances.**
- **Chad needs to take full advantage of its demographic asset – a population of 12 million, growing by more than 400 000 a year – which will help turn it into an economically emerging country by 2025, in accordance with the government's objective.**

Gross domestic product (GDP) grew 7.2% in 2012 and is projected to increase 7.4% in 2013. This growth will be driven by the buoyancy of the agriculture and oil sectors, largely due to implementation of government industrial, energy and agro-livestock projects. Poor weather affected harvests in 2011 and 2012, pushing inflation up to 7% in 2012. It should drop to 3.1% in 2013.

The projected increase in cotton and especially oil production should boost export revenue over the next five years and could help finance the government's public investment plan, as part of its strategy to make Chad an emerging economy. However, the funding needed for this investment programme could destabilise government spending and impair the medium- and long-term budgetary position.

The budget framework also needs to be greatly improved through a credible strategy of financial reform. This effort would be much helped by Chad reaching the completion point under the Heavily Indebted Poor Countries (HIPC) Initiative (it reached the decision point in 2001), signing a standard programme with the International Monetary Fund (IMF) and diversifying its sources of economic growth by creating value chains in three very promising sectors: livestock, cotton and gum arabic. Such diversification would generate additional revenue by broadening the tax base through increased added value and would create jobs in these sectors. It would also boost manufacturing, speed up the structural change of the economy and make growth more inclusive.

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Macroeconomic indicators

	2011	2012(e)	2013(p)	2014(p)
Real GDP growth	1.6	7.2	7.4	11.5
Real GDP per capita growth	-1.0	4.6	4.9	8.9
CPI inflation	2.0	7.0	3.1	3.1
Budget balance % GDP	2.4	0.8	0.0	3.8
Current account balance % GDP	-2.3	-6.1	-8.9	-2.1

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

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COMOROS

- **Despite the ongoing debt crisis in the euro area, the Comorian economy grew by an estimated 2.7% in 2012, up from 2.6% in 2011.**
- **Given the lack of any significant growth in exports, domestic demand will continue to be the main driver of growth, which is forecast to reach 3.2% in 2013 and 3.8% in 2014, albeit with an expected deterioration of the current-account deficit.**
- **Natural resources are the source of major potential for the Comorian economy, but because there has been no structural change, the resources are not sufficiently exploited to make any real contribution to growth.**

The economy of the Comoros grew by an estimated 2.7% in 2012, despite the ongoing euro area crisis. This growth was driven by strong agricultural exports, continued strong foreign direct investment (FDI) in the transport sector (roads and ports) and domestic demand, supported by remittances from emigrants. The expected recovery of public investment in economic and social infrastructure (energy, water, transport, health and education) after the Comoros reached the completion point of the Heavily Indebted Poor Countries (HIPC) Initiative should boost private investment, which is forecast to grow by 9% in 2013 and 2014.

If, however, the Central Bank of the Comoros (BCC) does not conduct a strict monetary policy to control prices, growth could generate inflation, since domestic demand is expected to remain steady thanks to remittances from emigrants and imports of capital goods for infrastructure rehabilitation.

For growth to continue, the business climate will need to improve significantly. In the World Bank report *Doing Business 2013*, the Comoros had the same rank as in 2012: 158th out of 185 countries. It did gain twelve places in the ranking for registering property and three places for business start-up,[1] but it lost places in almost all other rankings. The climate could, however, begin to improve in 2014 thanks to technical assistance from the International Finance Corporation (IFC).

The stimulus policy focused on economic and social infrastructure and the improvement of human capital should boost employment among unskilled youths. However, a proactive policy to train the local workforce and thus boost employment is unlikely to be implemented before 2014.

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Unlike the other Indian Ocean island economies (Mauritius and Seychelles), the Comorian economy has not yet truly begun a structural change. The Comoros is highly unstable politically, it suffers from insufficient budgetary resources and the authorities lack a long-term strategic vision on sustainable development and optimal management of natural resources. Consequently, the main resources that fuel its economy – land, biodiversity and marine resources – are deteriorating at an ever faster rate.

Macroeconomic indicators

	2011	2012(e)	2013(p)	2014(p)
Real GDP growth	2.6	2.7	3.2	3.8
Real GDP per capita growth	1.5	1.6	2.1	2.7
CPI inflation	6.8	5.6	3	2.7
Budget balance % GDP	-1.8	-2.3	-3	-3.4
Current account balance % GDP	-13.6	-14.7	-15.8	-17.3

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

Note:

1. The Comoros improved its business start-up ranking from 171st in 2012 to 168th in 2013.

CONGO, DEMOCRATIC REPUBLIC

- **GDP growth speeded up in 2012 to 7.2%, from 6.9% in 2011, driven by vigorous performances in mining, trade, agriculture and construction, despite the political situation and lawlessness in the eastern provinces. The economy should continue to expand in 2013 (8.2%) but prospects depend on political stability, better security in the east and continuing structural reforms.**
- **Efforts to stabilise the macroeconomic framework continue apace thanks to a tight budget policy, the gradual easing of monetary policy and a recovery in export earnings.**
- **The fundamental structure of the economy has changed little in the past 20 years and is still based on mining and agriculture. Government revenue from mining is paltry in the light of the potential. Serious food problems for the population reflect low agricultural productivity.**

The economy grew 7.2% in 2012 despite difficult world economic and financial conditions and a worrying domestic political and security situation. The performance was largely due to extractive industries, trade, agriculture and construction, macroeconomic stability and robust domestic demand. Growth should continue, to 8.2% in 2013 and 9.4% in 2014, in the light of world demand for minerals and the major investment in the sector in recent years.

Macroeconomic policy in 2012 aimed to cut inflation, stabilise the exchange rate and boost foreign currency reserves to ensure greater predictability and help the economy grow. Tight public finance management and easing of monetary policy are helping to curb inflation better and it fell to 6.4% from 15.4% in 2011. The central bank (BCC) substantially cut its key interest rate from 21% to 6% by the end of 2012 year-on-year to boost credit to the economy. Higher exchange reserves from a resurgence of exports increased coverage of imports to 8.6 weeks at the end of the year from 7.2 weeks a year earlier.

The turnover tax was replaced by value added tax (VAT) in 2012 to encourage growth. The 2013 World Bank report *Doing Business 2013* demoted the DRC one place, from 180th to 181st overall, because of problems in getting electricity, protecting investors, paying taxes, trading across borders and enforcing contracts, though some progress was made in dealing with construction permits, registering property and resolving insolvency. But prospects are good with the government joining OHADA (the Organisation for the Harmonization of Business Law in Africa).

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The country's poverty contrasts with the huge potential of its natural resources. The social situation remained fragile in 2012 despite continuing economic growth. Low pay, difficulties in finding work and serious malnutrition undermine the health of the population.

The situation was very difficult in North Kivu province at the end of 2012 because of a new rebellion by the March 23 Movement (M23) demanding that the government respect agreements it made with the former rebel movement it succeeded, the *Congrès national pour la defense du peuple* (CNDP), and contesting violently the 2011 general elections. This lawlessness enables minerals to be illegally mined, harms agriculture, movement of food supplies and tax collection in the rebel area, and has delayed the new school year in some places.

The fundamental shape of the economy has not changed much since 1990. Agriculture and extractive industries are its main pillars accounting for 50% of GDP. Mining tax revenue is paltry. Despite the size of agriculture in GDP, 75% of Congolese do not have enough to eat.

Macroeconomic indicators

	2011	2012(e)	2013(p)	2014(p)
Real GDP growth	6.9	7.2	8.2	9.4
Real GDP per capita growth	4.2	4.6	5.6	6.8
CPI inflation	15.4	6.4	5.9	5.5
Budget balance % GDP	-0.4	-6.2	-5.2	-3
Current account balance % GDP	-11.5	-11.1	-11	-9.1

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

CONGO REPUBLIC

- **The economy should grow a fairly satisfactory 5.1% in 2013 and 5.3% in 2014 (up from 4.9% in 2012) but this should be seen against the worldwide economic outlook.**
- **Apart from oil, the country has large mineral, forest and natural gas resources and good agricultural potential, yet the structure of the economy has not changed much.**
- **More than ever, the government's public investment programme is needed to diversify the economy and tackle a 44% poverty rate that especially affects young people and women, who both suffer from high unemployment.**

Congo's economic outlook is still quite good but external factors are a major threat. Gross domestic product (GDP) should grow 5.1% in 2013 and 5.3% in 2014. Apart from oil, the main pillars of growth are forestry, transport and telecommunications, and continued government investment in the public sector. These growth rates will depend on faster reforms and proper management of risks from a deteriorating world economic outlook, especially lower demand for oil and thus lower prices. This shows how vulnerable the economy is and the need to diversify it by developing the non-oil private sector.

The reform programme backed by the Extended Credit Facility (ECF) of the International Monetary Fund (IMF) has produced satisfactory results but it must be speeded up. The government's public finance management programme (*Programme d'action gouvernementale de gestion des finances publiques*) has had good effects too. A law to make management of forestry resources more transparent was passed in 2011. The government has begun implementing an action plan to improve the business climate. Adopted in February 2011, the plan created a high council for public-private sector dialogue (*Haut Conseil du dialogue public-privé*) under presidential supervision and a one-stop shop for registering businesses. These measures, for the first time, enabled satisfactory reviews of all stages of the IMF-backed programme.

Despite this progress, bold reforms are still needed so the country can use its natural resources better to diversify the economy and promote broad long-term growth. Despite fairly satisfactory economic expansion, good prospects for oil, forestry, mining and agriculture and a per capita income of USD 2 300, which makes the Republic of Congo a lower middle income country, poverty is still high and achieving the Millennium Development Goals (MDGs) is a big challenge. Unemployment is also high, especially among young people aged 15-29. The structure of the economy has changed little and the country is still very dependent on oil (about 70% of nominal GDP and 90% of exports). Speeding up reform is thus vital, especially by urgently improving the business climate, upgrading infrastructure, developing human resources and boosting good management, especially of natural resources.

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Macroeconomic indicators

	2011	2012(e)	2013(p)	2014(p)
Real GDP growth	3.4	4.9	5.1	5.3
Real GDP per capita growth	0.9	2.4	2.6	2.8
CPI inflation	1.8	5.1	4.2	2.9
Budget balance % GDP	16.4	2.4	3.2	2.4
Current account balance % GDP	0.8	0.3	0.6	-3

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

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CÔTE D'IVOIRE

- **Thanks to a return to political, social and institutional normality and efforts to rebuild and rehabilitate basic infrastructure, economic activity picked up, with growth estimated at 8.6% in 2012, expected to reach 8.9% in 2013 and 9.8% in 2014.**
- **If these growth rates are to be achieved the process of national reconciliation and social cohesion will need to be strengthened, and reforms to improve the business climate accelerated so the private sector can act as a driver of the revival of the economy.**
- **The country needs to take full advantage of its natural resources to maintain this momentum both by increasing the share of its agricultural products that are processed and by strengthening its institutional and and human capabilities and making more transparent the management of its fossil-fuel and mineral resources.**

Economic activity after the post-election crisis was more vigorous than expected. The return of confidence among economic actors in the aftermath of the normalisation of the security situation and increased peace efforts was accordingly confirmed. After a fall of 4.7% in 2011 real gross domestic product (GDP) registered growth estimated at 8.6% in 2012, driven by public investment and the pick-up in final consumption. In the medium term the implementation of the National Development Plan (PND) 2012-15 should put the country back on the trajectory of inclusive and sustainable growth. GDP is forecast to grow in 2013 and 2014 at 8.9% and 9.8% respectively, sustained by the recovery of oil and gas production and by a rise in investment prompted by a better business climate and a strengthening of public-private partnerships.

As a result of efforts to revive the economy the overall budget deficit deepened in 2012. For the first time in five years the external current account recorded a deficit. Nevertheless the satisfactory execution of the 2011-14 economic and financial programme, backed by the Extended Credit Facility (ECF) of the International Monetary Fund (IMF), enabled the country to reach the completion point of the Highly Indebted Poor Countries (HIPC) Initiative in June 2012 and to benefit from a substantial cut in its external debt. Inflation also returned to below the 3% level set at community level.

On the political front the country saw notable progress in institutional, social and political, security and human rights normalisation.

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To fortify the recovery and ensure sustainable growth, Côte d'Ivoire needs to continue its efforts in terms of structural transformation by taking full advantage of its considerable natural resources. In this respect, several obstacles hampering the sustainable management of natural resources need to be overcome. These are the weakness of the links between the companies exploiting the resources and the other sectors of the economy, and inadequate transparency in natural resources management and contracts relating to the sharing of production between the government and the oil companies.

The country also enjoys a strong agricultural potential as the world's biggest producer of cocoa. An increase in the rate of processing of agricultural production, which varies between 2% and 27%, should be a priority objective for the authorities in the years ahead.

Macroeconomic indicators

	2011	2012(e)	2013(p)	2014(p)
Real GDP growth	-4.7	8.6	8.9	9.8
Real GDP per capita growth	-6.8	6.5	6.7	7.5
CPI inflation	4.9	2.1	2.2	2.3
Budget balance % GDP	-1.8	-3.5	-4	-3.1
Current account balance % GDP	6.7	-3.3	-3.8	-1.9

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

DJIBOUTI

- **Economic growth speeded up in 2012 with a revival in port activity and greater foreign direct investment.**
- **The IMF's extended credit facility ended in May 2012 with an overall satisfactory performance, though maintaining budgetary discipline is a challenge for the government.**
- **Djibouti has few natural resources and most are undeveloped.**

Growth revived in 2012 to reach 4.5%, driven by the economy's two main elements, port activity and foreign direct investment (FDI). The port was boosted by a higher volume of transit goods, but this was still below the level previous to the 2008 world financial crisis. Increased FDI was mostly for salt mining at Lake Assal and building the Chabelley airport complex.

Less important sectors of the economy such as telecommunications, construction and tourism continue to grow steadily.

Djibouti is at the crossroads of major sea routes for trading oil and other goods, and wants to become a hub for commercial, logistical and financial services for the Gulf of Aden countries. The government has launched a 4.3 billion US dollar (USD) investment programme, and in 2012, funding was obtained to build new port facilities for salt and potassium exports that will come into operation in 2013 and 2014. These investments, along with FDI, which had been held up since the start of the 2008 financial crisis, will sustain economic growth until 2014.

The government is also drafting a long-term development strategy called Vision 2035, and a study is being done of which leading sectors could diversify the sources of national growth and create jobs.

The government completed in May 2012 an International Monetary Fund's (IMF) Extended Credit Facility (ECF) that had begun in September 2008. The country's performance throughout was satisfactory and included major structural reforms in public finance management and the financial sector. A new ECF is expected to be worked out with the IMF in the first half of 2013.

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A new national poverty survey in 2012 showed living conditions had worsened, with 79% of Djiboutians living in relative poverty (74% in 2002). Unemployment affects 48% of the working population.

Djibouti's few energy, mineral and agricultural resources are mostly undeveloped.

The main structural changes between 2004 and 2009 were the result of a huge influx of FDI from the Gulf states, especially Dubai, and were focused on capital-intensive activities such as port infrastructure, roads, buildings and hotels. This also boosted economic growth through transport and related services.

Industrial development is still hampered by high production costs, but these constraints could soon ease with important new water and energy infrastructure projects, which would help develop some of the few natural resources (chiefly mining) and create jobs.

Macroeconomic indicators

	2011	2012(e)	2013(p)	2014(p)
Real GDP growth	3.5	4.5	5	5
Real GDP per capita growth	2.6	2.6	3.1	3.1
CPI inflation	5.1	5	2.8	2.7
Budget balance % GDP	-0.1	-2	-2	-1.7
Current account balance % GDP	-12.6	-12.9	-14.8	-17.1

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

EGYPT

- **Economic growth has softened, the fiscal and balance-of-payments deficits have deteriorated, and foreign exchange reserves have fallen to a critical minimum level.**
- **Two years after the Arab Spring uprising, Egyptians – many of whom are living below the poverty line – are still waiting to reap the full benefits of lasting social, political and economic change.**
- **Egypt has potential both for structural transformation towards a more productive economy and for optimal use of its immense resource wealth, provided that vital policy reforms are introduced.**

After toppling Hosni Mubarak in February 2011, Egyptians celebrated the election of Muslim Brotherhood candidate Mohammed Morsi on 24 June 2012, as the country's first democratically elected president. A new constitution, drafted by an Islamist-dominated assembly and narrowly approved in mid-December 2012 by voters, has dramatically divided the country. A new parliament is expected to be in place later in 2013, following elections starting in April to replace the Islamist-dominated body that was dissolved by the Supreme Constitutional Court in June 2012.

As Egyptians wait to complete the transition to democratic government, they still face a number of challenges. The real gross domestic product (GDP) growth rate fell to 2.2% in the fiscal year ending June 2012, down from 5.1% in 2009/10, before the revolution. Continued political instability has undermined inflows from tourism and foreign direct investment (FDI). Economic growth is expected to remain depressed, at about 2% as of June 2013.

Delay in agreement about USD 4.8 billion in financing from the International Monetary Fund (IMF), which would be subject to conditions to increase taxes and reform subsidies and public employment, has pushed Egypt to the verge of a full-blown currency crisis. By end-January 2013, the Egyptian pound (EGP) had depreciated by over 12.5% of its value since the uprising. The market expects the pound to depreciate further, to between EGP 7 and EGP 7.50 to the US dollar, and a black foreign exchange market is emerging. In June 2012, Egypt's domestic debt and fiscal deficit reached 80.3% and 10.8% of GDP respectively, narrowing the room for fiscal manoeuvre.

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Poverty remains high, with 25.2% of the population living on less than USD 1.5 per day in 2010/11. The illiteracy rate is high at 27%, and there are wide income disparities. The Egyptian statistical agency reported that unemployment was 12.5% in the third quarter of 2012, although several sources indicate that the unemployment rate may actually be above 18%. Over 3.3 million Egyptians are unemployed, while the unemployment rate for 20- to 24-year-olds is 46.4%.

The government is working to address several of the structural and institutional problems that beset Egypt. It has developed a home-grown programme to reform the inefficient energy subsidy system and is promoting policies to fight corruption, foster societal inclusion and enhance equality of opportunity. However, the government's reluctance to accept the IMF conditions before the elections of April 2013 reflects the difficulty of implementing necessary but unpopular entitlement reforms in a heavily divided society.

Macroeconomic indicators

	2010/11	2011/12(e)	2012/13(p)	2013/14(p)
Real GDP growth	1.8	2.2	2	3.5
Real GDP per capita growth	0.1	0.5	1.2	3
CPI inflation	11.1	8.7	10.6	11.7
Budget balance % GDP	-9.7	-10.8	-11.4	-9.9
Current account balance % GDP	-2.6	-3.3	-3.1	-2.4

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

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EQUATORIAL GUINEA

- **With a rate of 5.5% in 2012 and a forecast of 4.9% for 2013, GDP growth is slowing down, a disappointing performance mainly due to a sluggish oil sector and a lower contribution from construction and services.**
- **The balanced budget achieved in 2012 shows considerable improvement in the management of public resources, but it is at risk from the high level of public investments currently underway.**
- **High cash inflows from oil have brought about deep structural changes in Equatorial Guinea in the past twenty years, especially in construction and basic infrastructure development, but human development and job creation have fallen short of the country's financial and economic potential.**

Growth in Equatorial Guinea's gross domestic product (GDP) is estimated to have fallen back to 5.5% in 2012 from 7.7% in 2011 because of a fall in production at the Ceiba-Okouméhed oil complex, which had reached its peak. The fall was partially offset by the exploitation of new fields in Aseng. The main drivers for growth were oil and gas, with manufactured products, services and construction providing a smaller contribution.

The growth outlook for 2013 and 2014 should confirm this downward trend. Growth of 4.9% in 2013 is expected to turn negative in 2014. The downturn in crude oil output is the reason for this fall. Natural gas, however, is a serious alternative that might allow the country to compensate for falling oil production, provided the productivity of its exploitation can be improved.

In 2012, monetary policy endeavoured to counter the effects of rising liquidity in the economy in order to achieve price stability. This was largely successful as shown by the average price level of foodstuffs and fuel. Inflation was thus contained. According to the latest estimates of the national statistics and audit bureau, the consumer-goods price index (CPI) was 4.5% in 2012, thanks to falls in the cost of several services such as transport, education and telecommunications. Inflation should remain moderate over the next two years, with forecasts of 3.1% in 2013 and 3.5% in 2014, but only if the prices of goods are held in check and if the policy of price support for essential goods and for fuel at the petrol pump is maintained. Budgetary policy in 2012 aims to bring public finances into balance. The budget balance in 2012 and 2013 also shows government commitment to improving budgetary discipline. A surplus estimated at 6% of GDP was secured for 2012, but the balance is fragile because of the high level of current public investments, estimated at XAF 9 000 billion (Franc CFA BEAC). Provided investment expenditure is brought under control, budget projections are based on an improvement in the surplus for 2013 (6.3%), which would fall back to 3.5% in 2014.

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Equatorial Guinea has undergone deep economic and social changes since the discovery of oil in the mid-90s. From being a poor, mainly agricultural country, it became the foremost oil producer of the franc zone. Oil income has helped to improve basic infrastructure: roads, schools, hospitals and social housing. In terms of human development, however, the country falls short of its economic and financial potential with high levels of poverty (more than 60%), limited access to drinking water and sewerage, and the prevalence of contagious diseases. Unemployment is also high, especially among the young, who have not fully benefited from the employment opportunities offered locally, especially by the oil industry.

Equatorial Guinea's political and economic stability is attracting growing interest from foreign businesses, especially to extract oil deposits. This provides a favourable medium-term outlook, particularly in natural-gas extraction projects. The main challenge the country will have to take up will be to use these substantial revenue inflows efficiently to diversify the economy.

Macroeconomic indicators

	2011	2012(e)	2013(p)	2014(p)
Real GDP growth	7.7	5.5	4.9	-2
Real GDP per capita growth	5.2	3.3	2.7	-4.2
CPI inflation	4.8	4.5	3.1	3.5
Budget balance % GDP	0.9	6	6.3	3.5
Current account balance % GDP	-6	3.5	2	-1

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

ERITREA

- **Eritrea's economy grew by 8.7% in 2011 owing to the commencement of full operations in the gold and silver Bisha mine and to the production of cement from the cement factory in Massawa; GDP is estimated to have contracted sharply to 5.5% in 2012 because of an unanticipated drop in production at Bisha mine, a fall in remittances and a decline in the price of gold over 2011-12; the economy is expected to improve to 7% in 2013 and to grow by 6.5% in 2014, driven by gold production in the Koka and Zara mines and by copper production in the Bisha mine.**
- **Domestic and foreign private investment is largely constrained by macroeconomic and structural constraints relating to fiscal management, state intervention and controls in foreign trade and exchange, weak and uncompetitive financial institutions, weak infrastructure and general shortages in skilled manpower.**
- **The main driving force for economic growth in recent years has been the strong performance in the mining sector; the contribution of agriculture to the economy is minimal, though the sector engages about 80% of the workforce; therefore, policy and institutional reforms and the development of the mining sector are prerequisites to unlock Eritrea's economic potential.**

Infrastructural bottlenecks, weak foreign investment (especially in the non-mining sector) and dwindling aid inflows have remained the critical constraints to Eritrea's economic performance since its independence in 1993. Nevertheless, the economy grew by 8.7% in 2011 thanks to the commencement of full operations in the gold and silver Bisha mine and to the production of cement from the cement factory in Massawa. Growth in gross domestic product (GDP) is estimated to have fallen sharply to 5.5% in 2012 due to an unanticipated drop in production at the Bisha mine. The decline in GDP might also be attributed to a reduction in remittances from Eritreans in the Diaspora and to the fall in the price of gold in 2011-12. Growth is expected to improve to 7% in 2013 and then decrease slightly to 6.5% in 2014, driven by gold production in the Koka and Zara mines and by copper production in the Bisha mine. Although Eritrea is on track to achieve the Millennium Development Goals (MDGs) on child health, HIV/AIDS, malaria and access to safe drinking water, slow progress has been made in eradicating extreme poverty and the achievement of universal primary education.

Attracted by an anticipated reduction in production costs and the subsequent impacts on their respective economies, especially on the fiscal and balance-of-payment positions, the governments of Eritrea and Sudan have signed a Memorandum of Understanding for partnership and co-operation in the mining sector. The deal will allow for the processing of Eritrea's gold and silver in Sudan's new gold refinery, officially opened in September 2012. Consequently, production costs for Eritrean gold and silver will decrease drastically compared to the previous practice of shipping to Europe and India for refining at a considerably higher cost. Furthermore, the government has put machinery in motion to

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privatise 32 state-owned manufacturing firms. This intention will not only provide fiscal space but also open up the economy.

The government of Eritrea has also amended the Mining Law, which sets the government's share at a non-participatory 10% with an option to buy a further 30% of shares. The amendment gives the government the flexibility of considering its stake in any mining project on a case-by-case basis. In February 2013, the government adopted the liberalisation of foreign currency in order to ease the foreign-exchange shortage. This proclamation allows institutions and individuals to open foreign-currency deposits and to use foreign exchange for international transactions without limitations. Meanwhile, the attempted military coup in January 2013 appears to have been quickly put down. The country's sole political party, the People's Front for Democracy and Justice (PFDJ), and the President, Isaias Afewerki, remain firmly in control of the country's political and economic machinery, but threats to them are growing.

Eritrean growth in recent years has been driven by mineral resources, especially with the commencement in February 2011 of commercial mining and exports of gold and silver at the Bisha mine. Other notable mineral deposits in Eritrea include copper, zinc, nickel and chromite. By 2016, the Colluli Potash Project is expected to be up and running. The contribution of agriculture to the economy is minimal, though the sector engages about 80% of the workforce. In addition, Eritrea's suitable endowments in fisheries and livestock development have been underutilised. Amongst the overall concerns, the following stand out: unlimited and underpaid national service; use of forced labour; drought and other natural disasters; persistent hostilities with two of its neighbouring countries over unsettled border disputes; a misalignment of the exchange rate resulting in foreign-exchange shortages; and an unfavourable investment environment. The government has recognised some of these impediments and has implemented piecemeal reforms since 2008 to address the issues, including the of establishment a free-trade zone in Massawa and the implementation of the ASYCUDA ++ system, the initiation of a privatisation programme. Overall, the introduction of macroeconomic policy and institutional reforms directed to promoting the role of the private sector and to the development of human skills is a prerequisite to unlock Eritrea's economic potential.

Macroeconomic indicators

	2011	2012(e)	2013(p)	2014(p)
Real GDP growth	8.7	5.5	7	6.5
Real GDP per capita growth	5.7	3.5	5	4.5
CPI inflation	20	17	12.3	12.3
Budget balance % GDP	….	….	….	….
Current account balance % GDP	-3.9	-5.7	-5.3	-6.1

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

ETHIOPIA

- **Estimated growth of 6.9% in 2011/12 made Ethiopia one of Africa's best performing economies.**
- **The government has brought down inflation but it remains at 10.3% in February 2013.**
- **Ethiopia does not have major natural resources and the government wants growth from industrialisation.**

Ethiopia's economy saw a ninth straight year of robust growth in 2012, which was estimated at 6.9%. The growth was broad based with an increasing role for services and industry. This momentum is expected to continue in 2013 and 2014, at a slower pace though.

In an effort to combat inflation, the government implemented a tight monetary policy stance. This measure, aided by slowdown in global food and fuel price inflation, saw consumer price inflation decelerate to 10.3% in February 2013 from 31% in November 2011. The government's determination to hold down prices was further reflected in its prudent fiscal policy focusing on strengthening domestic resources and reducing domestic borrowing.

The strong fiscal stance, particularly measures to improve tax administration and enforcement, resulted in a fiscal surplus of 0.2% of gross domestic product (GDP) in 2011/12 from -1.6% the previous year. The balance of payments worsened, partly because of strong import growth relative to export growth. Between 2010/11 and 2011/12, the value of goods imports grew by 34% compared to a 15% growth in exports. Though external debt has been growing, the country will maintain a low risk of external debt distress in 2013. Rebuilding official foreign reserves is a challenge, however, as reserves have fallen to less than two months of import coverage.

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Macroeconomic indicators

	2010/11	2011/12(e)	2012/13(p)	2013/14(p)
Real GDP growth	11.2	6.9	6.6	6.3
Real GDP per capita growth	9.0	4.8	4.5	4.3
CPI inflation	18.1	31.0	10.0	8.7
Budget balance % GDP	-1.6	0.2	0.8	1.0
Current account balance % GDP	-0.9	-3.4	-5.5	-7.1

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

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GABON

- **Economic growth in 2012 was robust, supported externally by improving world prices for oil, manganese and timber, and internally by massive investments undertaken for football's Africa Cup of Nations 2012. The economy should continue expanding over 2013 and 2014, despite a structural fall in oil production.**
- **The country must meet three major challenges: poverty, which affects one citizen in three, the high unemployment rate, standing at 27% of the working population, and the continuing very unequal distribution of income.**
- **Local processing of raw materials will increase sharply in the special economic zones currently being set up.**

Gabon's per capita gross domestic product (GDP) is among the highest in sub-Saharan Africa, at almost USD 15 000 at current value, a performance due in large part to the availability of natural resources, especially the exploitation of hydrocarbons. Through the Strategic Plan for Emerging Gabon (PSGE), the authorities have promoted the idea of turning the country into an emerging economy by 2025. This rests on three pillars: "Green Gabon", "Industrial Gabon" and "Service-Industry Gabon". The PSGE hopes to bring about an ambitious programme of structural change in the national economy, based on improved governance of the state, the recovery in public and private investment, the development of infrastructure and human resources and a more equitable distribution of national wealth.

Recent trends show the real economy has weathered the financial crisis and its implications rather well. Growth is still above average for the region. After a recession of about 1.5% in 2009, the economy was able to continue growing at about 6% for the last three years. Indeed in 2010 Gabon was the only country in the Central African Economic and Monetary Community (CAEMC) to respect all the region's macroeconomic convergence criteria: primary budget in surplus, inflation under 3%, public debt below 70% of GDP and no backlog of late payments.

For 2012, real GDP growth is put at 5.7%, down from 2011 (7.0%), but above forecasts, which were for 4.4%. Increasing public investment and an upturn in mining – stimulated by demand from big emerging markets – were in part responsible for the change in internal demand. In terms of structure, 2012's GDP shows three things: the low contribution of the primary sector (5%), the preponderance of the secondary sector (64%), whose contribution fluctuates widely according to world oil prices, and the importance of the tertiary sector, which represents 32% of internal activity. The primary budget balance was consolidated. The current account surplus is considerable in a climate of rising inflation, which, however, remains within CAEMC convergence criteria.

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Overall, economic activity was moderate in 2012. This was due to two things: the end of large-scale stadium-building works for the Africa Cup of Nations (ACN) 2012 and cut-backs in road improvement schemes. In 2013 economic activity should grow by around 6.2%, supported in large part by the non-oil sector. This growth will undoubtedly not be sufficient to absorb a population of relatively young people unable to find jobs. The authorities are attempting to solve this problem in several ways: they are setting aside special funds to support reforms undertaken by the National Employment Office and encouraging the foreign direct investment (FDI) currently under way in three special economic zones, among other initiatives.

Macroeconomic indicators

	2011	2012(e)	2013(p)	2014(p)
Real GDP growth	7	5.7	6.2	6.0
Real GDP per capita growth	5.1	3.7	2.7	2.9
CPI inflation	1.3	2.7	2.5	2.5
Budget balance % GDP	0.7	0.9	-1.3	-1.8
Current account balance % GDP	8.9	7.5	5.4	3.4

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

GAMBIA

- **The Gambia's economic performance has been reasonable over the last few years, but it suffered in 2011 as a result of an agricultural harvest failure. Recovery started in 2012 and real GDP growth accelerated from -4.4% in 2011 to 1.0% in 2012. Economic growth is expected to rebound in 2013 and 2014 due to a recovery in agriculture and strong performance in the tourism sector. Growth will also depend on the efficacy of reforms and the response to the shock.**
- **In 2012, the Gambia implemented its new poverty reduction strategy, the Program for Accelerated Growth and Employment (PAGE) 2012-2015. This program succeeds the Poverty Reduction Strategy II (PRSP) 2007-2012. The PAGE aims at improving employment and accelerating pro-poor growth.**
- **Governance continues to be a challenge and only modest progress has been made in human development. According to the 2012 African Human Development Report, the Gambia's Human Development Index (HDI) is still as low as 0.42, below the African average of 0.46. The governance situation has recently strained relations with the international community.**

Economic growth was hurt in 2011 by a harvest crop failure, but agricultural production started to recover in 2012 and real GDP growth accelerated in 2011. The outlook is optimistic for 2013 and 2014 as real GDP growth is projected to reach 4.3% and 5.1% in 2013 and 2014, respectively, on account of strong expansion in agriculture and tourism. These projections are on the high side; performance will depend on the efficacy of the drought emergency plan, as well as on the impact of government reforms implemented to sustain the agriculture sector.

Prudent monetary policy has helped the Gambia to contain inflation and reduce pressures on interest and exchange rates. Inflation remains at a single digit level, below the central Bank target of 5%. It slipped from 4.8% in 2011 to 4.2% in 2012, but is projected to climb to 5% in 2013 and 5.1% in 2014 in response to the introduction of the value added tax (VAT) in January 2013.

The 2011 crop failure contributed to a drop in government revenues leading to a deterioration of the budget deficit from 4.6% of GDP in 2011 to 6.0% in 2012. The budget deficit is expected to improve to 5.2% of GDP in 2013 and 4.0% in 2014 thanks to the VAT and other fiscal adjustments expected in 2013 and 2014.

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The trade deficit reduced slightly from 23.9% of GDP in 2011 to 23.5% in 2012. It is expected to follow the same downward trajectory in 2013 and 2014, as exports began recovering in 2012. The debt burden and the risk of debt distress are very high in the Gambia because of the large accumulated public deficit from excessive government borrowing. The public debt stock increased from 71.1% of GDP in 2011 to 78.9% in 2012. It is projected to reduce to 68.2% in 2013 and 64.3% in 2014 in response to tighter fiscal policy.

The Gambia has experienced some structural transformation, albeit modest. This has led to a shift of labour from the agriculture sector to lower productivity sectors such as services, instead of to manufacturing where higher productivity could be achieved easily. The government is trying to promote economic development through: increasing investment in other sectors such as agro-industry; enhancing domestic participation in mineral exploitation, thus reducing unemployment; improving education and aligning it to resource-related skills needs; and improving infrastructure, especially when associated with trade and export activities.

Macroeconomic indicators

	2011	2012(e)	2013(p)	2014(p)
Real GDP growth	-4.4	1	4.3	5.1
Real GDP per capita growth	-7.1	-1.7	1.6	2.4
CPI inflation	4.8	4.2	5	5.1
Budget balance % GDP	-4.6	-6	-5.2	-4
Current account balance % GDP	-14.8	11.3	-13	-12.9

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

GHANA

- **GDP growth for 2012 is estimated at 7.1%, driven by oil revenues, the services sector and the strong export performance of cocoa and gold. Ghana's medium-term growth outlook remains positive, thanks to large investments in the extractive industries, public infrastructure and commercial agriculture.**
- **The successful inauguration of President John Mahama in January 2013, following the death of incumbent John Evans Atta Mills in July 2012, indicates further consolidation of democracy. The depth and maturity of the country's democracy are being further tested by the New Patriotic Party case in the Supreme Court contesting the election results.**
- **Despite significant progress towards most of the MDGs, the country continues to be challenged by MDG 4, reduce child mortality; MDG 5, improve maternal health; and the sanitation component of MDG 7.**

Gross domestic product (GDP) growth decelerated from 14.4% in 2011 to 7.1% in 2012. The economic growth peak in 2011 was due to the start-up of oil production in the last quarter of 2010. The growth performance in 2012 was achieved despite lower cocoa and oil production. Ghana's medium-term outlook remains healthy, with projected GDP growth of 8.0% (6.5% non-oil) in 2013 and 8.7% (8.9% non-oil) in 2014, well above the average annual growth rate of 6.5% for the period since 2000. Investments in the oil and gas sectors, public infrastructure and commercial agriculture are expected to drive this growth.

Improved macroeconomic management and enduring political stability have not significantly transformed the structure of Ghana's economy over time. Mining and construction have sustained the industrial sector, while manufacturing has been declining as a share of GDP over the past 20 years. The country needs to develop new, labour-intensive economic sectors such as manufacturing and agro-processing in order to tackle the employment challenge and provide economic opportunities to rural areas. This will require coherent public policies to raise agricultural yields, improve the competitiveness of the economy and overcome land tenure issues.

Decisions on how to spend the country's increasing oil revenue, projected at several billion US dollars (USD) over the next two decades, will be crucial to future economic transformation. The increased oil revenue and foreign direct investment (FDI) inflows may result in strong upward pressure on the exchange rate and threaten prospects for industrialisation. In 2010, Ghana enacted a legal framework for sound management of its oil wealth, and thus far its programme of hedging oil imports and exports has succeeded in maintaining macroeconomic stability.

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The successful inauguration of President John Mahama on 7 January 2013, following the death of incumbent John Evans Atta Mills in July 2012 and the elections in December 2012, is considered an indication of further strengthening of democracy in Ghana. International observers noted that the elections had been relatively free and fair. However, the New Patriotic Party (NPP) has contested the election results and petitioned the Supreme Court for redress. This issue has divided the country on political lines rather than ethnic lines. The slight risk of political destabilisation of the country would be greatly reduced by an early resolution to the court case.

Although Ghana has been classified as a low middle-income country by the World Bank since 2010, its development indicators compare poorly with those of most countries in this category. Ghana has made significant progress towards attaining the Millennium Development Goals (MDGs). It is likely to attain the MDGs on the eradication of extreme poverty, universal primary education, promotion of gender equality, empowerment of women, and combating HIV/AIDS, malaria and other diseases. Ghana continues to be challenged by slow progress on reduction of under-5 mortality, improvement of maternal health and environmental sustainability.

Macroeconomic indicators

	2011	2012(e)	2013(p)	2014(p)
Real GDP growth	14.4	7.1	8	8.7
Real GDP per capita growth	12.1	4.8	5.7	8.7
CPI inflation	8.7	9.2	8.9	8.5
Budget balance % GDP	-3.9	-4.9	-3.5	-3
Current account balance % GDP	-9.6	-11.2	-14.4	-14.9

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

GUINEA

- **The country made a significant start on reforms in 2011, opening the way to reaching the completion point of the Highly Indebted Poor Countries (HIPC) initiative and establishing the post-HIPC agenda at the centre of political debate. The process needs to be deepened and speeded up in a context of budgetary constraints and weak capacity.**
- **Poverty persists and needs to be structurally reduced by means of a vigorous policy of sustainable, inclusive and environmentally friendly growth at a time when the socio-political and institutional environment is unpredictable and requires continuing dialogue.**
- **Guinea has great mining potential and if it is properly exploited in a calmer political and healthier business climate it could foster economic diversification, the backbone of the emerging Guinea that its citizens so long for.**

The socio-economic situation in 2012 was characterised by persistent poverty (55.2%) even though reforms aimed at reviving economic and social developments were implemented and the completion point of the HIPC initiative was reached at the end of September 2012. The country benefited from external debt relief worth USD 2.1 billion.

After more than 50 years of independence and bad governance Guinea is ranked 178th out of 187 countries on the Human Development Index (HDI) of the United Nations Development Programme (UNDP). Infrastructure and services are inadequate, administration weak and the private sector embryonic.

Economic growth is estimated at 4.2% in 2012, versus 3.9% in 2011, driven chiefly by higher agricultural production and the good performance of the secondary sector. In 2012 fiscal receipts as a proportion of gross domestic product (GDP) rose from 15.6% to 19.9% mainly thanks to higher revenues from oil-related products (TSPP) and income from international trade.

Spending rose from 16% of GDP in 2011 to 18.7% in 2012, as a result of pay increases and investment in energy and agriculture. The budget deficit is estimated to have been 1.4% of GDP in 2012 compared with 0.3% in 2011.

The rate of inflation is put at 13.1% in 2012, compared with 21.4% in 2011. The normalisation of the country's development context was combined with stricter monetary and foreign exchange management. As a result the gap between the black market rate and the official rate shrank from 10% at the end of 2010 to 0.5% and it was possible to rebuild the reserves, with coverage of 4.6 months of imports at the end of 2011 compared

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with 0.7 months in 2009 and 2010. Even so, financial conditions remain difficult. The trade deficit worsened in 2012, rising to 16.5% of GDP in 2012, compared with 14% in 2011.

The political scene has long been conspicuous for inadequate dialogue between the protagonists, in particular in respect of the conditions of the organisation of the forthcoming parliamentary elections. But tensions have eased, relatively speaking, with the government taking into account some of the opposition's demands, such as the suspension of the process of revising the electoral register and the recomposition of the independent national electoral commission (CENI) on a basis of parity. But as was shown by recent events at the beginning of March 2013, a crisis of confidence still prevails between the different actors in political life.

The action undertaken by the government has not made it possible to reduce poverty, although an improvement in the literacy and school enrolment rates can be observed, as can a rise in attendance rates at health centres. Gender is still an issue in inclusive development in Guinea.

The initiation of the reforms made it possible to reach the completion point of the HITP initiative. But Guinea still faces three major challenges; *i)* finalising the political transition process, *ii)* stimulating economic and social development by getting full value from the country's huge natural potential; and *iii)* meeting the social demands of the country's people.

Macroeconomic indicators

	2011	2012(e)	2013(p)	2014(p)
Real GDP growth	3.9	4.2	4.8	5.6
Real GDP per capita growth	1.5	1.7	2.2	3
CPI inflation	21.4	13.1	10.6	8.5
Budget balance % GDP	-0.3	-1.4	-0.6	-0.3
Current account balance % GDP	-24.2	-25.4	-25	-28.7

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

GUINEA-BISSAU

- **The economy shrank by an estimated 1.5% in 2012 (after expanding by 5.3% in 2011) due to lower production and world prices of cashew nuts and problems after the April 2012 coup d'état. Growth is expected to be 4.2% in 2013 and 3.5% in 2014.**
- **The budget showed a deficit equal to 2.3% of GDP in 2012 (down from a 0.7% surplus in 2011), but deficits are expected to contract to only 0.8% in 2013 and 1.0% in 2014, assuming there is an improvement in economic activity.**
- **Potentially substantial bauxite and phosphate reserves were discovered in the 1970s but have never been mined for lack of infrastructure.**

The country's macroeconomic situation was affected by a *coup d'état* on 12 April 2012, and the economy is estimated to have contracted by 1.5% of gross domestic product (GDP) that year after having grown by 5.3% in 2011. The slowdown was mainly due to lower production and world prices of cashew nuts, which account for some 30% of the added value in the primary sector. The average price of cashew nuts fell from USD 1 350 (US dollars) a tonne in 2011 to USD 1 081 in 2012. Real GDP growth is expected to recover to 4.2% in 2013 and 3.5% in 2014. Inflation, which was 5.0% in 2011 due to higher import prices, should ease, thanks to expected macroeconomic evolutions, to 2.1% in 2012 (with 3.3% in 2013 and 2.5% in 2014) as the economy slowly recovers and domestic markets are adequately supplied.

The budget showed a deficit of 2.3% of GDP in 2012 after a 0.7% surplus in 2011. Thanks to budgetary discipline and better revenue collection, it is expected to shrink to a deficit of 0.8% in 2013 and of 1.0% in 2014. The current-account deficit worsened to 6.3% of GDP in 2012 but should improve to a deficit of 4.7% of GDP in 2013 and of 4.3% in 2014. Food imports should decline with an expected 5% increase in production and export of cashew nuts in 2013 and a satisfactory 2012/13 crop season.

The social situation is still precarious. Guinea-Bissau has a very low score (0.364) on the worldwide Human Development Index (HDI) and ranks 176th out of 185 countries surveyed in the 2013 report. Per capita GDP was USD 614 in 2010, and more than two-thirds of the population was living on less than USD 2 a day and 33% on less than one dollar a day. The country showed an HDI average annual growth between 2000 and 2010 of 0.9%, compared with 2.1% for sub-Saharan Africa and 1.68% for very low-ranking countries. This bad score was due to widespread poverty, very low incomes because of lack of jobs and a life expectancy of only 48.6 years aggravated by difficult access to good healthcare.

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Mineral and oil resources have not been developed, except for some quarrying and small alluvial gold mining operations. Concessions have however been granted in recent years to mine bauxite (2007) and phosphates (1997). Several offshore oil discoveries have been made but their commercial viability is uncertain.

Macroeconomic indicators

	2011	2012(e)	2013(p)	2014(p)
Real GDP growth	5.3	-1.5	4.2	3.5
Real GDP per capita growth	3.2	-3.6	2.1	1.5
CPI inflation	5	2.1	3.3	2.5
Budget balance % GDP	0.7	-2.3	-0.8	-1
Current account balance % GDP	-1.6	-6.3	-4.7	-4.3

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

KENYA

- **The economy experienced moderate growth of 4.4% in 2011 and 4.2% in 2012 and is expected to reach 4.5% in 2013 and 5.2% in 2014.**
- **Having witnessed drastic currency depreciation and rapid inflation in 2011, the economy experienced stability for both indicators in 2012. This stability is expected to continue in 2013.**
- **International Criminal Court (ICC) proceedings against six Kenyans dominated the political scene in 2011 and 2012 and are likely to continue as the cases against four of the six accused persons move to full trial in summer 2013. Two of the accused were cleared at the pre-trial stage due to a lack of evidence. Political activity in 2013 is dominated by preparations for, and the outcome of, the March 2013 election of a new president, 47 county governors, members of Parliament (senate and national assembly) and county assembly representatives.**

Kenya's economy continued to record slow growth in 2012, primarily driven by financial intermediation, tourism, construction and agriculture. The first half-year GDP growth rate in 2012 was an estimated 3.4 %, compared to an annual real GDP growth rate of 4.4% in 2011 and 5.8% in 2010. The estimated growth of 4.2% in 2012 was mainly curtailed by a slowdown in most economic sectors. Agriculture – the mainstay of Kenya's economy – recorded suppressed activity (mainly in the industrial crops sub-sector) and was further affected by slowed demand for Kenyan horticultural exports in the European market. Similarly, the tourism, manufacturing and construction sectors did not reach the anticipated growth levels.

Real GDP growth is expected to increase to 4.5% in 2013 and 5.2% in 2014. Similarly, consumer price index inflation is expected to remain in the single-digit range over the same period. Regardless which coalition wins the elections, radical changes in economic governance are not expected, thereby guaranteeing the stability of economic fundamentals.

Political activity in 2011 and 2012 mainly centred on trials at the ICC and preparations for the March 2013 general elections. Six Kenyans were initially indicted by the ICC for crimes against humanity committed during the 2008 post-election crisis. Two were cleared in 2011 and the trials of the other four continue at The Hague. The March 2013 general election also saw intense competition between the two main coalitions seeking the presidency, various gubernatorial and county representative seats and membership in Parliament.

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Overall, the 2012 Country Policy and Institutional Assessment (CPIA) findings mirrored the 2011 findings. The scores for macroeconomic policies; institutions for economic co-operation, regional integration and trade; business regulatory environment; environmental policies; efficiency of revenue mobilisation; quality of public administration; and transparency, accountability and corruption remained unchanged over two consecutive years. Little variation in other CPIA scores led to little change in the overall CPIA score.

Macroeconomic indicators

	2011	2012(e)	2013(p)	2014(p)
Real GDP growth	4.4	4.2	4.5	5.2
Real GDP per capita growth	1.7	1.5	1.8	2.5
CPI inflation	14.0	9.6	6.3	6
Budget balance % GDP	-4.5	-4.7	-3.5	-3
Current account balance % GDP	-5.5	-6.7	-6.1	-7.7

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

LESOTHO

- **Lesotho's growth in 2012 remained modest at 3.8%, driven mainly by a doubling of mining investment and an increase in construction activities. The medium-term outlook is positive and predicated on the booming construction sector and on reforms to eliminate structural impediments to economic diversification and competitiveness.**
- **Access to African Growth and Opportunity Act (AGOA) trade preferences with the United States has transformed Lesotho from an economy predominantly reliant on subsistence agriculture and employment from South African mines and industries to one where the textile and garment industry has become a significant source of employment and foreign exchange.**
- **Uncertainties surrounding the continuation of AGOA trade preferences with the United States beyond 2015 calls for intensified product and market diversification outside the United States, as well as taking advantage of its natural resource endowments in water and diamonds.**

The performance of Lesotho's economy in 2012 was modest, as drought reduced agricultural production by an estimated 70%. GDP nonetheless grew by 3.8%, mainly driven by the expanding mining sector and the building industry. In the medium term, growth is expected to be only marginally higher. Given the important contribution of exports to the country's growth and gross international reserves, the uncertain global economic environment as well as uncertainties surrounding the African Growth and Opportunity Act (AGOA) trade preferences beyond 2015 will remain critical challenges.

The country's fiscal policy in 2012 was expansionary, largely reflecting expenses related to the rehabilitation of the infrastructure affected by floods and to the recent general elections. Despite the commitment to fiscal consolidation, the administration is still challenged by the high wage bill, underlining the need for reforms. In the medium term, the fiscal effort will focus on eliminating unproductive expenditures, improving the development budget execution in order to enhance aid effectiveness, broadening the tax base and enhancing domestic revenue mobilisation. The country's monetary policy stance was also expansionary and remains guided by the need to maintain the parity of the loti with the South African rand. Inflation was contained at 5.5% in 2012, reflecting the impact of food shortages due to the drought and of higher international commodity and fuel prices. Inflationary pressures in South Africa, which supplies 70% of Lesotho's consumer goods, also contributed. The country's private sector is still small but offers the largest potential to generate the growth and employment the country needs. Lesotho's business environment has improved significantly in 2012, thanks to recent reforms such as the adoption of the new Company's Act. In the medium term, the proposed industrial licensing bill should significantly enhance the private sector's contribution to overall growth. Poverty and extreme hunger, however, continue to present critical challenges to the country's development, despite significant progress towards the Millennium Development Goals (MDGs) related to primary education, gender and women's empowerment.

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While Lesotho is endowed with various minerals, the volatility of mineral prices in the period leading to 2000 resulted in the closure of the country's key mines. Lesotho possesses key natural resources, including diamonds and water, but had for a long time depended on South Africa as a source of employment, and the economy remained predominantly at subsistence level. Following the adoption of AGOA in 2000, Lesotho has transformed from a subsistence economy relying on employment from South African mines and industries to sub-Saharan Africa's leading supplier of textiles and garments to the United States. The textile and garments sub-sector has become one of Lesotho's main sources of jobs, employing an estimated 45 000 workers, most of whom are women. Agriculture, on the other hand, has declined due to drought and other challenges including inadequate financial support for inputs. Lesotho's textile industry, however, faces challenges. While the United States has already agreed to extend the *Third-Party Fabric Provision* up to 2015, the extension of AGOA's trade preferences beyond that date remains uncertain. The government is therefore committed to diversify the industry's products and export markets, encouraging the production of higher-value items, in particular woven and knitwear. The government is also keen to encourage mineral beneficiation, in particular of diamonds, to improve the country's competitiveness. Other areas of diversification include the supply of water and hydropower to South Africa and the wider region.

Macroeconomic indicators

	2011	2012(e)	2013(p)	2014(p)
Real GDP growth	3.7	3.8	3.9	3.5
Real GDP per capita growth	2.7	2.8	2.9	2.5
CPI inflation	5	5.5	5	4.5
Budget balance % GDP	-5	-10.4	2.2	1.3
Current account balance % GDP	-16.6	-18.8	4.4	1.3

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

LIBERIA

- **Liberia's post-war economic growth was sustained in 2012, led by the first full year of iron ore exports, construction, and strong performance in the service sector, but these positive trends are subject to fluctuations in commodity prices, FDI, and overseas development assistance.**
- **President Sirleaf's government passed its FY 2012/13 budget as part of an Open Budget Initiative, but it faces mounting pressure to increase employment, improve services, tackle corruption and address governance issues in the forestry, palm oil, and oil sectors.**
- **The poverty rate has decreased from 64% to 56% between 2007 and 2010, but some 78% of the population remains engaged in vulnerable employment, and Liberia ranks close to the bottom of countries in the Human Development Index (HDI) (174th out of 187).**

Liberia's post-war economic growth was sustained in 2012, with estimated real GDP growth of 8.9%, led by the first full year of post-conflict iron ore exports, buoyant construction, and strong performance in services. Real GDP is projected to expand by 7.7% in 2013 and 5.4% in 2014, supported by further iron ore expansion and concession-related foreign direct investment (FDI). Liberia's economic outlook remains vulnerable to fluctuations in commodity prices, particularly for its key exports, rubber and iron ore. Potential declines in FDI and overseas development assistance, including the partial drawdown of the substantial UNMIL force, could also affect economic performance. Consumer price inflation moderated to 6.9% in 2012, thanks to lower international food and fuel prices, and is expected to further slow to 5.1% in 2013.

In December 2012, Liberia launched the *Agenda for Transformation* (AfT), its second poverty reduction strategy. The AfT intends to remove key infrastructure constraints in energy, roads, and ports, and to support youth and capacity building. The government has secured financing to rehabilitate the Mount Coffee Hydropower plant, which could come online at end of 2015 and would help address the country's substantial energy shortage. The government prepared its FY 2012/13 budget in a three-year Medium Term Expenditure Framework (MTEF). However, despite substantial progress in public financial management (PFM) and transparency, substantial challenges remain, and pay reform will be necessary to improve public sector capacity.

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Natural resources continue to play a leading role in Liberia's economy. Iron ore, rubber, and timber dominate exports, and the oil and palm oil sectors offer much potential. The management of these resources has come under scrutiny in the past year. The abuse of Private Use Permits in the forestry sector has resulted in a quarter of Liberia's land being contracted out to foreign companies with little oversight. Land access disputes have also slowed planting in the palm oil sector, and oil discoveries have been overshadowed by the need to reform the sector's institutions. Investments in power and transportation should foster linkages between Liberia's private sector and its natural resources sector, while increasing productivity and market access for the majority of households in rural areas that are engaged in small-scale agriculture. Infrastructure will take years to develop, however, and poor access to credit will continue to constrain growth. Concession agreements could create up to 100 000 local jobs over 10 years, but this will make limited impact on the 50 000 youth joining the labour force every year. Increased employment creation would help decrease the risk of instability.

Macroeconomic indicators

	2011	2012(e)	2013(p)	2014(p)
Real GDP growth	8.2	8.9	7.7	5.4
Real GDP per capita growth	4.9	6.1	5.2	3
CPI inflation	8.3	6.9	5.1	4.9
Budget balance % GDP	-2	-4.7	-6.4	-6.6
Current account balance % GDP	-34	-52.4	-65.6	-72

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

LIBYA

- **Thanks to a rapid resumption of hydrocarbon production and exports, Libya's economy recovered in 2012 from a severe contraction experienced in 2011, with real GDP growth 95.5% in 2012 against a contraction of 59.7% in 2011; inflation decelerated to 6.9% in 2012 from 15.9% 2011, and GDP growth is projected to normalise to 15% and 8.1% by 2013 and 2014, respectively, while inflation is expected to decline further to 4.7% in 2013 and 3.4% in 2014.**
- **The peaceful conduct of elections in July 2012 was a promising indication of Libya's successful political transition, but the subsequent difficulties in forming a new government have highlighted the challenges of achieving stability.**
- **Libya's successful transition and sustainable development hinges on the evolving security situation, the new government's economic strategy, the resolution of regional tensions over hydrocarbon resources, and the international price of oil.**

Libya's economic activity began to recover in 2012 thanks to the nearly full resumption of oil production by September 2012, an increase in construction and infrastructure activity, and the prospects of reduced political instability. The political volatilities surrounding the transfer of power from the transitional government to a more permanent governance structure, together with an increase in domestic security incidents affecting the army and civilians, however, have acted as obstacles to a smooth recovery and delayed long-term economic planning.

By September 2012, Libya's oil production had nearly reached its pre-revolution levels of 1.6 million barrels per day (BPD). The 344% increase in the hydrocarbon component of gross domestic product (GDP) in 2012 was the main driver behind the high GDP growth (95.5%) in 2012. Although non-hydrocarbon economic activity was growing fast before the conflict, it still accounts for no more than 22% of GDP and a negligible part of total exports. Non-hydrocarbon economic activities were affected adversely by the war due to the destruction of infrastructure and production facilities, disruptions to banking activity, limited access to foreign exchange and the departure of expatriate workers. However, this component is expected to recover by 2014, driven mainly by reconstruction.

The major long-term challenge facing the economy is to contain the dependence on oil revenues, particularly in light of the slowdown in international demand, and the urgent need for economic diversification in order to address the long-term financial and economic stability and Libya's unemployment challenge. Despite its large contribution to the GDP, the oil and gas sector contributes to less than 2% of total employment (according to the latest data from 2007). Despite the increase in hydrocarbon revenues, the increase in domestic demand and high expenditure on subsidies and public-sector wages pose fiscal pressures on the government.

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Sustainable management of Libya's petroleum resources is a major challenge facing the new Libyan leadership. The management of domestic oil operations, co-ordination of the fast-growing inflow of foreign direct investment (FDI) in the petroleum sector, and containing the political and regional tensions over distribution of oil revenues are major variables determining the sustainable management of the petroleum sector.

Macroeconomic indicators

	2011	2012(e)	2013(p)	2014(p)
Real GDP growth	-59.7	95.5	15	8.1
Real GDP per capita growth	-62.7	92.5	12	5.1
CPI inflation	15.9	6.9	4.7	3.4
Budget balance % GDP	-15.6	13.1	6.1	5.9
Current account balance % GDP	8.4	27.2	23.4	24.9

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

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MADAGASCAR

- **Growth in Madagascar's GDP was weak in 2012 (1.9% versus 1.6% in 2011), but projections point to growth of 3% in 2013 and 4% in 2014, provided the elections scheduled in 2013 put an end to instability.**
- **The four-year-old political crisis has led to a deterioration in the business climate and greater loss of control in governance, and worsened the living conditions of the population despite some progress in education and in the fight against HIV/AIDS.**
- **Madagascar is rich in natural resources both significant and diverse, and although their contribution to the national budget is still low, it could grow quickly, especially with the development of major projects for the mining of ilmenite, nickel and cobalt.**

Madagascar's economic growth, which was negative (4.1%) in 2009 and weak (0.5%) in 2010, progressed to 1.6% in 2011, still low compared to the average growth of sub-Saharan African countries, estimated at 5.3% by the International Monetary Fund (IMF) in its October 2012 *Regional Economic Outlook*. The economy grew by 1.9% in 2012, driven mainly by the mining industries, transport (helped by a revival of tourism) and exports from customs-free zones.[1] The authorities applied a restrictive fiscal policy to cope with the reduction of external aid, a consequence of the political crisis that has shaken the country since 2009. They followed a prudent monetary policy and managed to contain the budget deficit at 3.1% of GDP (as against 1.7% in 2011). Similarly, they managed to limit the increase of prices to an annual average of 6.4%, down from 9.8% in 2011. The current-account deficit widened to 8.3% of GDP from 6.9% of GDP in 2011. This was the result of greater deterioration in the trade balance and in the services balance, which could not be offset by improvements in the balance of current transfers and of the balance of financial transactions and in capital. Finally, if the elections intended to put an end to the crisis are organised in 2013 as planned, growth could accelerate in 2013 and 2014 to 3% and 4%, respectively. It would benefit from the expansion of the mining industries, the gradual resumption of external financing favourable to construction, and the buoyancy of trade and tourism.

The duration of the crisis has helped impoverish the population and to worsen the country's social indicators. In 2010, approximately 77% of Madagascans lived below the poverty line. This share is estimated to have increased in 2011 and 2012 even though recent data to confirm this are lacking. The protracted political tension has undermined the achievement of the Millennium Development Goals (MDGs) despite some progress in the areas of education and the fight against HIV/AIDS. GDP per capita amounted in 2012 to MGA 927 545.4 (Madagascar ariarys) or USD 449, down 4.2% from 2011, while the population is growing at an annual rate of 2.8%. The quality of governance and the business climate also deteriorated, and reform initiatives were limited.

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Madagascar, which has very significant and diverse natural-resource deposits, has failed to take advantage of this wealth of assets to make major structural changes to the economy. The main reasons for this failure were: recurrent political crises since the 1970s, the weak competitiveness of local processing industries and suppliers, insufficient transport infrastructure and the low quality of public services. The contribution of natural resources to the national budget is still low but should grow rapidly with the implementation of large mining projects.

Macroeconomic indicators

	2011	2012(e)	2013(p)	2014(p)
Real GDP growth	1.6	1.9	3	4
Real GDP per capita growth	0.5	0.8	1.9	2.9
CPI inflation	9.8	6.4	10.4	8.9
Budget balance % GDP	-1.7	-3.1	-3	-2.2
Current account balance % GDP	-6.9	-8.3	-7.6	-5.7

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

Note:

1. The performance of the mining industry is mainly due to a number of large mining projects. QIT Madagascar Minerals (QMM)'s ilmenite-mining project in Fort-Dauphin is in its third year of operation. In 2013, the company should approach its annual export target, i.e. 750 000 tonnes per year of ilmenite (10% of world production) and 60 000 tonnes per year of zirsill. QMM's investment amounts to USD 950 million. Rio Tinto owns 80% of the shares and the government of Madagascar 20%. The Ambatovy nickel and cobalt production project exported its first products (99.9% pure nickel and 99.3-99.8% pure cobalt) in November 2012. Ambatovy is a consortium comprising Sherrit International Corporation (Canada), SNC-Lavalin (Canada), Suminoto Corporation (Japan) and Korea Resources Corporation (South Korea). Investment has been evaluated at USD 5.5 billion. An average annual production of 60 000 tonnes of nickel, 5 600 tonnes of cobalt and 190 000 tonnes of ammonium sulphate is expected over a period of twenty years.

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MALAWI

- **Real GDP growth in 2012 slowed down following a contraction in the agricultural and manufacturing sectors, brought on by drought and a foreign exchange shortage. Growth in 2013 and 2014 is projected to rebound to 5.5% and 6.1%, respectively.**
- **Malawi's programme with the IMF under the Enhanced Credit Facility (ECF) went off track in mid-2011 due to policy slippages, which triggered a suspension in donor budget support. The new government, which took over in April 2012 following the death of President Bingu Wa Mutharika, has instituted key policy reforms to address the macroeconomic imbalances and revive the economy. The government's renewed commitment to sound macroeconomic policies and good governance has led to the approval by the IMF of a new ECF programme and resumption of donor support to Malawi.**
- **Malawi's progress in poverty reduction has been slow. The challenge ahead is to make growth more inclusive and resilient to shocks. The country is broadly on track to achieving four of the eight Millennium Development Goals (MDGs).**

Real GDP growth slowed to 4.3% in 2011 from 6.3% in 2010 on account of foreign exchange and fuel shortages, which disrupted activities in sectors such as manufacturing and trade. The shortage of foreign exchange in 2011 was caused by the decline in earnings from Malawi's major export commodity, tobacco, and suspension of donor budget support. Real GDP growth in 2012 is estimated at 2.0%, substantially lower than the 4.3% growth target. The sharp slowdown in the economy in 2012 was mainly due to the contraction in agricultural and manufacturing output. The agriculture sector, which dominates economic activities, shrank by 3.0% in 2012 on account of erratic rains and the collapse in tobacco auction prices. Real GDP growth in 2013 and 2014 is expected to rebound to 5.5% and 6.1%, respectively, anchored on the recovery in agriculture, manufacturing and wholesale and trade. The rebound is premised on a revival in tobacco production, an easing of the foreign exchange constraint, improved availability of fuel and a continuation of prudent macroeconomic policies.

Malawi faced serious macroeconomic challenges in 2011 and 2012. These were the result of inappropriate policies, which led to a growing fiscal deficit, rising inflation and the depletion of international gross reserves in a context of an overvalued exchange rate. The government, which came to power in April 2012 under the leadership of President Joyce Banda following the death of Bingu Wa Mutharika, has instituted bold macroeconomic policy adjustment measures to address the imbalances. These measures include the devaluation of the Malawian kwacha (MKW) by 49%, with a move towards a flexible exchange rate regime, a tightening of monetary and fiscal policy and a removal of subsidies on fuel. The government has also re-engaged with the IMF, resulting in the resumption of direct budget support by donors. These reforms have started yielding results, as evidenced by the easing of fuel shortages and improved access to foreign exchange by the business community. Economic recovery, however, is fragile and the exchange rate may take time to stabilise given the excess demand for foreign exchange. The government's second

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national development plan, the Malawi Growth and Development Strategy II (MGDS II, 2011-2016), was officially launched in September 2012 along with the Economic Recovery Plan (ERP). The latter aims to achieve economic recovery and mitigate the impact of the reforms on vulnerable citizens through immediate and short-term reforms and interventions to restore macroeconomic stability and re-prioritise expenditures toward sectors with the potential to boost economic growth and export earnings. These include agriculture, mining, energy, transport and tourism.

Malawi has diverse natural resources, ranging from land, water, forestry and minerals – much of which are unexploited. Mineral exploitation started only recently with the opening of the Kayelekera uranium mine in 2009. Thus, despite the diversity of its natural resources, Malawi's economic structure has not changed much over the last two decades. While the share of mining in the GDP is still relatively small, there is potential for minerals to transform the Malawian economy by generating resources for investment in infrastructure and social service delivery and through spillover effects on local industries, including small and medium-sized enterprises (SMEs) and beneficiation. Going forward, the challenge is to ensure the country's natural resources are managed in environmentally sustainable ways and the wider population benefits from them through transparent mechanisms in awarding contracts/concessions and in the distribution of revenues.

Macroeconomic indicators

	2011	2012(e)	2013(p)	2014(p)
Real GDP growth	4.3	2	5.5	6.1
Real GDP per capita growth	1.1	-1.2	2.3	2.8
CPI inflation	6.4	19.2	17.6	7.5
Budget balance % GDP	-2.8	-7.2	-7.4	-7.6
Current account balance % GDP	-17.9	-12.7	-7	-9.5

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

MALI

- **The Malian economy was in recession in 2012, with growth of -1.5%, compared to the initial forecast of +5.6%. It is forecast to rebound to 5.4% in 2013 thanks to the dynamism of the agriculture and gold sectors, plus the resumption of international aid.**
- **The poverty rate increased from 41.7% in 2011 to 42.7% in 2012 as a result of the food, political and security crises.**
- **While natural resources – in particular gold and cotton – play a vital role in the economy, the textile and gold refining industries need to be developed.**

In addition to the food crisis that began in 2011, the 22 March 2012 coup d'état marked the beginning of a serious political crisis, with armed groups occupying the three northern regions (two-thirds of the national territory) between April 2012 and January 2013. An African and French military intervention was carried out against these groups in January 2013. Consequently, the economy largely ground to a halt in 2012, and international co operation was suspended. Real gross domestic product (GDP) growth was -1.5% in 2012 due to the weak performance of the secondary (-2.2%) and tertiary (-8.8%) sectors. For its part, the primary sector grew by 8.1%.

Despite the recession and the suspension of international aid, the government pursued a policy of fiscal discipline in 2012. It restored its relations with the International Monetary Fund (IMF) in January 2013 and obtained a Rapid Credit Facility (RCF) of USD 18 million.

The economy is forecast to come out of recession, with growth projected at 5.4% in 2013 and 5.1% in 2014. This growth will be driven by rice, cotton and gold production, as well as by the creation of a third mobile network operator. That said, political instability, economic crisis and war in the north of the country still pose downside risks for 2013 and 2014.

The food, security and political crises have all exacerbated poverty. The rate increased from 41.7% in 2011 to 42.7% in 2012. A serious humanitarian crisis began in January 2012, with 237 000 displaced persons, 410 000 refugees and at least 4.6 million Malians at risk of food insecurity. The government honoured its spending commitments on education, health and social protection, which made up 33.45% of total expenditure. Social indicators have improved in recent years, but progress towards achieving the Millennium Development Goals (MDGs) by 2015 remains mixed. Mali is on track to achieve universal primary education (goal 2), combat HIV/AIDS, malaria and other diseases (goal 6) and ensure environmental sustainability (goal 7), including the provision of drinking water. It will almost certainly fail to achieve the other goals, however. The Islamist groups that occupied the northern regions for nine months pillaged healthcare centres, pharmacies and schools, putting a significant dent in progress made.

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Earnings from gold production represent about 25% of GDP and 75% of export revenue. Gold's place in the economy has continued to grow over the past twenty years. Despite this, there has been no endogenous creation of added value through beneficiation. Development of the mining sector (7.6% of GDP) has also not led to the creation of national operators and service providers.

Cotton makes up about 1% of GDP and 15% of export revenue. Following the crisis that began in the 1997/98 season, the sector is doing relatively well. The government subsidises material inputs, guarantees prices for producers and provides support and advice to producer organisations. Among other positive factors are the restructuring of the Malian textile development company (*Compagnie malienne de développement du textile*, CMDT) and stable global cotton prices. The increase in production has not however been accompanied by the development of a local cotton processing industry.

Macroeconomic indicators

	2011	2012(e)	2013(p)	2014(p)
Real GDP growth	2.7	-1.5	5.4	5.1
Real GDP per capita growth	0.6	-2.6	4.3	4.1
CPI inflation	3	5.3	2.9	3.3
Budget balance % GDP	-3.3	-6.4	-5.8	-4
Current account balance % GDP	-10	-0.8	-6.8	-9.9

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

MAURITANIA

- **With growth of over 6% in 2012, a stable fiscal policy and inflation under control, Mauritania is enjoying favourable macroeconomic conditions, welcomed by the IMF.**
- **However, these achievements are not reflected in the social situation, still characterised by high poverty and high unemployment. Moreover, the crisis in Mali and the influx of refugees risk undermining the relative social and political stability of the country.**
- **Mauritania is unable to build a foundation for a productive and inclusive economy with its vast mineral resources and fisheries. However, recognising the critical level of unemployment, particularly youth unemployment, the country intends to diversify and strengthen its production capacity by targeting inclusive growth driven by labour-intensive sectors.**

Mauritania has had a high growth rate since 2010, estimated at 6.0% in 2012. The main drivers of growth were agriculture, following good rainfall, and particularly construction and public works. Both sectors have recorded increases in volume in 2012 of 39.6% and 23.3% respectively. Fishing is also doing well, with growth of 14.8%. The difficult international situation has, however, affected the mining industry, particularly iron, which is the country's main export.

Macroeconomic stability has been underpinned by strong fiscal management and prudent monetary policy. The Mauritanian government is pursuing its revenue collection policy by modernising tax administration and plans better targeting of public spending and commodity subsidies. The Central Bank of Mauritania (Banque Centrale de Mauritanie, BCM) has acquired tools to control the money supply in order to manage inflation. The level of international reserves stands at USD 750 million, the equivalent of 5.3 months of imports.

Diversification of the economy, which is dependent on the mining sector, is hampered by the narrow production base and weak domestic private investment, which is constrained by a legal and regulatory framework unfavorable to business. The main weaknesses of the Mauritanian economy are corruption, slow administration and poor infrastructure; transport and electricity in particular.

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Furthermore, good macroeconomic performance does not seem to have had any significant impact on employment or social protection and development indicators. Efforts to achieve some of the Millennium Development Goals (MDGs), such as the level of education, have achieved progress. But unemployment, poverty, food insecurity, poor access to health care and gender inequalities remain serious challenges for the country.

The priorities then are the promotion of the private sector to expand the production base, but also the establishment of social safety nets, the modernisation and transparency of administration, major infrastructure projects and better economic governance and social policy.

Macroeconomic indicators

	2011	2012(e)	2013(p)	2014(p)
Real GDP growth	3.9	6	6.4	5.5
Real GDP per capita growth	1.6	3.7	4.2	3.3
CPI inflation	5.7	4.9	6.2	5.6
Budget balance % GDP	-1.5	-3.6	-1.9	-3.6
Current account balance % GDP	-7.3	-18.5	-21.1	-18.8

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

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MAURITIUS

- **The Mauritian economy has held up well against the persistent global economic turbulence, although its growth momentum has eased, with the real GDP growth rate estimated at 3.3% in 2012 down from 3.8% in 2011. Forecasts for 2013 and 2014 show a gradual recovery with growth rates rising to 3.8% and 4.2% respectively.**
- **Public Finance Management (PFM) systems and institutions are generally strong but more reforms are needed to address emerging challenges related to public sector efficiency and recent transparency concerns.**
- **Social and human capital development is high; and supported by robust economic freedoms and a strong social welfare system. Nonetheless, further improvements in education quality and relevance are needed to enhance the country's competitiveness.**

The Mauritian economy has remained resilient in spite of the recession in the euro area that has weakened its external demand. At 3.3% in 2012, the real GDP growth rate remained positive although it continues to ease after growth rates of 3.8% and 4.2% in 2011 and 2010 respectively. Growth was anchored by strong performances in the financial services, information and communications technology (ICT) and seafood sectors. The 2013 outlook is positive, but may be tempered by downside risks if external demand remains timid. Growth is projected at 3.8% and 4.2% for 2013 and 2014, respectively, driven by continued expansion in the financial services, ICT and seafood sectors. The Cost Price Index (CPI) inflation steadily declined from 6.5% in 2011 to 4.1% in 2012 as the base effects were absorbed and global prices trended downward. As risks to growth outweighed price stability challenges the Key Repo Rate (KRR) was cut by 50 basis points to 4.9% in March 2012.

Prudent macroeconomic management underpinned fiscal performance in 2012 with budget outcomes showing a 6.5% growth in total revenue to MUR 73.74 billion (Mauritian rupees) (USD 2.43 billion) and a 0.8% fall in spending. Consequently, the budget balance narrowed to -2.9% of GDP from -3.2% in 2011, although the lingering recession in the euro area should test the authorities' resolve to maintain budget austerity. The 2013 budget aims to support growth while maintaining medium-term fiscal consolidation objectives. The current-account balance narrowed marginally, but remained wide at -10.6% of GDP in 2012 down from -11.0% in 2011, as the merchandise trade deficit continues to deteriorate due to persistent bottlenecks to trade competitiveness and weak external demand. The current account balance should continue to narrow gradually in 2013 and 2014 as the government slowly addresses the terms of trade shocks emanating from the soft euro area economy. Plans to reduce the fiscal deficit, as well as improve skills and infrastructure, should help address these bottlenecks.

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Public finance management and other structural reforms remain important to continuing strong governance outcomes and to enhancing competitiveness. A fall in the Transparency International *Corruption Perception Index* ranking from 39 in 2011 to 43 in 2012 (out of 183 countries) indicates a lack of public confidence in the government's anti-corruption efforts; particularly as prosecution of public figures charged with corruption have dragged on in 2012. On the fiscal front, Moody's Investors Service upgraded the government bond ratings of Mauritius to Baa1 from Baa2 on the back of sound macroeconomic management. Although Mauritius moved five places from the 2012 ranking of 24 to 19 out of 185 economies in 2012, in the World Bank report *Doing Business 2012*, it still holds the highest position among African countries. As a strong reformer, Mauritius has achieved notable structural transformation from a single-crop economy dependent on sugar to an economy driven by textiles, tourism, financial services, ICT and recently, real estate and seafood.

Macroeconomic indicators

	2011	2012(e)	2013(p)	2014(p)
Real GDP growth	3.8	3.3	3.8	4.2
Real GDP per capita growth	3.2	2.8	3.2	3.7
CPI inflation	6.5	4.1	6	4.6
Budget balance % GDP	-3.2	-2.9	-2.6	-2.4
Current account balance % GDP	-11	-10.6	-10	-9.5

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

MOROCCO

- **The Moroccan economy displayed a degree of resilience in a particularly difficult economic context, growing by 3.2% in 2012, driven by internal consumption and public investment. However this growth cut into foreign exchange reserves and deepened the fiscal deficit.**
- **Funding the economy remains a major challenge if the country is to maintain its momentum, and continuing reform is essential to check the rise in public spending, particularly of the compensation fund (Caisse de compensation), that pays subsidies for oil and basic goods.**
- **Morocco has a coherent strategy in place since the early 2000s to achieve its medium-term vision and has made a good start on structural change, with Morocco's phosphate industry – the world's biggest producer and exporter – playing a key role both from a financial point of view and as a source of growth for other sectors of the economy, though the textile industry is among those needing to reposition quickly in the face of international competition.**

Thanks to its economic development model, which combines openness, liberalisation and structural reform, Morocco has shown resilience in a difficult national and international context. Nevertheless the slowdown in activity in Europe, which is the country's chief economic partner, and below-average agricultural production resulted in a distinct slowdown in growth, which was 3.2% in 2012. That rate makes it impossible to reduce the high level of unemployment, especially among young graduates and women. However, growth should pick up in 2013 to reach around 4.6%, driven by the consolidation of internal demand. Some industries have been given a boost by the implementation of the 2009-15 National Pact for Industrial Emergence (*Pacte national d'émergence industrielle,* {PNEI}) and they should make a vigorous contribution to growth.

The PNEI is the result of strategic choices made at the start of the 2000s to encourage the emergence of new centres of growth, competitiveness and jobs. Morocco has focused on encouraging niche industries for export and on international promotion of emerging services to businesses. As a result, relocation of services, the automotive sector and transport and logistics are all thriving.

The economic programme of Prime Minister Abdelilah Benkirane calls for the programme commitments of the previous governments to continue, in particular in respect of social policies and public investment, while bringing down the budget deficit to 3% by 2016. It should be noted that the early reform of the compensation fund, a socially sensitive issue, is a prerequisite for achieving this goal of cutting the deficit. The fund provides subsidies for basic necessities such as cereals and sugar as well as petroleum products and in 2012 absorbed almost 20% of state revenues. Its cost amounts to nearly 6% of gross domestic product (GDP). Steps were taken in June 2012 to limit the explosion in spending but the fund still cost almost MAD 53 billion (Moroccan dirhams) compared with the MAD 32 billion originally forecast. Foreign exchange reserves have been falling fast since 2008 while remittances from Moroccans overseas have been declining, so

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that financing the fund's activity is the next challenge facing the country's economy. While funding of public infrastructure and the flagship projects of the PNEI can still be covered by calling on the external market and foreign investors, household savings need to be reinvigorated. To this end banks will need to make extra efforts to mobilise these savings to avoid rationing credit in job-creating sectors such as property and small- and medium-sized enterprises (SMEs) and industries (SMIs).

On the political front administrative reforms are being speeded up so that articles 156 and 167 of the new 2011 constitution relating to government administration can come into effect. But the Islamist government is the subject of criticism over progress on such major issues as the reform of the justice system or the fight against corruption. It is worth remembering that the Islamist Justice and Development Party (*Parti de la justice et du développement*, {PJD}) won the November 2011 elections by campaigning against corruption.

Macroeconomic indicators

	2011	2012(e)	2013(p)	2014(p)
Real GDP growth	5	3.2	4.6	5
Real GDP per capita growth	4	2.1	3.6	4
CPI inflation	0.9	1.3	2.3	2.4
Budget balance % GDP	-6.8	-7.5	-5.3	-4.7
Current account balance % GDP	-8	-8.6	-5.5	-5.7

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

MOZAMBIQUE

- **The Mozambican economy maintained its robust performance in 2012 with a real GDP growth of 7.4%. The progressive increase in coal production, the implementation of large infrastructure projects, coupled with credit expansion are expected to continue to drive growth to 8.5% in 2013 and 8% in 2014.**
- **In the face of declining external aid flows, government efforts to address the poor infrastructure and expand social safety nets will require strengthening the institutional framework to increase revenue collection, properly manage debt levels and improve investment planning.**
- **Despite more than a decade of sustained high economic growth, Mozambique's economy did not undergo any significant structural change, limiting its capacity to sustainably reduce poverty and foster human development, still one of the lowest in the world.**

Mozambique continued its robust economic performance in 2012. The real gross domestic product (GDP) growth rate increased by 0.1% from 2011 to 2012. It was driven by larger than expected coal production, which contributed 0.8% to the GDP growth rate. The continuation of sizable foreign direct investment (FDI) inflows, increased coal production, credit expansion to the private sector and strong infrastructure investment are expected to drive growth to 8.5% and 8.0% in 2013 and 2014, respectively. An ambitious infrastructure programme, coupled with the expansion of social safety nets will pressure public finances. The continued negative trend in foreign aid flows will further stress the fiscal balance. The fiscal deficit is expected to worsen from 8.2% in 2012, to 9.2% and 9.5% in 2013 and 2014, respectively. The government plans to rely on private financing and public-private partnerships to finance infrastructure development; however, an enhanced institutional framework is needed to assure accountability and scrutiny for the plans to add economic value.

Inflation reached historical lows of 2.7% in 2012, thus, providing room for the central bank to maintain its expansionary monetary stance – begun at the end of 2011 – that targets credit expansion. The financing of local private enterprises is essential to assuring jobs, economic diversification and ownership of the development process.

Despite its strong and sustained past economic growth, the Mozambican economy has undergone minimal structural transformation. Its productive base remains dependent largely on natural resources, which are concentrated in a few megaprojects, specifically coal, gas and aluminium. These megaprojects resulted in large FDI inflows, which have driven economic growth but not had a significant impact on government revenues, employment creation and economic diversification. Weak human capital, the high cost of credit, deficient infrastructure and burdensome regulations have slowed the diversification of the economic structure.

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According to the World Bank, the emerging extractive industry could provide the means for Mozambique to reach the status of a middle-income country by 2025. Large future public and private investments in extractive industries are expected to transform the deficient infrastructure. The likely improvement in the business environment may trigger a diversification of economic activities, which is imperative to sustainable economic growth, as increased activity in resource-rich regions, such as Tete province, is likely to exert significant pressure on local communities.

The recent offshore gas discoveries, estimated at 150 trillion cubic feet (tcf), are one of the largest known gas reserves. According to sector experts, their commercial exploitation is unlikely before 2019 due to the large investments required in production and transport infrastructure. However, the projected increase in world capacity of gas production combined with technological developments could threaten the economic viability of the gas reserves in the medium term.

Macroeconomic indicators

	2011	2012(e)	2013(p)	2014(p)
Real GDP growth	7.3	7.4	8.5	8
Real GDP per capita growth	5	5.1	6.3	5.8
CPI inflation	10.4	2.7	6.5	5.7
Budget balance % GDP	-4.3	-8.2	-9.2	-9.5
Current account balance % GDP	-10	-18.8	-15.5	-15.8

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

NAMIBIA

- **Economic growth recovered strongly in 2010 from the impact of the global economic crisis, but moderated in 2012. Despite the prevailing expansionary fiscal stance maintained by the government, the improvement in the fiscal deficit position in 2012 is mainly on account of large Southern African Customs Union (SACU) transfers.**
- **Namibia's growth prospects for the medium-term remain favourable, but downside risks stemming from global uncertainties are elevated.**
- **Further efforts are required for Namibia to put in place stronger policies and strategies for managing its available mineral resources and promoting value addition of mining products in order to make growth more inclusive and increase the resilience of Namibia's medium-term growth prospects.**

Namibia's real gross domestic product (GDP) growth is expected to remain moderate at around 4.7% in 2012, reflecting the strong performance in mining and construction activities and high government spending. The latter has been aimed at cushioning the domestic economy from the severe impact of the global economic downturn and addressing persistently high rates of unemployment, poverty and inequality. The country's growth prospects for the medium term remain favourable. GDP growth is projected to remain moderate at about 4.2% per annum in 2013/14 due to the deteriorating prospects for the global economy.

After years of fiscal surpluses arising from prudent macroeconomic policies, the global economic crisis and expansionary policies to support growth have made the fiscal situation worse. Nevertheless, Namibia's fiscal deficit is projected to decrease from 9% of GDP in 2011/12 to 4.7% in 2012/13, and this despite the prevailing expansionary fiscal stance maintained by the government. The government authorities intend to maintain fiscal expansion during the 2013/14-2015/16 Medium Term Expenditure Framework (MTEF) period amid the challenging global economic environment. With this in mind, the fiscal deficit is projected to average around 4.6% over this period. Namibia's total public debt stock is expected to reach 26.3% of GDP by the end of the 2012/13 financial year and projected to reach 27.8% of GDP in 2013/14 and 30.7% in 2015/16. However, this is sustainable and below the 35.0% statutory debt-to-GDP threshold.

Downside risks to the positive medium-term outlook stemming from global uncertainties remain elevated. This includes lower SACU revenues due to the crisis and weather-related shocks. (SACU includes Botswana, Lesotho, Namibia, South Africa and Swaziland). Namibia's growth prospects also continue to be negatively affected by the country's massive poverty, high unemployment and inequality, as well as infrastructure bottlenecks.

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Namibia relies heavily on the extraction and utilisation of its abundant natural resources. This includes some of the world's most unusual flora and fauna, as well as minerals. Diamonds and uranium account for the bulk of the country's total exports. Namibia is also rich in a variety of other minerals, with over 30 different commodities produced from about 40 formal mining operations. The structure of Namibia's economy has changed over the past three decades. Although the mining sector has been the main engine of growth, its capital-intensive nature, weak linkages with other sectors and a lack of beneficiation have limited its impact on employment. As Namibia is not a member of the Extractive Industries Transparency Initiative (EITI), it must take further steps to put in place stronger policies and strategies for managing its available mineral resources and promoting value addition of mining products. This will make growth more inclusive and increase the resilience of the country's medium-term growth prospects.

Macroeconomic indicators

	2011	2012(e)	2013(p)	2014(p)
Real GDP growth	4.9	4.7	4.2	4.3
Real GDP per capita growth	3.1	3	2.5	2.7
CPI inflation	5	6.5	5.5	4.9
Budget balance % GDP	-5.7	-9	-4.7	-4.6
Current account balance % GDP	-1.4	3.2	2.3	3

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

NIGER

- **In 2012, GDP grew by an estimated 13.1% in real terms, one of the highest levels recorded in Africa. Growth was boosted by a good harvest and an exceptionally dynamic secondary sector, which grew by almost 38%, driven by the extractive industries. Although there are some risks, the outlook for 2013 and for the medium term is good, with growth expected to average 5.5%. Reducing the national debt remains a challenge.**
- **In the political sphere, state institutions were consolidated in 2012. In social affairs, progress was made in human development, but remains slow. Niger is unlikely to achieve all the Millennium Development Goals (MDGs) by 2015.**
- **Huge investment in the oil and mining sectors are encouraging signs for the country's development. Nevertheless, better policies on the management of natural resources are needed, taking into account environmental externalities. To achieve sustainable mitigation of the economy's and the population's recurrent vulnerability to climatic impacts, Niger would benefit from making good use of its mining and oil resources to finance structural investments. Economic diversification is also necessary to generate inclusive growth.**

The political situation in Niger is still improving. However, the regional crisis in Mali fuelled by jihadist groups (AQIM, Ansar Dine and MOJWA), and taken up by Boko Haram in Nigeria could threaten social cohesion in Niger. Because of the risks, Niger could change its budgetary decisions, increasing spending on security and defence at the expense of certain areas of social spending.

The economic recovery continued in 2012, with growth in gross domestic product (GDP) of more than 13% according to provisional estimates. The primary, secondary and tertiary sectors all grew, contributing 6.9, 4.0 and 2.5 percentage points respectively to overall GDP growth.

An expansionary fiscal policy was made possible by a number of factors: high revenue generated by the extractive industries, revision of various tax rates[1] and continuing reforms of tax and customs administration. Support came from technical and financial partners including the African Development Bank (AfDB), the World Bank, the European Union (EU) and French co-operation. Debt rose again in 2011 and 2012. Analysis of debt sustainability reveals that the risk of over-indebtedness[2] could be upgraded from moderate to high. The budget deficit was estimated at less than 3% of GDP in 2012, well below the 6.8% deficit recorded in 2011, and is forecast to remain low until 2015.

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The Central Bank's monetary policy was slightly expansionary, with the money supply growing by 16.6% and credit to the economy – especially to the extractive industries – by 18.2% in 2012. Inflation increased from 2.9% to 3.9%. The effects of controls on staple food prices in response to the July 2012 floods will take place in 2013, with inflation forecast to fall to 1.8%, well below the West African Economic and Monetary Union (WAEMU) target rate of 3%.

Public policies have improved human development in the areas of health, education and social protection. The greatest achievement of the last decade has been investment in human capital, which has vastly improved education and health services. However, income poverty has declined very slowly. About 60% of Niger's population still live below the poverty line of USD 1 a day. If the poverty line is raised to USD 2 a day, that figure rises to 85%. In 2013, two years before the expiry of the MDGs, the poverty index is forecast to fall only to 55.0%, well short of the 2015 target of 31.5%.

Macroeconomic indicators

	2011	2012(e)	2013(p)	2014(p)
Real GDP growth	2.1	13.1	5.5	6.5
Real GDP per capita growth	-1.4	9.6	2	3
CPI inflation	2.9	3.9	1.8	1.4
Budget balance % GDP	-6.8	-2.8	-2	-2.5
Current account balance % GDP	-22.7	-22.7	-21.5	-17.8

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

Notes:

1. Certain exemptions granted under the investment code have expired.

2. In 2012 public debt grew thanks to a state guarantee on the loan granted to the Soraz oil refinery and a loan taken out by the government to finance its stake in the new uranium mine in Imourarem.

NIGERIA

- **The outlook for growth remains positive. Downside risks include security challenges arising from religious conflict in some states and slower global growth.**
- **As economic growth is largely driven by capital-intensive sectors, it has not translated into sufficient job creation and poverty remains high. As a result, Nigeria has a low Human Development Index (HDI). The country has made some progress towards attainment of the Millennium Development Goals (MDGs), albeit slowly and unevenly.**
- **There is a high need to diversify the Nigerian economy into the non-oil sector. This would help expand the sources of growth and make it broad based, both socially and geographically. Further development of agriculture, manufacturing and services could broaden growth, create employment and reduce poverty.**

The Nigerian economy slowed down from 7.4% growth in 2011 to 6.6% in 2012. The oil sector continues to drive the economy, with average growth of about 8.0%, compared to -0.35% for the non-oil sector. Agriculture and the oil and gas sectors continue to dominate economic activities and Nigeria. The fiscal consolidation stance of the government has helped to contain the fiscal deficit below 3.0% of gross domestic product (GDP). This, coupled with the tight monetary policy stance of the Central Bank of Nigeria (CBN), helped to keep inflation at around 12.0% in 2012. The outlook for growth remains positive. Short- and mid-term downside risks include security challenges arising from religious conflict in some states, costs associated with flooding, slower global economic growth (particularly in the United States and China) and the sovereign debt crisis in the euro area.

The economic growth has not translated into job creation or poverty alleviation. Unemployment increased from 21% in 2010 to 24% in 2011 because the sectors driving the economic growth are not high job-creating sectors (the oil and gas sector, for example, is a capital intensive "enclave" with very little employment-generating potential). The major policy issue is employment generation, particularly among the youth, and inclusive growth.

The economic growth was not accompanied by a structural change of the Nigerian economy. The economy lacks diversification and agricultural production lacks modernisation. To address this, the government is encouraging the diversification of the Nigerian economy away from the oil and gas sector. It is addressing the infrastructure deficit in the country and the development of the agricultural sector through modernisation and the establishment of staple-crop processing zones, with the value chain model to provide linkages to the manufacturing sector.

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Macroeconomic indicators

	2011	2012(e)	2013(p)	2014(p)
Real GDP growth	7.4	6.6	6.7	7.3
Real GDP per capita growth	4.9	4.1	4.2	4.8
CPI inflation	10.9	12	9.7	9.5
Budget balance % GDP	-0.1	3.7	4.4	5.7
Current account balance % GDP	3.2	10.4	11.8	14.6

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

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RWANDA

- **Rwanda's real GDP was on course to grow by a robust 7.7% in 2012, driven by services and industry. Growth is projected to slow down in 2013 and 2014, due to foreign aid suspension, tight fiscal and monetary policies and weak global demand.**
- **Rwanda was elected to the United Nations Security Council and pledged to champion the prevention of crimes against humanity. However, several development partners suspended aid following reports that Rwanda is supporting the insurgents in eastern Democratic Republic of Congo, which the government denies. A protracted suspension of aid could reverse the country's socio-economic progress.**
- **Human development continues to improve strongly, particularly school enrolment, parity in boys' and girls' education, as well as child and maternal health. The infant mortality Millennium Development Goal (MDG) has been achieved, and Rwanda is set to meet the targets for universal primary education, gender equality and under-five mortality. Poverty and income inequality have also retreated.**

Real gross domestic product (GDP) growth remained strong in 2012, largely driven by the service and industry sectors. Agriculture grew by a moderate 3.0% during the first three quarters of 2012 due to unfavourable weather conditions. The diversification of markets for tea and minerals, particularly coltan, boosted the export sector, which increased by 24.8% in 2012. Development assistance is key to the 2013 economic outlook. Assuming that aid, suspended by some development partners in 2012, resumes in 2013, GDP growth is projected to moderate to 7.1% in 2013. This projection takes into account other factors, including programmed fiscal consolidation, which prioritises public spending towards strategic investments, which, in turn, dampens aggregate demand, as well as a tight monetary policy that is a deterrant to the expansion of private sector credit. A protracted suspension of foreign assistance, however, could undermine Rwanda's economic prospects including a further reduction in real GDP growth and reverse progress towards the MDGs.

Headline inflation is expected to slow to 6.0% in 2013 because of a tight monetary policy and structural reforms to improve productive capacities, particularly in agriculture. However, meeting both this projection and the central bank's medium-term inflation target of 5.0% is contingent on the resumption of aid. Sustained investments in agriculture infrastructure and improved farm inputs should improve productivity and help make growth more inclusive. Pent-up import demand for intermediate products (i.e. products that have undergone partial processing generally used as raw materials in a successive productive step); capital goods and energy products is expected to continue outstripping the expanding but still narrow export base. This will lead to persistent current account deficits in the short to medium term. Exports currently cover only around 20-25% of Rwanda's imports.

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In spite of the government's efforts to diversify the economy, Rwanda is still heavily dependent on natural resources and commodities. Agriculture continues to be the largest source of employment, providing jobs to 73% of the workforce, yet only accounts for 36% of output. Commodities make up 77% of Rwanda's exports. Although their contribution to GDP remains marginal, minerals (notably, cassiterite, coltan – columbite-tantalite – and wolfram or tungsten) accounted for 28% of total export earnings in 2012, the remainder being primarily agricultural commodities. The country's structural transformation faces three significant challenges:

- Productivity remains too low, particularly in agriculture, to support the development of employment in other sectors; lower food prices; and to ensure that farming is profitable.
- High population density will continue to strain available natural resources and the environment.
- Constraints in both domestic and external financing have hampered efforts to diversify the economy.

Macroeconomic indicators

	2011	2012(e)	2013(p)	2014(p)
Real GDP growth	8.3	7.7	7.1	7.3
Real GDP per capita growth	5.3	4.8	4.2	4.4
CPI inflation	5.7	7.3	6	5.3
Budget balance % GDP	-2.4	-1.9	-1.4	-3.7
Current account balance % GDP	-8.5	-10.5	-10.2	-9.9

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

SÃO TOMÉ & PRÍNCIPE

- **As a small island state, São Tomé and Príncipe faces geographic constraints and economic challenges that condition its development prospects.**
- **The economy grew 4.9 % in 2011 driven by the construction, transport and retail sectors but in 2012 growth fell to an estimated 4%, mainly because of reductions in both private and public consumption.**
- **São Tomé has great potential to become a middle-income country based on its size and GDP per capita, if its resource wealth from oil is efficiently and transparently managed, thus avoiding the resource curse.**

The economy in São Tomé and Príncipe grew by 4.9% in 2011 compared with 4.5% in 2010. The growth was driven by the service, transport, construction and retail sectors. In 2012 the government reported a slight decrease in the growth rate to 4.0%, the result of a reduction in foreign direct investment (FDI) and private and public consumption. Real gross domestic product (GDP) growth is projected to be 5.2% and 5.8% in 2013 and 2014, respectively, thanks to an increase in FDI, the oil signature bonus and the inception of the country's major infrastructure projects, notably the deep-water seaport.

On the fiscal front, the emphasis was on consolidation. As a result, the budget deficit is projected to fall to a single digit of 9.4% of GDP at the end of 2012, from 11.9% in 2011. The strong performance is linked to structural reforms implemented in recent years aimed at improving revenue collection, including the establishment of a credit bureau, and enactment of legislation on natural resource management. Furthermore, the authorities are considering the implementation of the Fiscal Responsibility Framework aimed at tackling in 2013 the recurrent and chronic budget deficit and enhancing public accountability. To strengthen the financial system and improve its credibility, the Central Bank (CB) is planning to strengthen banking supervision by providing training to staff on risk management. The measure also includes revision of CB activities and restructuring of unprofitable banks. In 2013 a new chart of accounts will enter into force which is expected to comply with international financial reporting standards. A sound legal framework for banks with problems is also envisaged for 2014 with a view to assisting distressed banks with implementation, among other things, of appropriate monitoring and supervision instruments.

Conscious of the need to move the country away from the high risk of debt distress, with the support of the World Bank (WB) and Debt Relief International (DRI), in April 2012 the National Assembly approved a new Public Debt Management Law that defines the strategic framework and establishes the responsibilities and governance structure of the Bureau of Public Debt. In line with the sustainable growth objective of the country and to demonstrate further its commitment to improving transparency in the management of funds from its natural resources, the government enacted several laws on natural resources management including a framework for oil resource management, and the creation of a national petroleum agency and a national petroleum council (Law 8/2004, 5/2004 and 3/2004). This effort was reinforced with the re-application of the archipelago

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to participate in the Extractive Industry Transparency Initiative (EITI) and the acceptance of the application. The efficient management of oil revenues will therefore be a key challenge with the production of oil expected in 2016.

Macroeconomic indicators

	2011	2012(e)	2013(p)	2014(p)
Real GDP growth	4.9	4	5.2	5.8
Real GDP per capita growth	2.8	1.9	3.1	3.8
CPI inflation	14.3	9.5	7.9	7.7
Budget balance % GDP	-11.9	-9.4	-13.4	-13.2
Current account balance % GDP	-30.1	-22.5	-27.5	-27.7

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

SENEGAL

- **Senegal's 2012 growth recovered to an estimated 3.7%, after a slowdown in 2011 when agriculture suffered. This should continue in 2013 and 2014 thanks to new infrastructure programmes.**
- **The new president and government elected in 2012 have taken measures to improve good governance, which should boost the management of public resources.**
- **The structural transformation of the economy remains slow. Strategies are planned to promote new products to diversify exports and growth sources.**

Senegal's economy recovered in 2012 with growth estimated at 3.7% of gross domestic product (GDP), up from 2.1% in 2011. Projected growth for 2013 and 2014 is 4.3% and 5.1% respectively. These projections assume that the government's socio-economic programme will be implemented along with the Policy Support Instrument (PSI-II) 2010-13 agreed upon with the International Monetary Fund (IMF). The main investment programmes are for road infrastructure, with the continuation of a toll motorway and Blaise Diagne International Airport, as well as energy (electricity distribution).

The National Strategy for Economic and Social Development (SNDES) for 2013-2017 was approved in November 2012. It centres on three areas of action: growth, productivity and wealth creation; human capital and sustainable development; and government, institutions, peace and security. The direction taken by the new administration in the area of good governance should lead to better management of public resources. The implementation of necessary reforms to achieve growth objectives may be made easier by the strong legitimacy of the new ruling team that emerged from the presidential and parliamentary elections in early 2012. However, the opening of the Senegalese economy makes it vulnerable to fluctuations in world commodity prices and to the economic crisis in Europe and political crisis in neighbouring Mali. There are also internal risks linked to floods and other climatic shocks and to the slowness of the road infrastructure programme and reforms, especially of the energy sector.

Recent studies indicate that from 1980 to 2009, labour migration was from the primary and secondary sectors to the urban informal sector. But the structural transformation of Senegal's economy remains slow. About 60% of the working population still depends on agriculture. Senegal has not become mining-oriented, despite the potential offered by phosphate and gold. Mining and quarrying accounted for less than 1.5% of GDP for the period 2002-11. Reforms to improve the business environment and the quality of human resources are therefore crucial.

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Macroeconomic indicators

	2011	2012(e)	2013(p)	2014(p)
Real GDP growth	2.1	3.7	4.3	5.1
Real GDP per capita growth	-0.5	1.1	1.7	2.5
CPI inflation	3.4	2.5	1.6	1.8
Budget balance % GDP	-6.6	-7	-7.9	-7.4
Current account balance % GDP	-7.7	-8.6	-9.3	-10

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

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SEYCHELLES

- **Seychelles' GDP grew by about 2.8% in 2012, less than the previous year's 5%. As a result of rising international food and oil prices, the rupee fell in value, causing inflation. Tourism revenues fell due to the continued financial crisis in Europe (the main tourist market). GDP is expected to rise slightly to 3.2% in 2013 and 4.3% in 2014.**
- **Government economic policy has been consistent since the adoption of comprehensive reforms in 2009. The government maintained a fiscal policy in line with its objectives of reducing public debt and aims to attain primary fiscal surpluses of 6.7% of GDP in 2012 (above the budget target of 4.7%).**
- **Compared to countries in sub-Saharan Africa, Seychelles continues to promote high living standards and social development, and has already reached most of the eight Millennium Development Goals (MDGs), comparing favourably to developed countries. The financial crisis has, however, eroded citizens' purchasing power, as inflation has risen because of increased food and fuel prices , particularly in 2012.**

In 2012, the Seychelles' real Gross Domestic Product (GDP) growth slowed further to an estimated 2.8%, from 5% in 2011. Despite this, the performance was positive considering the uncertain global environment on which Seychelles' economy depends heavily. Reduced growth was due to a continued decline in foreign direct investment (FDI) inflows and the impact of increased food and fuel prices on macroeconomic fundamentals. The country also faced exchange rate instability, particularly in the first half of 2012. This led to a depreciation of the rupee and an increase in mid-year inflation to over 9%, the highest in over 4 years. Though end of year inflation reduced to 7.1%, it was significantly higher than in 2011. Despite the fact tourism revenue has fallen following the financial crisis, it is still the main driver of economic growth and showed some resilience in 2012. Tourism grew by about 8% in 2012 driven by an increase in arrivals, particularly from non-traditional markets. GDP is projected to increase slightly in 2013 to 3.2% as new tourist markets are further explored and the contribution of other sectors, such as fisheries and services, increases. Lower inflation is also expected to increase private sector activity and domestic demand, albeit marginally. GDP is expected to increase marginally to above 4% in 2014, as new markets are explored, consistency in economic policy is maintained, investment spending increased and an improvement in the business environment pursued.

The government continued its fiscal policy in line with its objectives of reducing public debt to 50% of GDP by 2018. The country had a primary fiscal surplus of 6.7% of GDP in 2012 (above the targeted 4.7%) and aims to achieve 4% in 2013. The country's performance under the Extended Fund Facility (EFF) reform programme, supported by the International Monetary Fund (IMF), has been positive and resulted in the final disbursement of resources under the programme by December 2012. One of the major tax administration reforms planned for last year, the introduction of Value Added Tax (VAT) in mid-2012 was delayed to 1 January 2013. A new Public Finance Bill approved by Cabinet in late 2011 was enacted in 2012, with additional measures expected in 2013. The country

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has also continued to pursue reforms aimed at improving the regulatory framework for investment. Measures undertaken in 2012, including the approval of amendments to the Financial Institutions Act, the drafting of a Financial Services Commission bill, improvements in business registration, in trade licensing, in customs administration and the restructuring of Public enterprises, have boosted competition, improved financial-sector services and the private-sector environment as well as reducing the state's role from implementer to facilitator. The preparation of a new National Development Plan (NDP) to replace the existing plan, "Seychelles 2017" which started in 2012 is ongoing. The NDP is expected to be finalised during 2013. The government initiated a policy review of agriculture and fisheries to rejuvenate these sectors, reduce import dependency and promote food security. A new agricultural policy is expected by the first half of 2013.

Structural transformation in Seychelles is complicated by its geographical position, topography and small population. The country is composed of 115 islands covering a wide geographical area in the Indian Ocean. Natural resources, land space[1] arable land and fresh-water resources are all limited. The main natural resource exploited on a large scale is fish, from the wide expanse of ocean. The fisheries are the most important export sector and account for over 80% of export revenues, although it only represents about 11% of formal employment. The country has also exploited its land and water surfaces, to promote land-based (hotels, resorts and private housing) and sea-based (fishing, diving, and snorkeling) tourism. While tourism is the main employer in the country; there has been limited diversification and insufficient product differentiation making the sector vulnerable to competition. The country aims to promote eco-tourism and cultural distinction further in order to diversify the sector. Oil and gas exploration which have been underway for over 30 years are finally bearing fruit with the setting up of Petro Seychelles in 2012, to oversee the promotion and supervision of exploration. It is expected that one of the two international companies that have identified commercially viable sites will drill its first well later in 2013, with the other companies following in 2014. If oil deposits are found to be commercially viable, production may take another 6 years to come on stream.

Macroeconomic indicators

	2011	2012(e)	2013(p)	2014(p)
Real GDP growth	5	2.8	3.2	4.3
Real GDP per capita growth	4.6	2.5	2.9	4
CPI inflation	2.6	7.1	4.4	3.9
Budget balance % GDP	2.5	2.6	0.3	-2
Current account balance % GDP	-22.6	-25.8	-28.4	-29.2

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

Note

1. The government spends significant resources annually on land reclamation for development purposes.

SIERRA LEONE

- **The mining sector made real GDP growth leap from 6% in 2011 to 16.7% in 2012, with support from agriculture, services and construction; it is projected to stabilise in 2013 and 2014.**
- **Sierra Leone has risen eight places in the latest World Bank report,** Doing Business **(140th out of 185 countries) and ranks as one of the top reformers since 2005 in improving business regulation for domestic firms, property registration and "narrowing the distance to frontier".**
- **The 2013 Human Development Index(HDI) ranks Sierra Leone at 0.336 on the Human Development Index, near the bottom (180th out of 187 countries), and below the regional average of 0.463.**

Driven by the mining sector (particularly iron ore), real GDP growth accelerated from 6% in 2011 to 16.7% in 2012 as a consequence of iron ore production. It has also been supported by agriculture, services and an expansion in construction. GDP growth is projected to stabilise around 7.2% in 2013 before reaching 12.1% in 2014 as iron ore projects become fully operational.

This robust economic growth has been accompanied by a tight monetary policy that has reduced inflationary pressures. As a result, inflation has dropped from 18.5% in 2011 to 11.6 % in 2012 and is projected to return to a single-digit 7.1% in 2013 and 6.9% in 2014 as agricultural production recovers and international food prices fall, aided of course, by the tight monetary policy. Indeed, the government implemented several reforms to contain inflation and has taken appropriate monetary policy measures. Policies to strengthen fiscal discipline in 2012 have helped to reduce the fiscal deficit from 4.5% of GDP in 2011 to 1.8% in 2012, and is projected around 2.3% in 2013, and 2% in 2014. The current account deficit as a percentage of GDP has also been reduced from 52.3% in 2011 to 44.0 % in 2012 as a consequence of an expansion in the minerals and cash crop exports. It is projected to shrink to 11.6% in 2013 but to slightly increase to 12 % in 2014.

The restrictive fiscal and monetary policies contributed to a reduction in the government expenditure and thus the domestic debt burden. This has been supported by strong reforms aiming at fighting corruption, improving the ease of doing business in Sierra Leone and reducing poverty. The Poverty Reduction Strategy Paper (PRSP) II is being succeeded by a new strategy called Agenda for Prosperity 2013-17, which aims to scale up inclusive green economic growth, employment and value addition to productivity in various sectors and to accelerating progress towards the Millennium Development Goals (MDGs).

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Recent discoveries of iron ore mines and the expansion of the extractive sector in Sierra Leone have initiated a structural transformation of the economy with a shift of productivity from agriculture to mining and construction activities that are now the main driver of GDP. However, labour transfer to these sectors is still low due to the fact that extractive activities and construction are capital intensive. Under its new development strategy, Agenda for Prosperity 2013-17, the government plans to improve its management of natural resources and to enhance revenue collection.

Macroeconomic indicators

	2011	2012(e)	2013(p)	2014(p)
Real GDP growth	6	16.7	7.2	12.1
Real GDP per capita growth	3.8	14.5	5.1	10.1
CPI inflation	18.5	11.6	7.1	6.9
Budget balance % GDP	-4.5	-1.8	-2.3	-2
Current account balance % GDP	-52.3	-44	-11.6	-12

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

SOUTH AFRICA

- **Economic growth suffered in 2012 from social unrest and the euro crisis but is expected to accelerate moderately in 2013 and 2014 thanks to improved global demand and accommodating macroeconomic policies.**
- **The unemployment rate remained above 25% in the final months of 2012. South Africa continues to face the triple challenge of chronic high unemployment, poverty and inequality amid a slow and volatile domestic and global economic environment. The National Development Plan needs to be implemented to address structural bottlenecks to job creation.**
- **Despite a rich natural resource endowment, the country's extractive industry continues to operate below potential due to the lack of technological progress and policy uncertainty. The African National Congress (ANC) conference is considered to have at least partially alleviated the latter by ruling out outright nationalisation.**

2012 was one of the most turbulent years since 1994 as labour unrest in the mining sector crippled production. In addition, the country's major trading partner, the euro area, slid into recession. Nevertheless, fixed investment accelerated in 2012. Economic growth picked up in 2012 but fell short of forecasts as export volumes barely expanded and consumer demand slowed. Economic growth is expected to benefit from expanded infrastructure investment and an increase in electrical capacity. That said, strong recovery will depend on the resolution of global challenges and on alleviating structural constraints.

Inflation stayed within the South African Reserve Bank's (SARB) 3-6% target range, although it briefly surpassed the upper limit. SARB made a 50 basis-point cut in the repo rate, the interest rate at which commercial banks can borrow money from the Reserve Bank. However, it is expected to remain unchanged for most of 2013 as the Bank balances weak growth prospects and inflationary pressures.

The rand has weakened and is expected to remain under pressure. National government debt increased to nearly 39% of the gross domestic product (GDP) in 2011-12. Bond yields trended down in 2012 but fiscal room continued to be constrained by the international economic slowdown, the impact of social unrest and large increases in the public sector wage bill that could affect the government's plan to increase infrastructure investment.

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Ten people died during a wild-cat strike at the Marikana platinum mine and the police shot dead 34 mineworkers the following week. Crime rates are falling, the goal of universal access to primary education was achieved, health indicators are improving and gender disparities are being addressed. However, in 2011, less than one in six households had adequate access to food, less than one in six individuals belonged to a medical aid scheme, unemployment stood close to 25% and one in three adult South Africans still had no access to a formal financial institution. In December 2012, Jacob Zuma, the South African president, was re-elected as the head of the ANC, which is expected to win the 2014 elections.

Policy makers have identified the need to manage natural resources to maximise development and employment. There are a number of reasons for the underperformance of the minerals sector: policy uncertainty, electricity shortages, infrastructure bottlenecks, water scarcity and skills shortages. If these impediments were addressed, the mining sector could grow by 3-4% annually until 2020, creating at least 300 000 jobs. In 2012, the government unveiled a 15-year infrastructure development plan to upgrade roads, ports and access to utilities, as well as to exploit coal and other mineral deposits.

Macroeconomic indicators

	2011	2012(e)	2013(p)	2014(p)
Real GDP growth	3.5	2.5	2.8	3.5
Real GDP per capita growth	2.8	2	2.3	3.1
CPI inflation	5	5.6	5.7	5.5
Budget balance % GDP	-4.2	-4.7	-4.5	-4
Current account balance % GDP	-3.4	-5.9	-5.6	-5.3

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

SOUTH SUDAN

- **The economy of South Sudan is still fragile, characterised by high dependence on oil, limited domestic production and a high reliance on imports. In the short and medium term, government spending will remain a key driver of the non-oil economy.**
- **The country has a shortage of skilled human resources in all key sectors of the economy.**
- **Despite the abundance of natural resources, the linkage between resources and structural transformation is still very weak, hence the failure to maximise "returns" from available natural resources.**

South Sudan gained independence on 9 July 2011 and its first year of independence was characterised by economic hardships. The size of the economy, measured by nominal gross domestic product (GDP), was SSP 43.1 billion (South Sudanese pounds) (equivalent to USD 14.4 billion) in fiscal year (FY) 2011/12, compared with SSP 42.9 billion (equivalent to USD 14.3 billion) in FY 2010/11. However, real GDP growth contracted in FY 2011/12 by 27% as a result of the shutdown of the oil pipelines and is projected to further contract by 16.3% in 2012/13 owing to the delay in full resumption of oil production.

The main driver of recent and future expected economic development is oil production. About 98% of government revenue stems from the oil sector, which contributes over 60% of GDP in terms of direct exports and associated investment[1]. The non-oil economy is dominated by subsistence farming and livestock. However, the agricultural sector is not well developed and the country still relies on imports to meet its food requirements. Furthermore, the poor infrastructure makes transporting agricultural and animal products to market very difficult. In the absence of oil exports, agriculture and services are expected to drive growth in 2013, therefore resulting in lower economic growth.

The country faces a number of challenges requiring critical government attention in coming years: a high poverty rate (an estimated 50.6% of South Sudanese citizens live below the poverty line), weak public service delivery systems (specifically in rural South Sudan), rapid population growth (arising from a combination of high fertility rates and migration following independence and the end of the conflict with Sudan), the economy's over-dependence on oil and a shortage of human resources in all sectors of the economy.

Note:

1. The country does not publish official data on GDP by sector due to lack of information on the agricultural sector, which employs about 83% of the population.

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SUDAN

- **The year 2012 marked a watershed in the economic history of Sudan as the government had to adjust to the new economic reality following the secession of South Sudan and the consequent loss of about 75% of revenue: real GDP is estimated to have grown by -0.6% and is projected to grow by 2.2% in 2013.**
- **Inflation was 36.0% in 2012, up from 20.0% in 2011 and the increasing inflationary pressures coupled with a high fiscal deficit of 4.4% in the face of continuing United States sanctions and the binding domestic borrowing constraint could translate into political instability and reduced potential for social development.**
- **Natural resources (mainly oil and gold) underpin medium-term economic growth but the civil wars in Darfur and the border states of South Kordofan and Blue Nile could impair growth prospects.**

Post-secession Sudan has yet to produce comprehensive, reliable and up-to-date macroeconomic data that meet international standards. This note continues to use macroeconomic data based on estimates provided by the 2013 budget document for 2012 and 2013 together with historical data provided by the authorities and the IMF Staff Monitored Programme (SMP).[1]

The year 2012 was significant for Sudan, reflecting the adjustment of the economy to the new economic reality following the secession of South Sudan in July 2011 and the resultant loss of about 75% of the county's oil resources. The first military skirmish with South Sudan temporarily brought oil production to a halt in Hegleig, which provides about 50% of the country's oil supply. Furthermore escalation of fighting in the border states of South Kordofan and Blue Nile and the unbudgeted spending on repairing Hegleig infrastructure further exacerbated the unfolding fiscal crisis.

The policy measures adopted in the aftermath of the secession have not been effective in mitigating the effects of adjusting to the severe and lasting external and internal shock. Consequently, real GDP contracted by -0.6% in 2012 down from 2.7% for 2011; nonetheless, it is projected to grow by 2.2% in 2013. The economy is expected to recover gradually in 2013 on the back of a sound revival of agriculture, an increase in oil production, a strong performance of gold exports and robust absorptive capacity.

Headline inflation in 2012 approached the threshold of chronic inflation (period average 36%), about 11 percentage points up from the budget projection of 2012 reflecting the combined effects of inflationary financing, the depreciation of the exchange rate, and the continued removal of subsidies, as well as high food and energy prices. This economic downturn prompted cost of living riots that erupted into Arab Spring-style anti-government demonstrations; also it aroused the discontent of the Sudanese Worker's Trade Union Federation (SWTUF), which threatened to hold nationwide strikes in support of higher wages. Despite continuing austerity the overall budget deficit increased from 1.0% of GDP in 2011 to an estimated 4.4% for 2012 and is projected to rise respectively to

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4.8% and 5.1% in 2013 and 2014. The current account deficit is estimated at 10.2% of GDP in 2012, up from 0.5% in 2011 mainly due to a sharp drop in exports (-52% year on year). The current account deficit is projected to decline to 8.9% in 2013.

Medium-term economic growth is expected to be driven by natural resources, mainly oil and gold. However, making the most beneficial use of natural resources (a key driver of the country's historic civil wars) would require a credible strategy to resolve all conflicts, strong commitment to maintaining macroeconomic stability and a clear diversification plan to promote the non-minerals sector by improving the business environment, rehabilitating decaying infrastructure and emphasising inclusive growth. However, the continued deterioration in the value of the Sudanese pound (SDG) poses grave downside risks to already soaring inflation. This, coupled with the economic slowdown, presents serious challenges to the implementation of the approved Interim Poverty Reduction Strategy Paper (I-PRSP).

Macroeconomic indicators

	2011	2012(e)	2013(p)	2014(p)
Real GDP growth	2.7	-0.6	2.2	3.4
Real GDP per capita growth	0.3	-3.1	-0.2	0.9
CPI inflation	20	36	22	19.5
Budget balance % GDP	-1	-4.4	-4.8	-5.1
Current account balance % GDP	-0.5	-10.2	-8.9	-5.7

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

Note:

1. The government continues to intensify efforts to assist the Central Bureau of Statistics (CBS) to generate comprehensive and consistent separate current and historical macroeconomic data.

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SWAZILAND

- **Despite the windfall South African Customs Union (SACU) revenues, decisive fiscal reforms that would put public finance on a sustainable footing and stimulate growth have only been partially undertaken.**
- **2013/14 presents another opportunity as SACU revenues are expected to remain high, further easing the fiscal constraint.**
- **Given limited natural resources, Swaziland's growth prospects depend on increased investments in high value-added manufacturing and services as well as skill development.**

The year 2013 presents an opportunity for the government to redirect its fiscal policy by utilising the projected high SACU receipts and to address some of the longer-term fiscal challenges. In this endeavour, the government can draw on reform recommendations in its updated Fiscal Adjustment Roadmap (FAR), which, over the medium term, puts emphasis on: *i)* adoption and implementation of the Public Finance Management (PFM) Bill; *ii)* removing pro-cyclicality of fiscal policy; *iii)* developing a medium-term expenditure framework (MTEF); and *iv)* strengthening domestic resource mobilisation. The fiscal measures, together with reforms of the investment climate and the development of comprehensive social protection schemes, are needed to bring the economy onto an inclusive growth path.

In 2012, Swaziland's economic growth remained one of the lowest in sub-Saharan Africa (SSA), despite a marked increase in the SACU revenues.[1] Although official estimates put real gross domestic product (GDP) growth at 0.2%, it is estimated that the economy marginally contracted by 0.3%, reflecting subdued global recovery, structural bottlenecks and the delayed impact of the fiscal crisis. With population growth at 1.3%, the decline in GDP per capita should have been steeper. The government arrears slashed performance of the private sector and especially small- and medium-sized enterprises (SMEs) in services, since many of the enterprises relied on government contracts. Even though the country re-launched the Investor Road Map and started its implementation, the overall unconducive investment climate poses challenges to growth, alongside persistent skills shortages and mismatches.[2]

The hopes that the windfall SACU revenues would help put the public finance on a sustainable path and stimulate growth over the longer term did not materialise in the 2012/13 fiscal year. Despite fiscal space created by the SACU revenues, only limited progress was made in managing total expenditures and rebalancing them from recurrent expenditure to capital outlays. Subsequently, the capital expenditures (in terms of GDP) are among the lowest in the region. The pace in clearing domestic payment arrears accumulated in 2011 has been slow, undermining private investment. On a positive note, despite the pressure of rising food prices in late 2011/early 2012, overall inflation remained in single digits throughout 2012. The official international reserves returned to adequate levels (above three months of imports), dissipating the earlier concerns about the sustainability of the lilangeni-rand peg.

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While the fiscal situation in 2013/14 is likely to stabilise, underlining structural bottlenecks will need to be addressed in order to achieve high and sustainable growth. These problems also highlight the risk of the worsening of already weak social indicators and a possible reversal of the poverty gains made before the fiscal crisis, when poverty declined from 69% to 63% in 2010. In fact, the 2012 UN Rapid Assessment of the Fiscal Crisis documented the negative impacts of the crisis on the most vulnerable groups. Given the weak growth prospects, reducing poverty and unemployment (estimated at 29% of the labour force in 2010) will be key policy priorities.

A key challenge for the Swazi economy is job creation in high value-adding sectors. Despite the dependence of the majority of the population on agriculture, the contribution of the sector to GDP has been declining, with a rising role of services, especially trade. Limited investments in the resources sector have seen the mining sector remaining stagnant. With skills development failing to adapt to the changing structure and new demands of the productive activities, Swaziland faces both skill shortages and a mismatch between skills possessed by its workforce and those demanded by employers. This impacts particularly negatively on employment opportunities among the young – at 52%, the country had one of the highest youth unemployment rates in Africa in 2010. Investments in human capital and skills development are required to enhance the dynamism of the labour market and technological readiness of the country, alongside creation of decent jobs (productive and secure).

1. SACU revenues rose by about 150% between 2011/12 and 2012/13 and remain high in the 2013/14 fiscal year.

2. Efforts to address growth constraints identified in the Investor Road Map, the Economic Recovery Strategy and the updated Fiscal Adjustment Road Map are ongoing, albeit at a slow pace.

Macroeconomic indicators

	2011	2012(e)	2013(p)	2014(p)
Real GDP growth	0.7	-0.3	0.7	1.8
Real GDP per capita growth	-0.7	-1.7	-0.7	0.5
CPI inflation	6.1	8.9	6	5.3
Budget balance % GDP	-9.6	3	-0.1	-0.2
Current account balance % GDP	-10.3	-2.6	-11.7	-12.6

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

Notes:

1. SACU revenues rose by about 150% between 2011/12 and 2012/13 and remain high in the 2013/14 fiscal year.

2. Efforts to address growth constraints identified in the Investor Road Map, the Economic Recovery Strategy and the updated Fiscal Adjustment Road Map are ongoing, albeit at a slow pace.

TANZANIA

- **Overall macroeconomic performance has been strong, with inflation declining to single digits and gross domestic product (GDP) growth projected at about 7% in the medium term. The main drivers of growth are telecommunications, transport and financial intermediation, manufacturing and construction, and trade.**
- **Continued emphasis on sound economic management and strengthening political governance could ensure that the newly found natural gas resources will indeed play an important role in Tanzania's socio-economic transformation over the medium term.**
- **While the structure of the economy has undergone some changes over the years, the slow progress in poverty reduction – largely due to underperforming agriculture and significant infrastructure bottlenecks – indicates that Tanzania is at best in the process of transformation.**

Tanzania continues to do well in maintaining overall macroeconomic stability – which, along with institutional and policy reforms, has been a fundamental factor behind the strong economic growth rates. The main drivers of growth have been agriculture, manufacturing, wholesale and retail trade, transport and communication activities. The economy has also continued to record strong export growth. Tanzania's medium-term growth prospects are around 7%, significantly boosted by natural gas discoveries.[1]

Nevertheless, underperformance in the agriculture sector – which employs 75% of the workforce – has been a key factor in jobless growth and chronic underemployment. Rapid aggregate GDP growth has not led to substantial reductions in poverty or improvements in overall socio-economic conditions for most of the population. Agricultural growth must be accelerated to achieve more effective poverty reduction. The business environment could be further boosted by heightening Tanzania's attractiveness to local and foreign investors through strengthening its human resource base and reinforcing overall institutional capacity and efficiency. However, while fiscal consolidation has been successful, the increased accumulation of quasi-fiscal arrears (notably in the energy and transport sectors) is a concern. Finally, overall growth prospects in the medium term depend heavily on solving Tanzania's chronic energy crisis. Key risks to Tanzania's growth and fiscal outlook stem from heightened financial difficulties of the power utility Tanzania Electricity Supply Company (TANESCO). If left unaddressed, these risks could result in further power outages and an additional fiscal burden.

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The newly found natural gas resources could provide impetus for future development. Wise management of the additional fiscal revenues is crucial to ensure inclusive sharing of windfall gains and benefits. In particular, resources from extractive industries should be used to develop other job-intensive sectors and avoid risks associated with jobless growth, which will require extensively upgrading the country's legal and institutional framework and preparing sectoral investment plans. Timely completion of the ongoing constitutional review will also help ensure smooth elections in 2015.

Macroeconomic indicators

	2011	2012(e)	2013(p)	2014(p)
Real GDP growth	6.4	6.4	6.9	7
Real GDP per capita growth	3.4	3.3	3.8	3.9
CPI inflation	12.7	16.1	8.4	6.9
Budget balance % GDP	-6	-9.1	-3.9	-3.1
Current account balance % GDP	-11.9	-11.1	-11.9	-10.8

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

Note:

1. Following large discoveries of natural gas in 2012, the government raised estimates for recoverable gas resources from around 29 trillion cubic feet in June 2012 to 33 trillion cubic feet in December 2012.

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TOGO

- **Following an estimated growth rate of 5.0% in 2012, the forecasts for 2013 and 2014 are favourable (about 5.3% and 5.5%), thanks to reform and investment.**
- **Constraints weigh heavily on the business environment, in particular for creation of companies and land ownership.**
- **Togo is working to bring its extractive industries in line with international standards in 2013 and to improve the sustainable management of natural resources.**

The primary sector dominates the Togolese economy, contributing 38% to gross domestsic product (GDP) in 2012, ahead of the tertiary sector (23%) and secondary sector (21%). Agriculture as a share of GDP remains a mainstay of the sector at 27%. Estimated growth of 5.0% for 2012 will come mainly from the primary and secondary sectors, in particular cotton, phosphate, and construction and public works, up from 2011. Together, these two sectors added 4.1% to real growth in 2012 (1.6% and 2.5% respectively), compared to 2.8% in 2011 (1.9% and 0.9% respectively). A public investment programme continues, which includes investment in roads and, combined with the revival of the phosphate and cotton sectors, is expected to support growth in 2013 and 2014, which could reach 5.3% and 5.5% respectively.

In 2012 the government prioritised investments and improving the macroeconomic situation. Despite increased fiscal revenue (+4.2% over 2011), at about 16.9% the tax burden remains lower than the 17% standard set by the West African Economic and Monetary Union (WAEMU). The deficit in the overall balance widened from -1.2% in 2011 to -3.1% in 2012. The expected 2.3% inflation rate for 2012 – under the community ceiling of 3% – is due to an estimated 4.5% fall in the price of communication services.

Politically, the conduct of legislative elections initially planned for the end of 2012 and postponed until 2013 will be a determining factor in maintaining calm in the country.

Togo's population is very young, with 60% aged under 25. Youth unemployment and underemployment are particularly high at 8.1% and 20.5% respectively. Progress has been made on the Millennium Development Goals (MDGs), but it is unlikely that many will be met by 2015. The most notable progress has been made in primary education for all, with the primary school net enrolment ratio increasing from 74.6% in 2006 to 81.8% in 2011. Poverty fell by three percentage points over the same period, but extreme poverty rose from 28.6% to 30.4%, and a greater focus must be placed on growth to help the poor.

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As for natural resource management, reforms linked to the Société nouvelle des phosphates du Togo (SNPT), the state-run phosphate company created in 2009, have begun to produce results. Production expanded by 28.4% in 2012. Improved governance in the cotton sector also helped production jump by 49.4% in 2012. Clinker and cement achieved an annual growth rate of over 5%.

Macroeconomic indicators

	2011	2012(e)	2013(p)	2014(p)
Real GDP growth	4.9	5	5.3	5.5
Real GDP per capita growth	2.8	2.9	3.2	3.4
CPI inflation	3.6	2.3	2.4	2.7
Budget balance % GDP	-1.2	-3.1	-3.6	-3.9
Current account balance % GDP	-6.4	-6.2	-3.9	-4.7

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

TUNISIA

- **The Tunisian economy recovered somewhat in 2012, with GDP growing by 3.3%, but this was insufficient to respond to the country's main challenges: unemployment, especially among young graduates, and regional disparities.**
- **Tunisia's political transition has taken longer than expected, with postponed elections and a growing political divide. Political debate prevails over an economic reflection.**
- **Tunisia has maintained its development potential, but reforms must continue to strengthen sectors with a high value added. Modernisation of agriculture and the development of energies should help Tunisia make better use of its natural resources.**

Tunisia's economy rebounded in 2012, growing by 3.3%. A good agricultural season and the relative recovery in tourism, foreign direct investment (FDI) and hydrocarbon and phosphate production, which almost stagnated in 2011, contributed to the economic recovery. However, the European crisis and the decline in external demand had a negative impact on exports, particularly of textiles and machinery and electricity. Overall, production benefited from a more stable social climate in 2011 and continued domestic demand, but the economy as a whole is not improving as fast as was expected. Unemployment remains high, as do the current-account and budget deficits, because of the lack of structural reforms and the failure of the country's main economic partner, Europe, to achieve a strong economic recovery. The greatest risks are ideological tensions, protests and possible pre-election populist policies, which could lead to overspending.

Political uncertainty is slowing down economic decisions and weakening the recovery that has begun. Security has deteriorated, tarnishing Tunisia's reputation as a safe country. The government is expected to continue with the line of reforms undertaken by the transitional authorities to improve growth and governance and diminish regional disparities. These reforms should be accompanied by a stable climate that can be maintained in the long term to restore investor and public confidence.

Tunisia's main natural resource, phosphate, remains vital to an economic recovery in 2013. For many years the country has been developing its phosphate processing industry to produce phosphoric acid and fertilisers, becoming the world's second largest producer and leading exporter of trisodium phosphate (TSP), with 21.7% of global production and 31.2% of global exports. To expand its exports, the public corporation *Groupe chimique tunisien* (GCT) is involved in international co-operation projects with partners from India (Tunisian Indian Fertilizers, Tifert) and China. The structural changes under way are set to continue, with improvements to the way natural resources are used.

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Macroeconomic indicators

	2011	2012(e)	2013(p)	2014(p)
Real GDP growth	-1.9	3.3	3.4	4.6
Real GDP per capita growth	-3	2.2	3.3	3.5
CPI inflation	3.5	5.6	5.5	4.5
Budget balance % GDP	-3.4	-6	-5.9	-4.8
Current account balance % GDP	-7.4	-8	-7.5	-6.7

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

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UGANDA

- **Uganda's economy stabilised in 2012 but growth of 4.4% is lowest for more than a decade.**
- **Growth should recover but will remain under Uganda's potential.**
- **The discovery of gas and oil is a unique opportunity to boost and restructure the economy.**

After a year of turbulence, the Ugandan government stabilised the economy in 2012 with inflation falling to 14.6% from 18.7% in 2011. Tightened fiscal and monetary policy helped bring fiscal balances under control. While laying the foundations for recovery and growth, stabilisation came at the cost of a slowdown in gross domestic product (GDP) growth to 3.2% by June 2012. A gradual recovery is expected, with real GDP growth projected to reach 4.4% in 2012, then picking up to 4.9% in 2013 and 5.5% in 2014. Growth could be lower however if the suspension of budget support aid, announced by several donors in November 2012 over a government corruption case, is maintained.

Social developments were mixed. Data indicates children under five are eating better and a sharp decline in infant mortality rates. But there is a worrying increase in maternal mortality and HIV prevalence, as well as persistent deficiencies in the Ugandan healthcare system. Political debate was dominated by the discovery of oil and a number of high-level corruption cases implicating senior government officials. A case affecting the government's northern Uganda programme led several donors to suspend development assistance to the government.

These events take place as Uganda completes two decades of rapid economic expansion, with GDP growing at an average annual rate of 7.1% from 1992 to 2011. As discussed in the theme chapter on "Structural Change and Natural Resource Management in Africa", fast growth has brought important changes to the Ugandan economy, although this has been limited on several accounts. With a rich and diversified base, natural resources weigh heavily on the Ugandan economy, although their contribution to growth and structural transformation has been declining. However, the recent discovery of commercially viable oil reserves in the Albertine Graben region, in western Uganda, has the potential to provide a unique opportunity for the country to carry out an economic structural transformation.

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Macroeconomic indicators

	2011	2012(e)	2013(p)	2014(p)
Real GDP growth	5.9	4.4	4.9	5.5
Real GDP per capita growth	2.7	1.2	1.8	2.4
CPI inflation	18.7	14.6	10.2	7.8
Budget balance % GDP	-3.6	-3	-4.9	-6.2
Current account balance % GDP	-10.9	-11.6	-13.3	-14.6

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

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ZAMBIA

- **Growth in real GDP accelerated to 7.3% in 2012 from 6.8% recorded in 2011 while inflation declined to an annual average of 6.5% in 2012 from 8.7% in 2011. In the next two years, growth is expected to remain strong and inflation low.**
- **Zambia's economic and governance landscape is improving though challenges remain. The country moved up two places on the Mo Ibrahim Index of African Governance in 2012 but fell 10 places in the latest World Bank report *Doing Business* where it now ranks 94th out of 185 countries.**
- **Despite marked improvements in economic performance, Zambia has yet to achieve significant gains in social and human development. The poverty headcount remains high, with about 60% of the population still living below the poverty line.**

Zambia's economy extended its growth momentum in 2012. Growth was driven by expansion in agriculture, construction, manufacturing, transport and finance. Economic prospects for the future appear bright if growth can be sustained and broadened to accelerate job creation and poverty reduction. After a successive slump in output, copper mining is expected to rebound in 2013, and is projected to reach 1.5 million tonnes by 2015. This is largely due to investment in new mines and the expansion of capacity at existing plants. Robust international copper prices will provide additional stimulus to mining.

Growth in other sectors is expected to remain equally robust, supported by infrastructure development and improvements in the business environment. In the agriculture sector, the government's input subsidy to smallholder farmers will continue while growth in construction and transport will benefit from the government's Link 8000 road infrastructure project. Expansion in energy infrastructure, a boost in the services sector from rising urban incomes and improvements in the regulatory environment will further strengthen Zambia's medium-term growth.

However, Zambia's growth will remain redundant unless there is a corresponding increase in job creation and progress on poverty reduction, and further progress in tackling the HIV/AIDS pandemic. Zambia's natural resources have not been harnessed to foster structural transformation and inclusive job creation. The country is dependent on copper mining, which accounts for about 80% of foreign exchange earnings and only 6% of total revenues. Thus, Zambia's long-term economic prospects hinge on the prudent capture and deployment of copper revenues as well as harnessing the potential of non-copper minerals and other natural resources. Ultimately, manufacturing activity, driven by the private sector, and directly or indirectly linked to these natural resources, will be critical to the country's long-term prosperity.

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Macroeconomic indicators

	2011	2012(e)	2013(p)	2014(p)
Real GDP growth	6.8	7.3	7.5	7.8
Real GDP per capita growth	3.9	4.3	4.4	4.7
CPI inflation	8.7	6.5	6.2	6.5
Budget balance % GDP	-4.4	-4.2	-4.8	-5
Current account balance % GDP	0.3	-3.3	-3.3	-3.8

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

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ZIMBABWE

- **Economic growth decelerated from 10.6% in 2011 to 4.4% in 2012, reflecting a fragile recovery owing largely to inherent political and economic uncertainties, a high debt overhang and the deteriorating infrastructure.**
- **Key challenging factors to doing business include policy instability, lack of funding, corruption, excessive or poorly functioning government bureaucracy and inadequate infrastructure.**
- **As a highly natural resources rich and dependent economy, Zimbabwe is vulnerable to environmental conditions. Moreover, the resource base has been stressed by increases in population and competition for natural resources.**

Real gross domestic product (GDP) growth was projected to decelerate to 4.4% in 2012 down from an estimated 10.6% in 2011 reflecting a slowdown in economic activity. It is projected to improve marginally to 5.0% in 2013. The projected improvement in 2013 will be underpinned by improvements in mining and agriculture.

In 2012, inflation averaged about 5.0%. Under the multi-currency regime, inflationary developments, in the short to medium term, will continue to be influenced by the USD/rand exchange rate, inflation developments in South Africa, international oil prices and local utility charges.

The economy continues to experience structural challenges emanating from the limited sources and high cost of capital; uncertainties arising from policy inconsistencies, especially with respect to economic empowerment and indigenisation regulations; dilapidated infrastructure and obsolete technologies.

The mining sector has made a significant contribution to the economic turnaround since 2009. The average share of mining to GDP grew from an average of 10.2% in the 1990s to an average of 16.9% from 2009 onward. Mineral exports, on the other hand, rose by about 230% over the 2009-11 period, making mining the leading export sector. By the end of 2011, mineral exports accounted for 47% of total exports, led by platinum (43%), gold (28%) and diamonds (20%). In 2012, mineral exports accounted for 64% of total exports. There is, however, a lack of transparency and accountability in the allocation of mining rights, as well as in the distribution and use of revenue from mining. Hence, mining revenues are a tiny fraction of total production.

The poor performance of domestic revenue inflows against the background of rising recurrent expenditures will continue to constrain the fiscal space. With the continued use of the multi-currency regime, monetary policy is not expected to change significantly. Overall, the economic performance will be influenced largely by the outcome of the forthcoming 2013 general elections.

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Macroeconomic indicators

	2011	2012(e)	2013(p)	2014(p)
Real GDP growth	10.6	4.4	5	5.7
Real GDP per capita growth	9.2	3.1	3.3	3
CPI inflation	3.9	5.1	5.7	5.5
Budget balance % GDP	-3.4	-4	-3.9	-3.9
Current account balance % GDP	-38.7	-35.3	-33.1	-34.1

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

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Part four

Statistical Annex

Statistical Annex

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Methodology

The aggregate figure for Africa, when reported, does not include countries whose data are unavailable.

When used, the oil exporting countries group refers to Algeria, Angola, Cameroon, Chad, Congo Dem. Rep., Congo, Côte d'Ivoire, Egypt, Equatorial Guinea, Gabon, Libya, Nigeria and Sudan.

Tables 1 to 6.

Where indicated, the figures are reported on a fiscal-year basis. Figures for Egypt, Ethiopia, Kenya, Liberia, Malawi, Mauritius, Tanzania, and Uganda are from July to June in the reference year. For South Africa, Namibia, Swaziland, Lesotho and Botswana, fiscal year 2012 is from April 2012 to March 2013.

Table 7. Exports, 2011

The table is based on exports disaggregated at 6 digit level (following the Harmonised System, rev.2)

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 Harmonised System, rev.2). 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 (2006-11) (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, 2006-11

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* 2012).

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Table 11. Aid flows, 2006-11

The DAC countries are: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, South Korea, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom, 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 satisfy minimum subsistence needs. International poverty line: absolute poverty line corresponding to a level of income or consumption of USD 1 or USD 2 a day.

Gini index: index measuring the intensity of inequality in income or consumption expenditure distribution. Perfect equality leads to a Gini index of zero and maximum inequality to a Gini index of 100. Share of consumption: share of total consumption for a decile of the population ranked by level of consumption.

Table 15. 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,

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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.

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

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: Error! Hyperlink reference not valid. http://cpi.transparency.org/cpi2012/

Table 22 to 24. Political indicators

The political indicators presented in tables 22 to 24 and discussed in chapter 5 of this report measure public protests, public violence and political hardening in African countries. The indicators have been assembled on the basis of a detailed monitoring of daily press briefs

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verified by the AFP[1] and Reuters news agencies, aiming to take into account the daily events and decisions that make up the reality of political life and government attitudes in African countries.

The methodology was first proposed by Dessus et al. (1998)[2]. All three indicators are composites combining 4-value variables (with a scale of 0 to 3: 0: non-occurrence, 1: occurrence but weak intensity, 2: medium intensity and 3: strong intensity) and/or binary variables with values 0 and 1, with 0 being the non-occurrence of the event and 1 its occurrence. The detailed contents of each indicator are listed below.

These indices have been assembled since 1996 for 30 African countries[3] and since 2006 for 52 countries. AFP's daily press briefs have been the source for the indicators since 2008. Before that, the weekly newspaper Marchés Tropicaux et Méditerranéens (MTM) served as the source for the indicators. This change in the source introduced a break in the series. Comparing both sources for all 52 countries in two consecutive years (2006 and 2007), we found that the number of reported relevant events was higher in AFP, which reports daily, than in the weekly MTM, requiring a slight upward adjustment of past data to ensure comparability. We estimated correction coefficients for each country in the series (the average coefficients were 1.10 for public protests, 1.04 for public violence and 1.46 for political hardening). The indicators presented in the tables have been adjusted accordingly for the years 1996-2005.

In AEO reports prior to 2010 the public protest and public violence indicators were combined in a civil tensions indicator. This series has been split up into its components in the reports starting from 2011 onwards to allow for a separate analysis of these two time series. The indicators for 2012 can also be found on the AEO website www.africaneconomicoutlook.org.

Weighting methods

We assign an appropriate weight to each variable of the composite index for the "Political Hardening" indicator. First, we take into account the intensity level of each variable. By construction, a « dead » victim gets attributed a higher weight than an « injured » victim: intensity value « 1 » corresponds to between 1 and 9 « dead » victims, compared to between 1 and 49 "injured" victims. Second, a principal component analysis was performed to assign each variable the following weights: Each intensity value of police violence is multiplied by 0.261 (if dead), 0.423 (if injured), 0.402 (if arrested). For dichotomous variables, the weights are: State of emergency (.631), Additional resources for the police (.603) and Extrajudicial prosecution (0.583), Prohibition of strikes (0.383), Prohibition of the press (0.292), Hardening of the political climate (0.253), closure of schools (0.092).

Table 22: Public protest

- Strikes
  0 = non-occurrence,
  1 = 1 strike or number of strikers lower than 1 000 (included)
  2 = 2 strikes or number of strikers between 1 000 and 5 000 (included)
  3 = 3 strikes or number of strikers strictly higher than 5 000

- Demonstrations
  0 = non-occurrence,
  1 = 1 demonstration or number of protesters lower than 5 000 (not included)
  2 = 2 demonstrations or number of protesters between 5 000 and 10 000 (not included)
  3 = 3 demonstrations or number of protesters higher than 10 000

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Table 23: Public violence

- Unrest and violence (number of dead and injured)
  Dead 0 = none
  1 = between 1 and 10 (not included)
  2 = between 10 and 100 (not included)
  3 = higher than 100
  Injured 0 = none
  1 = between 1 and 50 (not included) or if the number of dead is between 1 and 10
  2 = between 50 and 500 (not included) or if the number of dead is between 10 and 100
  3 = higher than 500 or if the number of dead exceeds 100

Table 24: Political hardening

- State of emergency (0 or 1)

- Arrests, incarcerations (of opponents: protesters, journalists, opposition actors, or for other political reasons)
  0 = non-occurrence
  1 = between 1 and 10 (not included)
  2 = between 10 and 100 (not included)
  3 = higher than 100

- Additional means for police repression, judicial harassment, death threats, propaganda or censorship (0 or 1)

- Toughening of the political environment (dissolution of political parties, new law against democracy, expulsions, dismissals, curfew, …) (0 or 1)

- Violence perpetuated by the police (number of dead and injured)
  Dead0 = none
  1 = between 1 and 10 (not included)
  2 = between 10 and 100 (not included)
  3 = higher or equal to 100
  Injured 0 = none
  1 = between 1 and 50 (not included) or if the number of dead is between 1 and 10
  2 = between 50 and 500 (not included) or if the number of dead is between 10 and 100
  3 = higher than 500 or if the number of dead exceeds 100

- Extra juridical prosecutions and executions (0 or 1)

- Bans on strikes and demonstrations (0 or 1)

- Bans on press or public debates (0 or 1)

- Closing of schools (for political reasons) (0 or 1)

- Counter-demonstrations orchestrated by the government

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Notes

1. In addition to AFP, we used Reuters to assess if this would provide us with additional information; notably for non-francophone countries. No significant information selection bias was reported (generally the news items are the same but treated in a different approach).

2. Dessus, S., D. Lafay and C. Morrisson (1998), "A Politico-economic Model for Stabilisation in Africa", *Journal of African Economies*.

3. The following countries are included in this sample: Algeria, Benin, Botswana, Burkina Faso, Cameroon, Cape Verde, Chad, Côte d'Ivoire, Egypt, Equatorial Guinea, Ethiopia, Gabon, Ghana, Kenya, Libya, Malawi, Mali, Mauritius, Morocco, Mozambique, Namibia, Nigeria, Senegal, South Africa, Tanzania, Togo, Tunisia, Uganda, Zambia and Zimbabwe.

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Table 1. **Basic indicators, 2012**

	Population (thousands)	Land area (thousands of km²)	Population density (pop / km²)	GDP based on PPP valuation (USD million)	GDP per capita (PPP valuation, USD)	Annual real GDP growth (average over 2004-12)
Algeria	36 486	2 382	15	274 496	7 523	3.1
Angola	20 163	1 247	16	126 214	6 260	11.6
Benin	9 352	115	81	15 505	1 658	3.5
Botswana	2 053	582	4	31 491	15 337	4.7
Burkina Faso	17 482	274	64	24 027	1 374	5.9
Burundi	8 749	28	314	5 489	627	4.1
Cameroon	20 469	475	43	50 324	2 459	3.3
Cape Verde	505	4	125	2 175	4 303	4.5
Central Afr. Rep.	4 576	623	7	3 847	841	2.8
Chad	11 831	1 284	9	21 335	1 803	9.3
Comoros	773	2	416	872	1 127	1.9
Congo	4 233	342	12	19 267	4 552	5.1
Congo Dem. Rep.	69 575	2 345	30	27 533	396	6.3
Côte d'Ivoire	20 595	322	64	39 635	1 925	2.0
Djibouti	923	23	40	2 377	2 576	4.3
Egypt *	83 958	1 001	84	537 758	6 405	4.8
Equatorial Guinea	740	28	26	28 029	37 853	10.9
Eritrea	5 581	118	47	4 412	791	1.7
Ethiopia*	86 539	1 104	78	103 138	1 192	10.9
Gabon	1 564	268	6	26 711	17 080	3.6
Gambia	1 825	11	161	3 495	1 916	2.9
Ghana	25 546	239	107	83 176	3 256	7.4
Guinea	10 481	246	43	12 250	1 169	2.7
Guinea-Bissau	1 580	36	44	1 902	1 204	3.0
Kenya	42 749	580	74	76 074	1 780	4.8
Lesotho	2 217	30	73	3 945	1 780	4.3
Liberia	4 245	111	38	2 693	635	7.4
Libya	6 469	1 760	4	87 913	13 589	7.8
Madagascar	21 929	587	37	21 372	975	3.1
Malawi	15 883	118	134	14 581	918	5.6
Mali	16 319	1 240	13	17 355	1 063	3.8
Mauritania	3 623	1 031	4	7 615	2 102	4.5
Mauritius	1 314	2	644	20 259	15 420	4.0
Morocco	32 599	447	73	170 953	5 244	4.5
Mozambique	24 475	799	31	26 215	1 071	7.4
Namibia	2 364	824	3	16 845	7 124	5.2
Niger	16 644	1 267	13	13 530	813	5.3

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	Population (thousands)	Land area (thousands of km²)	Population density (pop / km2)	GDP based on PPP valuation (USD million)	GDP per capita (PPP valuation, USD)	Annual real GDP growth (average over 2004-12)
Nigeria	166 629	924	180	450 535	2 704	7.2
Rwanda	11 272	26	428	14 908	1 323	8.3
São Tomé & Príncipe	172	1	179	403	2 345	5.3
Senegal	13 108	197	67	26 504	2 022	3.9
Seychelles	88	0.460	192	2 410	27 295	4.1
Sierra Leone	6 126	72	85	8 376	1 367	7.2
Somalia	9 797	638	15	…	…	…
South Africa	50 738	1 219	42	578 640	11 404	3.6
South Sudan	10 386	644	16	…	…	…
Sudan	35 336	1 879	19	80 431	2 276	5.1
Swaziland	1 220	17	70	6 149	5 038	2.0
Tanzania	47 656	947	50	73 498	1 542	6.9
Togo	6 283	57	111	6 899	1 098	3.3
Tunisia	10 705	164	65	104 413	9 754	3.8
Uganda	35 621	242	147	50 591	1 420	6.9
Zambia	13 884	753	18	23 676	1 705	6.3
Zimbabwe	13 014	391	33	6 909	531	-0.3
Africa	1 068 444	30 066	36	3 359 148	3 204	5.4

Note: * Fiscal year July (n-1)/June (n).
Sources: United Nations, Department of Economic and Social Affairs, Population Division, World Population Prospects, The 2010 Revision.
AfDB Statistics Department, Various domestic authorities and AfDB estimates.

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Table 2. **Real GDP growth rates, 2004-14**

	2004	2005	2006	2007	2008	2009	2010	2011	2012 (e)	2013 (p)	2014 (p)
Algeria	5.2	5.1	2.0	3.0	2.4	2.4	3.3	2.4	2.5	3.2	4.0
Angola	10.2	20.9	19.0	23.2	13.8	2.4	3.4	3.9	7.9	8.2	7.8
Benin	3.1	2.9	3.8	4.6	5.0	2.7	2.6	3.5	3.6	4.1	4.6
Botswana	2.6	4.8	8.3	8.9	3.7	-7.9	8.1	8.0	5.8	5.6	5.5
Burkina Faso	4.5	8.7	6.3	4.1	5.8	3.0	8.4	4.4	8.0	6.7	6.8
Burundi	4.8	0.9	5.4	3.5	4.9	3.8	4.8	4.2	4.3	4.6	4.9
Cameroon	3.7	2.3	3.2	3.3	2.9	1.9	3.3	4.1	4.9	5.0	5.2
Cape Verde	4.3	6.5	10.1	8.6	6.7	-1.3	1.5	2.1	4.0	4.8	5.0
Central Afr. Rep.	2.8	2.0	3.8	3.7	2.0	1.7	3.3	3.1	3.1	3.2	4.6
Chad	34.3	7.9	2.7	8.4	3.4	4.1	14.0	1.6	7.2	7.4	11.5
Comoros	1.9	2.8	2.6	0.8	0.6	1.1	2.0	2.6	2.7	3.2	3.8
Congo	3.7	7.6	6.2	-1.6	5.6	7.5	8.8	3.4	4.9	5.1	5.3
Congo Dem. Rep.	6.6	7.8	5.6	6.3	6.2	2.8	7.2	6.9	7.2	8.2	9.4
Côte d'Ivoire	1.6	1.8	0.7	1.6	2.3	3.8	2.4	-4.7	8.6	8.9	9.8
Djibouti	3.0	3.2	4.8	5.1	5.8	5.0	3.5	3.5	4.5	5.0	5.0
Egypt *	4.1	4.5	6.8	7.1	7.3	4.9	4.8	1.8	2.2	2.0	3.5
Equatorial Guinea	38.0	9.7	1.3	21.4	10.7	4.6	-0.5	7.7	5.5	4.9	-2.0
Eritrea	1.5	2.6	-1.0	1.4	-9.8	3.9	2.2	8.7	5.5	7.0	6.5
Ethiopia*	13.6	11.8	10.8	11.5	10.8	8.7	12.7	11.2	6.9	6.6	6.3
Gabon	1.4	3.0	1.2	4.8	5.3	-2.7	6.9	7.0	5.7	6.2	6.0
Gambia	7.0	-0.9	1.1	3.6	5.7	6.4	6.5	-4.4	1.0	4.3	5.1
Ghana	5.6	5.9	6.4	6.5	8.4	4.0	8.0	14.4	7.1	8.0	8.7
Guinea	2.3	3.0	2.5	1.8	4.9	-0.3	1.9	3.9	4.2	4.8	5.6
Guinea-Bissau	2.2	4.3	2.3	3.2	3.2	3.4	4.5	5.3	-1.5	4.2	3.5
Kenya	5.1	5.9	6.3	7.0	1.5	2.7	5.8	4.4	4.2	4.5	5.2
Lesotho	2.3	2.7	4.3	4.7	5.7	3.6	7.9	3.7	3.8	3.9	3.5
Liberia	4.1	5.9	9.1	13.0	6.2	5.4	6.1	8.2	8.9	7.7	5.4
Libya	4.5	11.9	6.5	6.4	2.4	-1.4	3.7	-59.7	95.5	15.0	8.1
Madagascar	5.3	4.6	5.0	6.2	7.1	-4.1	0.4	1.6	1.9	3.0	4.0
Malawi	5.4	2.6	7.7	5.5	8.6	7.6	6.5	4.3	2.0	5.5	6.1
Mali	2.3	6.1	5.3	4.3	5.0	4.5	5.8	2.7	-1.5	5.4	5.1
Mauritania	5.2	5.4	11.4	1.0	3.5	-1.2	5.1	3.9	6.0	6.4	5.5
Mauritius	5.8	1.2	3.9	5.4	5.5	3.1	4.2	3.8	3.3	3.8	4.2
Morocco	4.8	2.8	7.8	2.7	5.6	4.9	3.6	5.0	3.2	4.6	5.0
Mozambique	7.9	8.4	8.7	7.3	6.8	6.3	6.8	7.3	7.4	8.5	8.0
Namibia	12.3	2.5	7.1	5.5	3.4	-0.4	6.6	4.9	4.7	4.2	4.3
Niger	-0.8	7.2	5.8	3.4	9.6	-0.7	8.2	2.1	13.1	5.5	6.5

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Table 2. **Real GDP growth rates, 2004-14** (cont.)

	2004	2005	2006	2007	2008	2009	2010	2011	2012 (e)	2013 (p)	2014 (p)
Nigeria	10.5	6.5	6.0	6.4	6.0	7.0	8.0	7.4	6.6	6.7	7.3
Rwanda	7.4	9.4	9.2	7.6	11.2	6.2	7.2	8.3	7.7	7.1	7.3
São Tomé & Príncipe	4.5	1.6	12.6	2.0	9.1	4.0	4.5	4.9	4.0	5.2	5.8
Senegal	5.9	5.6	2.5	4.9	3.7	2.4	4.3	2.1	3.7	4.3	5.1
Seychelles	-2.9	9.0	9.4	10.1	-1.9	-0.2	5.6	5.0	2.8	3.2	4.3
Sierra Leone	7.4	7.3	7.4	6.4	5.5	3.2	5.3	6.0	16.7	7.2	12.1
Somalia	...	...	...	...	...	...	...	...	...	...	...
South Africa	4.6	5.3	5.6	5.5	3.6	-1.5	3.1	3.5	2.5	2.8	3.5
South Sudan	...	...	...	...	...	...	...	...	...	...	...
Sudan	6.5	3.7	11.9	12.2	2.3	4.6	2.2	2.7	-0.6	2.2	3.4
Swaziland	2.9	2.5	3.3	3.5	2.4	1.2	1.9	0.7	-0.3	0.7	1.8
Tanzania	7.8	7.4	6.7	7.1	7.4	6.0	7.0	6.4	6.4	6.9	7.0
Togo	2.5	1.2	3.9	2.1	2.4	3.4	4.0	4.9	5.0	5.3	5.5
Tunisia	6.0	4.0	5.7	6.3	4.5	3.1	3.1	-1.9	3.3	3.4	4.6
Uganda	5.8	10.0	7.1	8.1	10.4	4.1	6.2	5.9	4.4	4.9	5.5
Zambia	5.4	5.3	6.2	6.2	5.7	6.4	7.6	6.8	7.3	7.5	7.8
Zimbabwe	-6.9	-2.2	-3.5	-3.7	-17.7	6.3	9.6	10.6	4.4	5.0	5.7
Africa	6.1	5.9	6.3	6.6	5.4	3.1	5.0	3.5	6.6	4.8	5.3

Note: * Fiscal year July (n-1)/June (n)
(e) estimates; (p) projections.
Sources: AfDB Statistics Department, Various domestic authorities and AfDB estimates.

Table 3. **Demand composition and growth rate, 2011-14**

	2011						2012 (e)				2013 (p)				2014 (p)			
	Final consumption		Gross capital formation		External sector		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
	Private	Public	Private	Public	Exports	Imports												
	% of GDP						Real percentage growth				Real percentage growth				Real percentage growth			
Algeria	33.6	21.1	22.6	12.8	39.7	29.8	4.7	2.3	-2.5	2.2	3.0	7.3	0.6	5.9	4.3	7.3	1.9	7.1
Angola	47.4	19.5	1.7	9.7	65.0	43.3	7.4	18.6	-1.1	3.8	5.3	11.3	4.3	3.6	5.1	8.0	4.5	2.9
Benin	76.6	11.6	12.1	9.2	14.4	23.9	2.2	5.0	6.1	1.9	4.5	4.0	3.1	4.9	5.5	4.7	1.6	5.9
Botswana	46.5	22.1	22.2	14.8	42.3	47.8	-1.4	2.2	13.9	-2.2	-0.7	5.8	11.0	1.0	-0.7	5.8	10.7	1.5
Burkina Faso	69.7	18.1	10.9	8.9	20.0	27.6	5.7	9.7	18.6	5.9	5.8	6.7	15.7	7.2	6.1	6.7	8.3	5.2
Burundi	80.3	28.0	9.6	10.4	9.4	37.7	6.1	-2.0	3.2	4.3	5.3	2.0	3.9	4.5	4.7	3.0	4.5	3.5
Cameroon	75.9	11.6	18.2	2.4	18.4	26.5	4.2	7.3	0.3	1.9	4.7	7.7	3.5	5.4	4.3	9.7	3.7	5.7
Cape Verde	61.5	18.4	25.5	21.6	40.5	67.5	2.2	3.5	1.2	2.3	5.5	5.6	3.4	5.9	5.8	5.8	4.1	6.5
Central Afr. Rep.	91.1	7.9	8.4	4.0	11.9	23.3	1.7	22.4	-3.5	4.6	3.3	10.7	-4.2	5.0	3.8	9.5	4.5	4.8
Chad	65.8	6.3	14.6	15.3	40.7	42.7	4.5	14.8	3.7	5.3	7.4	24.8	1.7	14.2	5.9	13.8	22.6	9.6
Comoros	100.0	23.7	6.0	3.9	15.5	49.1	2.3	5.8	3.0	2.5	5.0	8.6	3.6	8.2	5.4	8.6	4.2	8.2
Congo	22.2	7.3	22.8	11.7	84.9	49.0	14.6	28.0	-2.0	29.3	16.4	15.0	9.0	25.3	13.7	15.6	7.6	21.3
Congo Dem. Rep.	76.1	13.2	13.9	6.6	67.9	77.7	1.5	20.0	8.5	6.7	8.8	10.5	5.3	7.2	10.8	8.4	6.5	8.1
Côte d'Ivoire	60.1	13.6	5.4	2.8	50.5	32.5	5.3	9.5	13.7	9.6	12.5	9.2	7.1	15.1	16.0	11.1	5.4	18.5
Djibouti	70.0	23.7	11.3	13.3	38.0	56.3	6.1	21.4	-1.6	10.3	5.2	19.6	-0.3	9.1	4.5	18.3	1.2	9.4
Egypt*	75.6	11.5	5.6	11.5	20.6	24.7	1.9	-0.5	1.1	-1.0	0.8	6.8	1.0	1.5	1.0	6.8	5.3	1.4
Equatorial Guinea	37.1	3.1	11.0	24.5	72.1	47.9	28.3	4.5	-2.6	10.4	5.0	5.6	4.8	5.1	2.2	5.7	0.1	4.2
Ethiopia*	81.7	7.9	6.8	18.3	16.5	31.3	10.9	4.3	1.3	12.7	9.3	3.3	1.7	9.2	8.8	3.3	2.3	9.1
Gabon	27.9	13.2	13.1	8.3	63.2	25.8	10.5	16.8	-4.0	8.2	6.2	0.8	4.8	5.9	8.9	7.6	0.8	6.5
Gambia	90.1	8.0	9.5	8.4	23.7	39.7	-2.3	3.7	3.4	-3.7	5.0	-1.3	2.2	1.7	7.1	-3.0	2.0	3.5
Ghana	83.0	10.7	13.8	6.7	37.4	51.7	7.0	6.9	4.7	5.0	11.7	9.8	1.9	10.7	10.8	9.8	6.6	11.3
Guinea	93.3	10.1	16.9	3.4	30.6	54.3	2.5	4.9	6.4	2.5	2.4	5.6	6.0	1.2	2.9	9.1	6.4	2.8
Guinea-Bissau	87.4	12.3	4.4	7.1	16.5	27.7	-0.1	4.4	-9.8	-1.0	4.1	2.1	5.6	4.0	2.6	6.7	5.3	3.3
Kenya	74.3	17.5	16.2	5.3	28.0	41.4	5.1	4.9	4.8	6.7	4.7	4.9	4.6	5.2	7.2	4.9	3.6	7.5
Lesotho	113.0	34.7	6.3	5.1	46.8	105.9	-3.8	2.7	6.4	-5.2	4.7	5.3	0.5	3.2	2.4	5.3	3.2	2.1
Liberia	77.1	24.9	34.6	4.1	24.7	65.4	10.0	7.3	5.7	8.0	8.9	5.0	7.2	7.5	4.7	4.9	7.8	5.3
Libya	46.1	40.2	12.1	8.8	36.4	43.5	17.8	129.7	608.1	59.8	10.2	30.9	17.3	22.8	7.1	12.3	9.9	11.4
Madagascar	89.5	10.2	10.3	4.2	26.5	40.7	2.0	1.7	3.0	2.8	-0.2	2.5	5.1	-1.3	0.6	5.2	8.7	2.1
Malawi	83.4	10.0	13.5	11.4	28.7	47.0	-11.5	5.9	7.1	-19.2	-2.2	5.9	7.7	-9.0	8.4	5.9	1.9	8.0
Mali	53.1	16.2	13.7	12.9	29.5	25.4	-8.6	-6.0	19.6	-9.3	6.4	12.6	-0.8	10.3	4.7	12.6	0.4	8.6
Mali	58.4	15.0	26.7	6.0	71.5	77.5	6.4	9.3	0.4	5.3	8.4	15.8	1.9	10.7	5.5	10.0	3.6	7.0
Mauritius	73.5	13.5	20.5	5.5	53.4	66.4	2.7	12.2	3.0	5.7	2.5	5.8	2.8	2.5	3.4	5.2	3.0	2.7
Morocco	58.9	18.2	30.7	5.3	35.6	48.7	4.4	5.1	1.4	5.3	4.5	8.0	5.2	7.2	3.8	9.7	6.0	7.0
Mozambique	72.1	16.1	8.4	14.6	25.8	37.0	4.8	33.0	7.1	18.1	1.1	11.1	19.5	3.0	9.4	6.5	4.0	6.5
Namibia	63.1	24.7	11.2	8.6	44.7	52.4	3.1	3.5	4.1	1.3	4.2	3.8	3.5	3.5	2.9	3.4	4.3	1.7
Niger	73.2	16.7	25.4	6.7	22.7	44.7	12.4	16.0	15.0	14.8	5.8	9.6	6.7	9.5	4.6	8.4	12.4	6.8

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Table 3. **Demand composition and growth rate, 2011-14** (cont.)

	2011						2012 (e)				2013 (p)				2014 (p)			
	Final consumption		Gross capital formation		External sector		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
	Private	Public	Private	Public	Exports	Imports												
	% of GDP						Real percentage growth				Real percentage growth				Real percentage growth			
Nigeria	60.1	13.1	6.8	3.5	52.5	36.0	4.2	7.3	7.7	4.3	5.9	7.1	5.9	4.6	5.5	7.1	7.2	4.3
Rwanda	83.3	15.5	14.8	6.2	10.9	30.6	9.6	5.4	1.4	8.8	8.4	2.6	2.5	6.0	8.0	2.3	3.8	4.9
São Tomé & Príncipe	81.8	15.4	19.9	29.7	11.7	58.6	1.1	5.8	3.0	2.1	2.2	6.0	6.9	2.5	2.7	7.3	6.7	3.6
Senegal	78.2	14.5	18.7	6.6	25.7	43.6	4.3	5.7	-0.6	3.3	3.8	9.2	0.8	4.1	5.7	5.4	2.0	4.8
Seychelles	53.7	33.1	24.6	4.4	83.6	99.5	2.0	10.1	3.7	5.1	3.4	10.4	4.3	7.1	4.4	10.6	5.0	7.4
Sierra Leone	104.9	10.3	31.4	9.0	15.3	70.9	16.1	8.4	10.2	10.0	4.9	11.5	3.7	5.5	9.8	11.5	11.7	8.4
Somalia	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…
South Africa	59.5	21.8	11.9	7.3	29.3	29.9	2.8	2.7	0.6	1.7	2.8	5.8	1.6	3.7	3.0	6.9	3.3	4.4
South Sudan	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…
Sudan	67.8	10.9	14.6	4.6	18.5	16.4	-6.0	12.8	-11.5	-12.0	-3.6	6.4	6.7	-9.3	0.0	7.7	4.7	-1.4
Swaziland	86.6	13.6	5.0	5.6	57.5	68.3	-1.3	7.4	-1.2	-1.0	0.5	7.4	0.4	1.5	1.1	7.5	2.0	2.1
Tanzania	64.7	17.0	22.3	8.1	25.5	37.5	4.6	9.2	13.3	8.6	5.6	9.2	11.3	8.7	7.1	9.2	7.2	9.5
Togo	84.8	11.8	11.1	8.3	40.9	56.9	3.2	4.3	6.1	2.8	5.0	5.8	5.4	5.2	5.9	8.2	4.5	6.3
Tunisia	66.1	17.9	19.0	4.5	48.2	55.8	3.9	3.0	3.0	4.0	3.4	9.2	2.8	5.8	4.4	6.9	4.0	4.8
Uganda	84.9	8.9	19.3	5.7	21.5	40.3	6.5	13.6	-0.6	11.9	4.2	14.1	2.7	8.0	5.9	14.6	2.9	11.1
Zambia	47.9	20.6	21.8	3.2	46.3	39.8	11.5	14.1	1.0	11.1	6.8	11.6	5.3	7.6	7.8	9.0	5.9	7.4
Zimbabwe	83.6	32.6	22.6	3.0	53.8	95.7	6.4	9.1	4.5	8.9	5.7	7.9	6.2	7.5	7.5	9.9	6.1	9.8

Note: * Fiscal year July (n-1)/June (n).
(e) estimates; (p) projections.
Sources: AfDB Statistics Department, Various domestic authorities and AfDB estimates.

Table 4. **Public finances, 2011-14 (percentage of GDP)**

	2011			2012 (e)			2013 (p)			2014 (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	40.5	41.8	-1.3	39.9	43.2	-3.3	39.4	40.9	-1.5	39.1	41.1	-2.1
Angola	48.8	38.6	10.2	48.8	40.9	7.8	46.6	41.9	4.8	45.2	41.7	3.5
Benin	20.1	21.9	-1.8	20.5	21.9	-1.5	19.6	21.8	-2.3	19.4	21.7	-2.3
Botswana**	31.8	40.2	-8.4	29.6	30.7	-1.2	29.6	35.1	-5.5	29.5	34.1	-4.6
Burkina Faso	20.6	22.0	-1.4	23.1	23.6	-0.5	22.5	24.1	-1.5	22.3	24.6	-2.3
Burundi	26.2	34.5	-8.4	26.3	34.3	-8.0	24.5	33.2	-8.7	24.0	33.5	-9.5
Cameroon	17.9	20.7	-2.7	18.0	21.5	-3.5	17.6	21.5	-3.9	17.5	21.7	-4.2
Cape Verde	28.4	38.6	-10.2	25.0	32.4	-7.3	25.4	34.3	-8.9	26.2	35.1	-8.9
Central Afr. Rep.	14.5	17.4	-2.9	15.7	19.2	-3.5	16.4	19.8	-3.4	16.4	19.8	-3.4
Chad	24.3	22.0	2.4	23.1	22.3	0.8	21.3	21.4	0.0	23.1	19.3	3.8
Comoros	21.3	23.2	-1.8	21.6	23.9	-2.3	21.7	24.7	-3.0	22.1	25.4	-3.4
Congo	42.5	26.1	16.4	43.1	40.7	2.4	44.6	41.4	3.2	46.2	43.8	2.4
Congo Dem. Rep.	35.8	36.2	-0.4	32.4	38.6	-6.1	30.3	41.2	-10.9	28.5	40.6	-12.1
Côte d'Ivoire	19.5	21.4	-1.8	19.6	23.1	-3.5	21.0	25.0	-4.0	21.5	24.6	-3.1
Djibouti	35.5	35.7	-0.1	36.1	38.1	-2.0	34.4	36.4	-2.0	33.0	34.8	-1.7
Egypt *	18.9	28.6	-9.7	18.6	29.4	-10.8	18.2	29.7	-11.4	18.1	28.0	-9.9
Equatorial Guinea	30.8	29.9	0.9	31.6	25.6	6.0	31.6	25.3	6.3	30.2	26.7	3.5
Eritrea	…	…	…	…	…	…	…	…	…	…	…	…
Ethiopia*	16.5	18.0	-1.6	15.2	15.0	0.2	14.9	14.1	0.8	14.3	13.3	1.0
Gabon	25.7	25.0	0.7	25.3	24.4	0.9	24.9	24.4	-0.9	24.3	26.0	-1.8
Gambia	21.1	25.7	-4.6	19.9	25.9	-6.0	20.1	25.3	-5.2	19.7	23.6	-4.0
Ghana	21.9	25.9	-3.9	22.2	27.2	-4.9	21.4	24.9	-3.5	20.1	23.1	-3.0
Guinea	20.5	20.8	-0.3	26.7	28.1	-1.4	26.7	27.3	-0.6	26.9	27.3	-0.3
Guinea-Bissau	20.8	20.2	0.7	18.7	21.0	-2.3	19.8	20.6	-0.8	19.7	20.7	-1.0
Kenya*	24.7	29.2	-4.5	25.7	30.5	-4.7	25.1	28.6	-3.5	24.9	28.0	-3.0
Lesotho**	51.9	62.7	-10.7	55.3	73.0	-17.8	49.0	62.3	-13.3	45.9	61.2	-15.4
Liberia*	27.1	29.0	-2.0	27.4	32.0	-4.7	28.2	34.5	-6.4	28.9	35.5	-6.6
Libya	37.9	53.5	-15.6	50.2	37.2	13.1	49.1	43.1	6.1	50.2	44.2	5.9
Madagascar	13.2	14.9	-1.7	12.2	15.3	-3.1	12.9	15.9	-3.0	14.1	16.3	-2.2
Malawi*	30.9	33.6	-2.8	22.2	29.3	-7.2	34.9	42.3	-7.4	34.0	41.6	-7.6
Mali	20.6	23.9	-3.3	16.3	22.6	-6.4	17.3	23.1	-5.8	19.5	23.5	-4.0
Mauritania	27.4	28.9	-1.5	27.9	31.6	-3.6	26.7	28.6	-1.9	27.9	31.5	-3.6
Mauritius*	21.4	24.7	-3.2	21.5	24.4	-2.9	21.2	23.7	-2.6	21.0	23.4	-2.4
Morocco	26.4	33.2	-6.8	26.0	33.6	-7.5	26.2	31.5	-5.3	25.7	30.5	-4.7
Mozambique	30.1	34.4	-4.3	28.0	36.2	-8.2	27.5	36.7	-9.2	26.8	36.3	-9.5
Namibia**	28.1	33.8	-5.7	30.8	39.8	-9.0	33.4	38.1	-4.7	33.8	38.4	-4.6
Niger	18.8	25.6	-6.8	21.4	24.1	-2.8	21.9	23.9	-2.0	21.2	23.7	-2.5

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Table 4. **Public finances, 2011-14 (percentage of GDP)** (cont.)

	2011			2012 (e)			2013 (p)			2014 (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
Nigeria	27.3	27.5	-0.1	29.2	25.4	3.7	28.8	24.4	4.4	29.1	23.4	5.7
Rwanda	24.5	26.9	-2.4	25.1	26.9	-1.9	28.1	29.5	-1.4	24.3	27.9	-3.7
São Tomé & Príncipe	37.1	49.0	-11.9	38.6	48.1	-9.4	33.2	46.6	-13.4	32.6	45.8	-13.2
Senegal	22.5	29.1	-6.6	23.1	30.1	-7.0	23.0	30.9	-7.9	23.2	30.6	-7.4
Seychelles	38.2	35.7	2.5	41.9	39.3	2.6	40.1	39.8	0.3	38.3	40.3	-2.0
Sierra Leone	17.2	21.7	-4.5	17.0	18.8	-1.8	15.0	17.3	-2.3	14.0	16.0	-2.0
Somalia	…	…	…	...	...	...	…	…	…	…	…	…
South Africa**	27.9	32.2	-4.2	28.1	32.8	-4.7	28.0	32.6	-4.5	27.8	31.9	-4.0
South Sudan	…	…	…	…	…	…	…	…	…	…	…	…
Sudan	18.9	19.9	-1.0	12.0	16.4	-4.4	13.9	18.7	-4.8	14.8	19.9	-5.1
Swaziland**	24.2	33.8	-9.6	38.9	35.9	3.0	39.2	39.2	-0.1	39.7	39.9	-0.2
Tanzania*	21.2	27.2	-6.0	48.8	57.8	-9.1	20.6	24.5	-3.9	19.8	22.9	-3.1
Togo	23.0	24.2	-1.2	22.2	25.3	-3.1	21.3	25.0	-3.6	21.5	25.4	-3.9
Tunisia	25.7	29.0	-3.4	25.0	31.0	-6.0	25.0	30.9	-5.9	25.3	30.1	-4.8
Uganda*	19.6	23.2	-3.6	15.6	18.6	-3.0	15.6	20.5	-4.9	15.6	21.8	-6.2
Zambia	21.7	26.1	-4.4	21.6	25.8	-4.2	20.4	25.1	-4.8	20.0	25.0	-5.0
Zimbabwe	33.0	36.4	-3.4	33.0	36.6	-4.0	32.0	36.1	-3.9	32.0	35.8	-3.9
Africa	27.8	30.9	-3.1	28.4	30.9	-2.5	28.1	30.6	-2.5	28.0	30.1	-2.0

Note: * Fiscal year July (n-1)/June (n), ** Fiscal year April (n)/ March (n+1).
(e) estimates; (p) projections.
Sources: AfDB Statistics Department, various domestic authorities; IMF country reports and AfDB estimates.

Table 5. **Monetary indicators**

	Inflation (%)				Exchange rate (LCU / USD)			Broad money (LCU billion) 2012			Reserves, excluding gold, (USD million) 2012	
	2011	2012 (e)	2013 (p)	2014 (p)	2010	2011	2012	Level	% of GDP	Growth 2011/2012	Stock at year-end	Eq. months of imports
Algeria	4.5	8.9	4.9	4.7	74.4	72.9	77.3	11 445.6	74.2	15.3	189 252.3	30.0
Angola	13.5	10.3	8.7	9.3	91.9	93.9	95.4	4 193.2	37.8	14.7	33 413.8	5.9
Benin	2.7	6.7	3.1	3.0	495.3	471.9	510.5	1 693.8	44.3	7.4	733.4	8.1
Botswana	8.5	7.2	6.2	5.9	6.8	6.8	7.6	50.5	43.2	11.1	7 689.4	13.5
Burkina Faso	2.8	3.6	2.2	2.1	495.3	471.9	510.5	1 618.8	28.2	10.9	970.6	5.3
Burundi	9.6	14.5	8.6	5.8	1 230.7	1 261.1	1 442.5	796.0	22.8	18.4	307.2	17.4
Cameroon	2.9	3.0	3.0	3.0	495.3	471.9	510.5	3 210.5	23.7	5.9	3 032.6	7.7
Cape Verde	4.5	2.5	2.4	2.5	83.3	79.3	85.8	117.1	77.5	3.1	377.3	6.4
Central Afr. Rep.	0.7	3.5	2.4	2.9	495.3	471.9	510.5	234.6	22.8	13.8	165.8	8.9
Chad	2.0	7.0	3.1	3.1	495.3	471.9	510.5	766.7	11.8	64.7	951.6	2.4
Comoros	6.8	5.6	3.0	2.7	371.5	353.9	382.9	76.1	31.6	1.0	171.1	20.5
Congo	1.8	5.1	4.2	2.9	495.3	471.9	510.5	2 794.5	38.1	46.9	5 847.9	5.8
Congo Dem. Rep.	15.4	6.4	5.9	5.5	905.9	919.5	919.8	2 875.5	17.2	17.5	1 632.5	1.6
Côte d'Ivoire	4.9	2.1	2.2	2.3	495.3	471.9	510.5	5 305.7	48.0	15.4	3 742.2	4.0
Djibouti	5.1	5.0	2.8	2.7	177.7	177.7	177.7	191.8	83.6	7.0	252.9	7.0
Egypt	11.1	8.7	10.6	11.7	5.6	5.9	6.0	1 094.4	71.0	8.3	11 654.8	2.5
Equatorial Guinea	4.8	4.5	3.1	3.5	495.3	471.9	510.5	1 376.9	11.2	25.4	4 287.0	3.0
Eritrea	20.0	17.0	12.3	12.3	15.4	15.4	15.4	56.9	119.2	19.3	117.3	2.3
Ethiopia	18.1	31.0	10.0	8.7	14.4	16.9	17.7	193.4	27.2	33.5	…	…
Gabon	1.3	3.0	3.0	3.0	495.3	471.9	510.5	1 519.8	15.3	-13.5	2 295.2	2.4
Gambia	4.8	4.2	5.0	5.1	28.0	29.5	31.9	15.8	54.3	6.8	217.4	11.0
Ghana	8.7	9.2	8.9	8.5	1.4	1.5	1.8	24.5	35.3	34.5	5 367.5	4.3
Guinea	21.4	13.1	10.6	8.5	5 726.1	6 658.0	7 005.8	11 937.0	29.7	5.3	104.5	0.9
Guinea-Bissau	5.0	2.1	3.3	2.5	495.3	471.9	510.5	135.5	28.9	-6.0	159.3	14.2
Kenya	14.0	9.6	6.3	6.0	79.2	88.8	84.5	1 817.0	52.8	19.8	5 711.0	6.8
Lesotho	5.0	5.5	5.0	4.5	7.3	7.3	8.2	7.0	32.5	4.7	…	…
Liberia	8.3	6.9	5.1	4.9	71.4	72.2	73.5	0.7	36.6	13.2	499.6	16.4
Libya	15.9	6.9	4.7	3.4	1.3	1.2	1.3	49.2	52.3	-15.0	116 582.0	32.6
Madagascar	9.8	6.4	10.4	8.9	2 090.0	2 025.1	2 195.0	5 013.7	24.6	11.6	1 190.9	6.0
Malawi	6.4	19.2	17.6	7.5	150.5	156.5	241.7	369.8	32.5	17.6	142.3	1.0
Mali	3.0	5.3	2.9	3.3	495.3	471.9	510.5	1 484.9	27.0	-0.5	1 309.2	4.0
Mauritania	5.7	4.9	6.2	5.6	275.9	281.1	296.6	423.2	38.3	13.1	949.5	4.6
Mauritius	6.5	4.1	6.0	4.6	30.8	28.7	30.1	355.7	92.6	6.5	2 836.7	5.1
Morocco	0.9	1.3	2.3	2.4	8.4	8.1	8.6	1 023.9	117.0	6.2	16 353.8	5.5
Mozambique	10.4	2.7	6.5	5.7	34.0	29.1	28.4	131.1	0.0	26.0	2 770.2	9.9
Namibia	5.0	6.5	5.5	4.9	7.3	7.3	8.2	62.3	62.9	10.9	1 745.9	3.6
Niger	2.9	3.9	1.8	1.4	495.3	471.9	510.5	749.2	21.9	19.6	894.4	6.5

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Table 5. **Monetary indicators** (cont.)

	Inflation (%)				Exchange rate (LCU / USD)			Broad money (LCU billion) 2012			Reserves, excluding gold, (USD million) 2012	
	2011	2012 (e)	2013 (p)	2014 (p)	2010	2011	2012	Level	% of GDP	Growth 2011/2012	Stock at year-end	Eq. months of imports
Nigeria	10.9	12.0	9.7	9.5	150.3	154.7	156.8	14 988.9	32.8	12.7	46 405.2	3.7
Rwanda	5.7	7.3	6.0	5.3	583.1	600.3	614.3	919.5	22.2	17.8	771.0	14.3
São Tomé & Príncipe	14.3	9.5	7.9	7.7	18 498.6	17 622.9	19 068.4	1 781.9	36.4	16.7	51.6	20.7
Senegal	3.4	2.5	1.6	1.8	495.3	471.9	510.5	2 908.7	45.2	7.3	1 774.6	6.7
Seychelles	2.6	7.1	4.4	3.9	12.1	12.4	13.8	7.9	65.2	4.4	268.1	4.2
Sierra Leone	18.5	11.6	7.1	6.9	3 978.1	4 349.2	4 347.3	3 562.8	20.0	20.4	435.7	8.7
Somalia	...	...	...	...	...	...	...	…	…	…	…	…
South Africa	5.0	5.6	5.7	5.5	7.3	7.3	8.2	2 435.6	80.3	8.0	43 995.5	4.7
South Sudan	...	...	...	...	...	...	...	…	…	…	…	…
Sudan	20.0	36.0	22.0	19.5	2.3	2.7	3.5	58.0	31.8	38.4	…	…
Swaziland	6.1	8.9	6.0	5.3	7.3	7.3	8.2	8.8	28.9	4.6	741.0	4.1
Tanzania	12.7	16.1	8.4	6.9	1 409.3	1 572.1	1 584.4	14 830.1	31.2	13.9	3 541.3	5.9
Togo	3.6	2.3	2.4	2.7	495.3	471.9	510.5	929.3	52.5	11.8	447.8	3.6
Tunisia	3.5	5.6	5.5	4.5	1.4	1.4	1.6	52.4	75.9	10.9	6 431.1	3.5
Uganda	18.7	14.6	10.2	7.8	2 177.6	2 522.7	2 489.2	11 873.8	20.0	13.9	3 120.0	8.7
Zambia	8.7	6.5	6.2	6.5	4 797.1	4 860.7	5 147.3	23 247.3	16.0	6.6	3 042.2	3.1
Zimbabwe	3.9	5	5.7	5.5…	...	...	4.2	49.1	35.7	574.4	1.6	
Africa	8.5	9.1	7.4	7.2	…	…	…	…	…	…	…	…

Sources: AfDB Statistics Department, Various domestic authorities; International Financial Statistics and AfDB estimates.

Table 6. **Balance of payments indicators**

	Trade balance (USD million)				Current account balance (USD million)				Current account balance (as % of GDP)			
	2011	2012 (e)	2013 (p)	2014 (p)	2011	2012 (e)	2013 (p)	2014 (p)	2011	2012 (e)	2013 (p)	2014 (p)
Algeria	27 943	28 026	26 804	26 330	19 068	16 194	15 733	16 794	9.9	8.2	7.5	7.5
Angola	47 005	46 961	49 861	55 118	10 023	9 548	10 501	11 035	9.6	8.2	8.1	7.6
Benin	- 888	- 908	- 978	-1 090	- 729	- 715	- 826	- 908	-10.0	-9.5	-10.4	-10.6
Botswana	183	450	389	389	391	970	1 095	953	2.4	6.5	7.4	6.3
Burkina Faso	25	- 98	- 164	- 28	- 133	- 391	- 599	- 566	-1.2	-3.5	-5.0	-4.4
Burundi	- 428	- 453	- 487	- 526	- 284	- 400	- 446	- 524	-12.0	-16.2	-16.2	-17.8
Cameroon	-1 026	-1 166	-1 374	-1 676	-1 194	-1 399	-1 554	-1 967	-4.5	-5.3	-5.3	-6.2
Cape Verde	- 848	- 853	- 922	-1 015	- 285	- 272	- 277	- 319	-16.4	-14.1	-15.0	-16.4
Central Afr. Rep.	- 89	- 102	- 102	- 112	- 156	- 141	- 119	- 125	-7.2	-7.0	-5.4	-5.3
Chad	1 308	1 027	602	1 711	- 284	- 778	-1 290	- 370	-2.3	-6.1	-8.9	-2.1
Comoros	- 176	- 192	- 210	- 234	- 82	- 92	- 107	- 126	-13.6	-14.7	-15.8	-17.3
Congo	7 030	5 893	5 798	5 813	112	40	93	- 497	0.8	0.3	0.6	-3.0
Congo Dem. Rep.	497	1 275	831	528	-1 812	-1 670	-2 961	-3 636	-11.5	-9.2	-14.5	-15.4
Côte d'Ivoire	4 907	2 251	2 455	2 770	1 606	- 705	- 911	- 501	6.7	-3.3	-3.8	-1.9
Djibouti	- 411	- 446	- 505	- 579	- 156	- 167	- 209	- 262	-12.6	-12.9	-14.8	-17.1
Egypt*	-27 103	-23 428	-21 833	-21 633	-5 958	-7 877	-7 969	-5 797	-2.6	-3.1	-2.9	-2.0
Equatorial Guinea	7 406	9 757	10 580	9 809	-1 173	837	512	- 265	-6.0	3.5	2.0	-1.0
Eritrea	- 415	- 269	- 146	- 117	14	66	70	81	0.5	2.1	2.0	2.1
Ethiopia*	-5 506	-6 314	-7 338	-8 481	- 280	-1 352	-2 502	-3 709	-0.9	-3.4	-5.5	-7.1
Gabon	7 062	6 815	6 954	6 178	1 656	1 452	1 118	464	8.9	7.5	5.4	3.4
Gambia, The	- 223	- 219	- 226	- 243	- 138	- 105	- 126	- 139	-14.8	-11.3	-13.0	-12.9
Ghana	-3 183	-3 647	-5 306	-6 652	-3 675	-4 215	-6 080	-7 227	-9.6	-11.2	-14.4	-14.9
Guinea	- 673	- 966	-1 061	-1 224	-1 162	-1 438	-1 637	-2 028	-24.2	-25.4	-25.0	-28.7
Guinea-Bissau	- 12	- 39	- 41	- 33	- 16	- 58	- 46	- 45	-1.6	-6.3	-4.7	-4.3
Kenya	-5 979	-7 862	-8 508	-9 550	-1 876	-2 738	-2 695	-3 765	-5.5	-6.7	-6.1	-7.7
Lesotho	-1 037	-1 032	-1 109	-1 137	- 418	- 493	124	38	-16.6	-18.8	4.4	1.3
Liberia	- 629	- 875	-1 026	-1 068	- 526	- 926	-1 258	-1 477	-34.0	-52.4	-65.6	-72.0
Libya	7 860	30 478	32 590	36 515	2 989	20 417	20 477	24 496	8.4	27.2	23.4	24.9
Madagascar	- 941	-1 129	-1 064	-1 007	- 679	- 824	- 769	- 657	-6.9	-8.3	-7.6	-5.7
Malawi	- 630	- 355	- 129	- 277	- 919	- 585	- 302	- 447	-17.9	-12.7	-7.0	-9.5
Mali	- 401	685	207	- 148	-1 109	- 84	- 765	-1 187	-10.0	-0.8	-6.8	-9.9
Mauritania	277	- 294	- 8	- 800	- 309	- 690	- 961	- 786	-7.3	-18.5	-21.1	-18.8
Mauritius	-2 356	-3 045	-3 188	-3 395	-1 240	-1 354	-1 343	-1 329	-11.0	-10.6	-10.0	-9.5
Morocco	-22 714	-24 924	-26 057	-27 604	-7 905	-8 740	-6 155	-7 003	-8.0	-8.6	-5.5	-5.7
Mozambique	-1 069	-1 989	-1 374	-1 453	-1 258	-2 832	-2 547	-2 883	-10.0	-18.8	-15.5	-15.8
Namibia	-1 198	-1 131	-1 137	-1 022	- 183	390	286	390	-1.4	3.2	2.3	3.0
Niger	- 946	- 914	- 997	- 956	-1 445	-1 509	-1 607	-1 458	-22.7	-22.7	-21.5	-17.8

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Table 6. **Balance of payments indicators** (cont.)

	Trade balance (USD million)				Current account balance (USD million)				Current account balance (as % of GDP)			
	2011	2012 (e)	2013 (p)	2014 (p)	2011	2012 (e)	2013 (p)	2014 (p)	2011	2012 (e)	2013 (p)	2014 (p)
Nigeria	30 446	51 828	64 709	81 350	7 844	29 895	39 787	56 675	3.2	10.4	11.8	14.6
Rwanda	-1 100	-1 371	-1 490	-1 615	- 463	- 709	- 754	- 789	-8.5	-10.5	-10.2	-9.9
São Tomé & Príncipe	- 103	- 104	- 107	- 114	- 74	- 58	- 76	- 84	-30.1	-22.5	-27.5	-27.7
Senegal	-2 447	-2 282	-2 446	-2 677	-1 103	-1 086	-1 251	-1 455	-7.7	-8.6	-9.3	-10.0
Seychelles	- 416	- 390	- 437	- 484	- 239	- 228	- 290	- 322	-22.6	-25.8	-28.4	-29.2
Sierra Leone	-1 258	-1 420	- 175	- 128	-1 524	-1 757	- 507	- 587	-52.3	-44.0	-11.6	-12.0
Somalia	…	…	…	…	…	…	…	…	…	…	…	…
South Africa	2 258	1 135	-1 951	-4 314	-13 611	-21 818	-21 422	-21 902	-3.4	-5.9	-5.6	-5.3
South Sudan	…	…	…	…	…	…	…	…	…	…	…	…
Sudan	2 751	-1 563	- 401	1 267	- 303	-5 258	-4 210	-2 744	-0.5	-10.2	-8.9	-5.7
Swaziland	- 103	- 256	- 312	- 367	- 433	- 98	- 443	- 487	-10.3	-2.6	-11.7	-12.6
Tanzania	-3 565	-4 139	-4 832	-4 962	-2 782	-3 321	-4 029	-4 177	-11.9	-11.1	-11.9	-10.8
Togo	- 495	- 435	- 412	- 464	- 235	- 215	- 147	- 189	-6.4	-6.2	-3.9	-4.7
Tunisia	-4 805	-4 464	-5 671	-6 598	-3 416	-3 518	-3 615	-3 418	-7.4	-8.0	-7.5	-6.7
Uganda	-2 514	-3 541	-4 095	-4 906	-1 978	-2 740	-3 421	-4 165	-10.9	-11.6	-13.3	-14.6
Zambia	2 058	1 807	1 696	1 200	65	- 923	- 988	-1 235	0.3	-3.3	-3.3	-3.8
Zimbabwe	-3 066	-2 880	-3 127	-3 690	-3 427	-3 028	-3 213	-3 715	-38.7	-35.3	-33.1	-34.1
Africa	50 265	82 895	92 728	106 600	-21 204	-7 497	- 633	15 657	-1.1	-0.4	0.0	0.65

Note: (e) estimates; (p) projections.
Sources: AfDB Statistics Department; IMF World Economic Outlook September 2012.

Table 7. **Exports, 2011**

	Three main exports, with their share in total exports*			N° 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 (48,4%)	Natural gas, in gaseous state (18,2%)	Light oils and preparations (10,2%)	3
Angola	Petroleum oils and oils obtained from bituminous minerals, crude (96,8%)			1 7
Benin	Cashew nuts, in shell (19,1%)	Cotton, not carded or combed (16,7%)	Petroleum oils & oils obtained from bituminous minerals (other than crude) & preparations (12,4%)	1 2
Botswana	Diamonds non-industrial unworked or simply sawn, cleaved or bruted (78,5%)	Nickel mattes (8,4%)	Diamonds non-industrial nes excluding mounted or set diamonds (6,8%)	2
Burkina Faso	Cotton, not carded or combed (54,2%)	Gold (incl. gold plated with platinum), in unwrought forms (excl. powder) (22,0%)	Sesamum seeds (4,4%)	6 7
Burundi	Coffee, not roasted, not decaffeinated (68,6%)	Niobium, tantalum, vanadium ores & concentrates (11,8%)	Black tea (fermented) and other partly fermented tea (9,0%)	3 1
Cameroon	Petroleum oils and oils obtained from bituminous minerals, crude(43,3%)	Cocoa beans, whole or broken, raw or roasted (11,8%)	Tropical wood specified in Subheading (7,4%)	2 1
Cape Verde	Mackerel (24,5%)	Fish, whole or in pieces, but not minced :-- Other (14,3%)	Yellowfin tunas (Thunnus albacares) (14,3%)	5
Central Afr. Rep.	Diamonds unsorted whether or not worked (35,3%)	Wood in the rough, other (28,2%)	Cotton, not carded or combed. (12,9%)	8 6
Chad	Petroleum oils and oils obtained from bituminous minerals, crude (95,5%)			59
Comoros	Cloves (whole fruit, cloves and stems) (61,2%)	Vessels & other floating structures for breaking up (22,7%)	Essential oils, n.e.s. (8,0%)	1 1
Congo	Petroleum oils and oils obtained from bituminous minerals, crude (85,4%)			5
Congo Dem. Rep.	Cathodes and sections of cathodes (25,2%)	Petroleum oils and oils obtained from bituminous minerals, crude (17,0%)	Cobalt ores and concentrates (13,4%)	1 5
Côte d'Ivoire	Cocoa beans, whole or broken, raw or roasted (37,5%)	Petroleum oils and oils obtained from bituminous minerals, crude (12,5%)	Technically specified natural rubber (8,2%)	7

Table 7. **Exports, 2011** (cont.)

	Three main exports, with their share in total exports*			N° of products accounting for more than 75 per cent of exports
	Product I	**Product II**	**Product III**	
Djibouti	Live animals, n.e.s. (40,0%)	Sheep (10,2%)	Coffee, not roasted, not decaffeinated (9,8%)	16
Egypt	Petroleum oils and oils obtained from bituminous minerals, crude (24,2%)	Natural gas, liquefied (9,4%)	Light oils and preparations (4,7%)	2
Equatorial Guinea	Petroleum oils and oils obtained from bituminous minerals, crude (75,8%)	Natural gas, liquefied (16,4%)		55
Eritrea	Gold, non monetary: other unwrought forms (95,5%)			5
Ethiopia	Coffee, not roasted, not decaffeinated (45,0%)	Sesamum seeds (16,3%)	Cut flowers fresh (10,0%)	7
Gabon	Petroleum oils and oils obtained from bituminous minerals, crude (82,1%)	Manganese ores and concentrates (8,7%)		1
Gambia	Wood, in the rough, whether/not stripped of bark/sapwood/roughly squared (22,3%)	Cashew nuts, in shell (21,9%)	Cocoa beans, whole or broken, raw or roasted (15,5%)	23
Ghana	Cocoa beans, whole or broken, raw or roasted (30,0%)	Petroleum oils and oils obtained from bituminous minerals, crude (29,8%)	Cocoa paste, not defatted (4,8%)	6
Guinea	Natural gas, liquefied (24,6%)	Aluminium ores and concentrates (22,6%)	Aluminium oxide, other than artificial corundum (7,5%)	4
Guinea-Bissau	Cashew nuts, in shell (66,0%)	Petroleum oils and oils obtained from bituminous minerals, crude (12,9%)	Copper ores and concentrates (6,1%)	4
Kenya	Black tea (fermented) and other partly fermented tea (18,7%)	Cut flowers fresh (12,0%)	Coffee, not roasted, not decaffeinated (5,9%)	39
Lesotho	Diamonds non-industrial unworked or simply sawn, cleaved or bruted (48,9%)	Mens/boys trousers and shorts, of cotton, not knitted (13,9%)	Women's/girls', trousers & shorts, of cotton, not knitted (5,1%)	65
Liberia	Technically specified natural rubber (30,9%)	Tankers (11,1%)	Petroleum oils & oils obtained from bituminous minerals (other than crude) & preparations (9,3%)	9
Libya	Petroleum oils and oils obtained from bituminous minerals, crude (84,4%)	Natural gas, in gaseous state (5,6%)		7
Madagascar	Cloves (whole fruit, cloves and stems) (25,2%)	Shrimps and prawns (6,8%)		2
				1
				3
				5
				24
				3
				7
				4

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Table 7. **Exports, 2011** (cont.)

	Three main exports, with their share in total exports*			N° of products accounting for more than 75 per cent of exports
	Product I	**Product II**	**Product III**	
Malawi	Tobacco, partly or wholly stemmed/s (41,1%)	Natural uranium and its compounds (10,3%)	Tobacco, not stemmed/stripped (7,2%)	94
Mali	Cotton, not carded or combed (47,2%)	Petroleum oils & oils obtained from bituminous minerals (other than crude) & preparations (14,1%)	Mineral or chemical fertilisers containing the three fertilising elements nitrogen, phosphorus and potassium (9,1%)	1 21
Mauritania	Iron ores & concentrates, non-agglomerated (50,2%)	Copper ores and concentrates (13,9%)	Octopus, other than live/fresh/chilled (7,2%)	24
Mauritius	Tunas, skipjack and bonito (12,0%)	Cane/beet sugar & chemically pure sucrose, in solid form, not containing added flavouring/ colouring matter (10,5%)	T-shirts, singlets and other vests, of cotton, knitted (9,9%)	8 98
Morocco	Phosphoric acid and polyphosphoric (9,0%)	Ignition wiring sets and other wiring sets of a kind used in vehicles, aircraft or ships (7,0%)	Diammonium hydrogen orthophosphate (4,7%)	13 2
Mozambique	Aluminium, not alloyed (36,7%)	Light oils and preparations (11,9%)	Electrical energy (7,0%)	12
Namibia	Diamonds non-industrial unworked or simply sawn, cleaved or bruted (22,4%)	Natural uranium and its compounds (16,5%)	Unrefined copper; copper anodes for electrolytic refining (12,7%)	35 34
Niger	Natural uranium and its compounds (56,1%)	Light oils and preparations (30,7%)	Petroleum oils & oils obtained from bituminous minerals (other than crude) & preparations (5,9%)	
Nigeria	Petroleum oils and oils obtained from bituminous minerals, crude (85,6%)	Natural gas, liquefied (8,4%)		
Rwanda	Tin ores and concentrates. (29,0%)	Coffee, not roasted, not decaffeinated (24,4%)	Niobium, tantalum, vanadium ores & concentrates (21,7%)	
São Tomé & Príncipe	Cocoa beans, whole or broken, raw or roasted (37,9%)	Wrist-watches, pocket-watches & other watches: - other	Articles of jewellery & parts thereof , of silver, whether/not plated/clad with other precious metal (9,1%)	
Senegal	Phosphoric acid and polyphosphoric (21,9%)	Crude oil (8,1%)	Fish ,n.e.s., frozen (6,7%)	
Seychelles	Tunas, skipjack and bonito (61,0%)	Bigeye tunas (Thunnus obesus) (9,6%)	Yellowfin tunas (Thunnus albacares) (7,0%)	
Sierra Leone	Diamonds non-industrial unworked or simply sawn, cleaved or bruted (23,7%)	Cocoa beans, whole or broken, raw or roasted (14,4%)	Aluminium ores and concentrates. (12,8%)	
Somalia	Goats (28,2%)	Sheep (26,9%)	Live bovine animals other than pure-bred breeding animals (14,8%)	

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Table 7. **Exports, 2011** (cont.)

	Three main exports, with their share in total exports*			N° of products accounting for more than 75 per cent of exports
	Product I	**Product II**	**Product III**	
South Africa	Gold (incl. gold plated with platinum), in unwrought forms (excl. powder) (10,2%)	Iron ores & concentrates, non-agglomerated (7,8%)	Platinum unwrought or in powder form (7,4%)	
South Sudan	Petroleum oils and oils obtained from bituminous minerals, crude (91,3%)			
Sudan	Raw sugar, cane (19,7%)	Mixtures of odoriferous substances, of a kind used in the food or drink industries (17,3%)	Food preparations n.e.s. (5,3%)	
Swaziland	Other Precious metal ores and concentrates, other than silver (19,7%)	Tobacco, partly or wholly stemmed/s (10,5%)	Coffee, not roasted, not decaffeinated (8,2%)	
Tanzania	Cocoa beans, whole or broken, raw or roasted (31,4%)	Gold (incl. gold plated with platinum), in unwrought forms (excl. powder) (11,1%)	Cement clinkers (9,7%)	
Togo	Petroleum oils and oils obtained from bituminous minerals, crude (10,7%)	Ignition wiring sets and other wiring sets of a kind used in vehicles, aircraft or ships(7,2%)	Mens/boys trousers and shorts, of cotton, not knitted (5,0%)	
Tunisia	Coffee, not roasted, not decaffeinated (37,6%)	Fish fillets and other fish meat (whether or not minced), fresh or chilled(6,6%)	Tobacco, partly or wholly stemmed/stripped (5,4%)	
Uganda	Cathodes and sections of cathodes (51,6%)	Unrefined copper; copper anodes for electrolytic refining (24,6%)		
Zambia	Tobacco, partly or wholly stemmed/stripped (24,8%)	Ferro-chromium containing by weight more than 4% of carbon (12,3%)	Cotton, not carded or combed (9,4%)	
Zimbabwe	Petroleum oils and oils obtained from bituminous minerals, crude (45,2%) [45,2%]	Natural gas, liquefied (3,5%) [14,8%]	Light oils and preparations (2,5%) [5,5%]	
Africa	Petroleum oils and oils obtained from bituminous minerals, crude (46,6%) [46,6%]	Natural gas, in gaseous state (3,2%) [10,2%]	Natural gas, liquefied (3,1%) [16,3%]	

Notes:
* Products are reported when accounting for more than 4 per cent of total exports.
Figures in [ ] represent the share of Africa in the World export for each product.
Source: AfDB Statistics Department; COMTRADE Database (Harmonized system, Rev.2) - UN Statistics Division.

Table 8. Diversification and competitiveness

	Diversification index					Annual export growth %	Competitiveness Indicator 2007-2011(%)	
	2007	2008	2009	2010	2011	2007-2011	Sectoral effect	Global competitiveness effect
Algeria	2.4	2.5	3.6	3.8	3.5	8.6	8.4	-6.7
Angola	1.1	1.1	1.1	1.1	1.1	13.3	6.5	-0.1
Benin	7.8	8.1	7.0	6.1	9.2	6.0	2.7	-3.7
Botswana	2.7	4.0	7.9	3.7	1.6	26.3	-3.1	30.2
Burkina Faso	1.8	2.7	3.5	4.3	2.9	18.3	14.8	-3.5
Burundi	3.0	3.7	1.8	2.0	2.0	7.9	20.5	-19.6
Cameroun	3.6	3.7	5.4	5.0	4.6	-0.8	4.1	-11.9
Cape Verde	14.3	5.8	12.3	10.4	8.5	13.9	4.6	2.4
Central Afr. Rep.	4.4	5.9	5.3	6.0	4.4	6.1	-1.0	0.2
Chad	1.1	1.1	1.2	1.5	1.1	12.9	6.3	-0.3
Comoros	5.2	6.8	4.6	4.3	2.3	8.9	36.8	-34.8
Congo	1.5	1.4	1.3	1.4	1.4	9.9	5.0	-2.0
Congo Dem. Rep.	7.6	7.1	8.0	7.3	6.8	56.2	2.4	46.9
Côte d'Ivoire	8.5	9.0	6.6	7.7	5.8	9.6	11.3	-8.6
Djibouti	5.9	8.8	6.9	3.6	5.2	-16.3	1.5	-24.8
Egypt	21.8	16.1	19.7	22.4	13.4	7.2	4.5	-4.2
Equatorial Guinea	1.4	1.5	1.8	1.7	1.7	11.1	5.5	-1.3
Eritrea	2.1	14.8	13.2	22.1	1.1	85.1	7.9	70.3
Ethiopia	6.0	6.4	5.8	4.2	4.1	18.4	19.1	-7.6
Gabon	2.0	2.5	2.2	1.8	1.5	13.4	5.1	1.4
Gambia	8.6	3.8	5.0	10.8	7.2	65.1	9.8	48.4
Ghana	4.5	5.0	4.0	4.4	5.4	48.7	10.7	31.1
Guinea	3.7	3.5	2.5	5.1	8.2	4.1	3.1	-6.0
Guinea-Bissau	1.4	1.2	1.2	3.1	2.2	77.1	23.3	46.9
Kenya	23.4	22.6	16.6	16.0	17.2	10.9	3.4	0.5
Lesotho	6.4	4.8	6.3	5.5	3.7	4.8	1.8	-4.8
Liberia	3.4	6.4	4.3	8.6	7.1	-5.0	1.3	-13.3
Libya	1.4	1.3	1.6	1.5	1.4	-14.7	6.6	-28.3
Madagascar	26.1	29.0	31.7	33.2	12.5	6.2	3.3	-4.0
Malawi	3.9	3.8	2.6	3.3	5.0	10.7	6.7	-2.9
Mali	2.0	2.2	4.8	3.9	3.8	24.6	12.8	4.9
Mauritania	4.3	4.1	4.4	3.6	3.5	22.1	20.7	-5.5
Mauritius	13.6	15.2	18.8	22.9	21.5	2.7	4.7	-8.9
Morocco	69.2	36.2	61.2	49.5	41.3	6.9	1.5	-1.5
Mozambique	3.4	6.4	5.6	3.6	6.1	9.1	-1.2	3.4
Namibia	9.7	11.4	11.3	7.9	8.7	10.8	2.3	3.1
Niger	1.5	6.0	1.9	1.6	2.4	43.0	5.5	30.5

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Table 8. **Diversification and competitiveness** (cont.)

	Diversification index					Annual export growth %	Competitiveness Indicator 2007-2010(%)	
	2007	2008	2009	2010	2011	2007-2011	Sectoral effect	Global competitiveness effect
Nigeria	1.3	1.3	1.3	1.4	1.3	13.8	7.2	-0.3
Rwanda	5.1	4.7	6.2	5.4	4.9	41.4	12.3	22.2
São Tomé & Príncipe	5.1	2.5	3.9	5.4	4.9	14.7	8.9	-1.1
Senegal	26.2	10.7	13.6	10.2	14.3	2.2	4.8	-9.5
Seychelles	4.0	3.2	2.6	3.7	2.6	-0.5	3.9	-11.3
Sierra Leone	7.5	9.1	13.2	8.5	8.7	4.6	4.4	-6.7
Somalia	13.4	11.7	5.1	4.7	5.3	15.3	6.7	1.7
South Africa	41.5	38.8	46.3	42.1	34.7	9.8	4.9	-2.0
South Sudan	...	...	...	...	...	...	...	...
Sudan	1.2	1.2	1.2	1.2	1.2	16.2	7.6	1.7
Swaziland	22.4	21.0	16.6	13.8	12.6	-5.3	2.0	-14.2
Tanzania	31.0	36.2	26.3	21.4	15.2	13.7	9.3	-2.5
Togo	10.6	5.8	7.2	10.6	7.4	3.7	-0.8	-2.4
Tunisia	37.1	36.1	49.5	40.2	41.2	3.1	0.2	-4.0
Uganda	11.1	7.7	6.9	7.6	6.4	6.3	6.5	-7.1
Zambia	2.6	2.4	3.4	3.0	3.0	22.2	1.5	13.8
Zimbabwe	10.5	13.2	13.0	11.9	10.0	-2.1	-1.5	-7.5
Africa	4.3	3.8	5.2	4.7	4.8	8.3	5.8	-4.4

Sources: AfDB Statistics Department ; COMTRADE Database (Harmonized system, Rev.2) - UN Statistics Division.

Table 9. **International prices of exports, 2005-12**

	Unit	2005	2006	2007	2008	2009	2010	2011	2012
Aluminum	($/mt)	1 898.3	2 569.9	2 638.2	2 572.8	1 664.8	2 173.1	2 401.4	2 023.3
Banana (US)	($/mt)	602.8	677.2	675.8	844.2	847.1	868.3	968.0	984.0
Coal (Australia)	($/mt)	...	49.1	65.7	127.1	71.8	99.0	121.4	96.4
Cocoa	(cents/kg)	153.8	159.2	195.2	257.7	288.9	313.3	298.0	239.2
Coffee (Arabica)	(cents/kg)	253.2	252.2	272.4	308.2	317.1	432.0	597.6	411.1
Coffee (Robusta)	(cents/kg)	111.5	148.9	190.9	232.1	164.4	173.6	240.8	226.7
Copper	($/mt)	3 678.9	6 722.1	7 118.2	6 955.9	5 149.7	7 534.8	8 828.2	7 962.3
Cotton	(c/kg)	121.7	126.7	139.5	157.4	138.2	228.3	332.9	196.7
Fish Meal	($/mt)	731.0	1 166.3	1 177.3	1 133.1	1 230.3	1 687.4	1 537.4	1 558.3
Gold	($/toz)	444.8	604.3	696.7	871.7	973.0	1 224.7	1 569.2	1 669.5
Groundnut oil	($/mt)	1 060.4	970.2	1 352.1	2 131.1	1 183.7	1 404.0	1 988.2	2 435.7
Iron ore	(c/dmtu)	65.0	77.4	84.7	140.6	101.0	145.9	167.8	128.5
Lead	(c/kg)	97.6	129.0	258.0	209.1	171.9	214.8	240.1	206.5
Logs Cameroon	($/CM)	...	318.5	381.3	526.9	421.5	428.6	484.8	451.4
Maize	($/mt)	98.7	121.9	163.7	223.1	165.5	185.9	291.7	298.4
Oil (crude)	($/bbl)	54.4	65.4	72.7	97.6	61.9	79.0	104.0	105.0
Palm oil	($/mt)	422.1	478.4	780.3	948.5	682.8	900.8	1 125.4	999.3
Phosphate (rock)	($/mt)	42.0	44.2	70.9	345.6	121.7	123.0	184.9	185.9
Rubber (US)	(cents/kg)	...	231.3	248.0	284.1	214.6	386.6	482.3	337.7
Sugar (EU)	(cents/kg)	66.5	64.6	68.1	69.7	52.4	44.2	45.5	42.0
Sugar (World)	(c/kg)	21.8	32.6	22.2	28.2	40.0	46.9	57.3	47.5
Sugar (US)	(cents/kg)	46.9	48.8	45.8	46.9	54.9	79.2	83.9	63.6
Tea (Avg. 3 auctions)	(c/kg)	164.7	187.2	203.6	242.0	272.4	288.5	292.1	289.8
Tea (Mombasa)	(c/kg)	147.8	195.2	166.5	221.8	252.0	256.0	271.9	288.1
Tobacco, US import u.v.	($/mt)	2 789.7	2 969.2	3 315.1	3 588.7	4 241.2	4 304.8	4 485.1	4 302.4

Sources: World Bank, Global Commodity Price Prospects, March 2013.

Table 10. **Foreign direct investment, 2006-2011 (USD million)**

	FDI inflows						FDI outflows						FDI inflows/gross fixed capital formation (%)			Inward FDI* potential index
	2006	2007	2008	2009	2010	2011	2006	2007	2008	2009	2010	2011	2009	2010	2011	2011
Algeria	1 795	1 662	2 594	2 746	2 264	2 571	35	295	318	215	220	534	5.7	4.8	4.0	62
Angola	-38	-893	1 679	2 205	-3 227	-5 586	191	912	2 570	7	1 340	1 300	37.9	-72.0	-49.7	100
Benin	53	255	170	134	177	118	-2	-6	-4	31	-18	3	8.3	13.7	9.3	142
Botswana	486	495	528	968	559	587	50	51	-91	48	3	4	29.6	14.6	15.5	107
Burkina Faso	34	344	238	101	35	7	1	0	8	8	-4	4	5.8	1.6	0.5	151
Burundi	0	1	4	0	1	2	0	0	1	0	0	0	0.2	0.4	0.3	172
Cameroon	16	191	-24	668	354	360	-48	-6	-47	-141	-36	-75	18.1	9.6	7.6	116
Cape Verde	131	190	209	119	111	93	0	0	0	0	0	0	17.2	12.9	13.4	153
Central Afr. Rep.	35	57	117	121	92	109	0	0	0	0	0	0	51.8	36.9	40.6	177
Chad	-279	-69	234	1 105	1 940	1 855	0	0	0	0	0	0	83.8	102.5	54.9	158
Comoros	1	8	5	14	4	7	0	0	0	0	0	0	19.3	4.0	6.1	175
Congo	1 925	2 275	2 526	1 862	2 209	2 931	0	0	0	0	0	0	75.9	81.3	80.1	128
Congo Dem. Rep.	256	1 808	1 727	664	2 939	1 687	18	14	54	35	7	91	30.5	82.1	37.6	106
Côte d'Ivoire	319	427	446	377	339	344	0	0	0	-9	25	8	16.1	15.1	17.4	141
Djibouti	108	195	229	100	27	78	…	…	…	…	…	…	67.2	23.6	25.6	161
Egypt	10 043	11 578	9 495	6 712	6 386	-483	148	665	1 920	571	1 176	626	18.9	15.8	-1.2	46
Equatorial Guinea	470	1 243	-794	1 636	1 369	737	0	0	0	0	0	0	53.7	43.8	9.9	119
Eritrea	0	0	0	0	56	19	…	…	…	…	…	…	0.0	28.4	7.1	168
Ethiopia	545	222	109	221	288	206	…	…	…	…	…	…	3.5	5.0	2.8	112
Gabon	268	269	209	33	531	728	106	59	96	87	81	88	1.4	19.8	15.8	87
Gambia	71	76	70	40	37	36	…	…	…	…	…	…	12.5	11.2	20.8	165
Ghana	636	855	1 220	1 685	2 527	3 222	0	0	9	7	8	8	37.4	42.1	33.2	73
Guinea	125	386	382	141	101	1 211	0	0	126	0	0	5	12.3	9.4	154.8	139
Guinea-Bissau	17	19	6	18	33	19	0	0	0	-3	6	1	19.3	37.3	19.9	171
Kenya	51	729	96	116	178	335	24	36	44	46	2	9	2.0	2.4	4.2	98
Lesotho	89	97	56	48	55	52	0	0	0	0	0	0	10.0	8.5	5.8	173
Liberia	108	132	284	218	450	508	346	363	382	364	369	372	127.2	288.6	…	170
Libya	2 064	3 850	3 180	3 310	1 909	0	474	3 947	5 888	1 165	2 722	233	60.5	27.6	…	…
Madagascar	295	773	1 169	1 066	860	907	0	0	0	0	0	0	51.7	56.2	35.8	154
Malawi	72	92	71	55	58	56	0	0	-19	0	0	0	5.0	4.0	7.7	135
Mali	83	73	180	748	406	178	1	7	1	-1	7	2	42.9	23.8	8.2	157
Mauritania	155	139	343	-3	131	45	5	4	4	4	4	4	-0.4	13.6	3.3	147
Mauritius	105	339	383	248	430	273	10	58	52	37	129	89	11.3	19.1	9.9	110
Morocco	2 449	2 805	2 487	1 952	1 574	2 519	445	622	485	470	589	247	6.7	4.8	8.3	69
Mozambique	154	427	592	893	989	2 093	0	0	0	-3	1	-3	44.1	36.8	67.4	103
Namibia	387	733	720	552	712	900	-12	3	5	-3	5	-3	27.1	28.5	22.3	125
Niger	51	129	340	791	940	1 014	-1	8	24	59	60	48	51.8	41.7	43.1	155

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Table 10. **Foreign direct investment, 2006-11 (USD million)** (cont.)

	FDI inflows						FDI outflows						FDI inflows/gross fixed capital formation (%)			Inward FDI* potential index
	2006	2007	2008	2009	2010	2011	2006	2007	2008	2009	2010	2011	2009	2010	2011	2011
Nigeria	4 898	6 087	8 249	8 650	6 099	8 915	322	-875	-1058	-1 542	-923	-824	51.9	31.9	16.8	53
Rwanda	31	82	103	119	42	106	0	13	0	0	0	0	10.5	3.3	6.8	144
São Tomé & Príncipe	38	36	79	16	25	18	3	3	0	0	0	0	11.3	21.3	15.1	163
Senegal	220	297	398	320	266	286	10	25	126	77	2	66	10.6	8.1	7.4	121
Seychelles	146	239	130	118	160	144	8	18	13	5	6	8	44.4	27.5	40.0	96
Sierra Leone	59	97	58	74	87	49	0	0	0	0	5	0	53.9	50.0	3.9	164
Somalia	96	141	87	108	112	102	…	…	…	…	…	…	26.9	23.8	…	…
South Africa	-527	5 695	9 006	5 365	1 228	5 807	6 063	2 966	-3 134	1 151	-76	-635	8.4	1.5	7.5	34
South Sudan	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…
Sudan	3 534	2 426	2 601	1 816	2 064	1 936	7	11	98	89	66	84	17.1	16.1	18.1	111
Swaziland	121	37	106	66	136	95	-1	23	-8	7	4	4	20.2	40.1	25.0	166
Tanzania	403	582	1 247	953	1 023	1 095	0	0	0	0	0	0	15.3	15.5	15.0	91
Togo	77	49	24	49	86	54	-14	-1	-16	37	37	20	9.3	15.5	8.0	143
Tunisia	3 308	1 616	2 759	1 688	1 513	1 143	33	20	42	77	74	28	16.5	14.3	11.2	86
Uganda	644	792	729	842	544	792	0	0	0	0	-3	0	23.3	13.5	19.3	132
Zambia	616	1 324	939	695	1 729	1 982	0	86	0	270	1 095	1 150	24.0	42.3	44.0	109
Zimbabwe	40	69	52	105	166	387	0	3	8	0	43	14	15.2	21.9	…	114
Africa	36 783	51 479	57 842	52 645	43 122	42 652	8 225	9 322	7 896	3 169	7 027	3 512	23.7	19.9	15.9	…

Note: * The potential Index is based on 16 economic and policy variables. See note on methodology for further details.
Sources: UNCTAD, FDI Online Database (March 2013) and World investment Report 2012.

Table 11. **Aid flows*, 2006-2011 (USD million)**

	ODA net total, all donors						ODA net total, DAC countries						ODA net total, multilateral					
	2006	2007	2008	2009	2010	2011	2006	2007	2008	2009	2010	2011	2006	2007	2008	2009	2010	2011
Algeria	240	394	325	319	198	208	206	292	245	200	143	117	-3	93	102	107	57	90
Angola	164	248	369	239	238	200	-45	103	210	131	150	118	117	144	151	98	85	80
Benin	399	474	641	682	689	677	229	238	305	326	339	425	171	233	332	353	349	252
Botswana	69	108	720	279	156	126	36	64	683	223	106	90	34	45	39	56	51	28
Burkina Faso	901	950	1 001	1083	1 062	990	386	412	475	453	459	467	505	524	519	628	598	521
Burundi	431	479	522	561	630	579	223	202	255	264	283	273	208	277	267	297	347	305
Cameroon	1 719	1 926	549	648	541	623	1 506	1 697	298	268	266	327	207	220	240	380	274	296
Cape Verde	138	165	222	196	328	246	99	114	163	162	248	221	38	50	59	34	81	25
Central Afr. Rep.	134	177	257	242	261	272	65	118	129	99	113	108	68	59	128	143	148	163
Chad	289	359	422	561	486	471	153	227	277	356	285	248	132	130	141	205	202	224
Comoros	32	45	42	50	67	52	20	20	21	28	22	28	10	25	15	21	28	23
Congo	2 197	1 357	1 766	2 357	3 543	5 522	1 501	789	986	1 099	2 388	4 249	697	567	775	1 255	1 147	1 273
Congo, Dem. Rep.	258	119	485	283	1 312	254	169	49	383	226	1 215	175	88	70	102	57	96	78
Côte d'Ivoire	247	171	626	2 402	845	1 437	200	112	200	1 721	438	722	48	59	423	678	406	712
Djibouti	115	113	141	167	132	142	90	76	66	98	99	89	24	37	53	58	25	46
Egypt	900	1 136	1 741	999	592	410	542	793	967	580	366	228	287	238	318	296	148	71
Equatorial Guinea	26	31	32	31	85	24	19	26	19	25	79	22	7	6	13	6	6	3
Eritrea	126	158	143	144	161	163	63	47	53	43	36	33	64	109	84	86	105	98
Ethiopia	2 034	2 558	3 329	3 819	3 525	3 563	1 026	1 245	1 843	1 817	1 928	1 973	983	1 283	1 453	1 983	1 562	1 547
Gabon	29	51	62	77	104	76	32	34	38	53	84	62	-3	16	24	25	20	13
Gambia	75	97	94	127	120	135	25	33	28	22	33	37	43	61	62	105	85	97
Ghana	1 243	1 165	1 307	1 582	1 693	1 815	595	710	726	821	900	901	647	453	575	755	789	913
Guinea	170	228	328	214	218	208	103	124	210	171	92	82	64	96	118	47	128	124
Guinea-Bissau	87	122	134	147	139	119	39	44	53	51	54	52	48	78	80	95	85	66
Kenya	947	1 327	1 366	1 776	1 629	2 474	776	827	953	1 224	1 159	1 563	167	496	408	547	464	903
Lesotho	71	129	144	122	256	265	38	62	66	71	94	142	33	67	78	47	159	119
Liberia	260	701	1 251	513	1 419	765	187	229	819	341	703	523	73	471	405	171	715	243
Libya	38	19	74	41	9	642	33	16	52	32	17	463	3	3	20	8	-10	59
Madagascar	782	894	843	444	470	409	261	387	274	242	214	228	517	502	564	201	246	178
Malawi	723	744	924	771	1 023	798	398	401	432	435	517	448	313	332	482	332	504	349
Mali	866	1 019	964	984	1 089	1 271	398	558	531	575	684	782	459	458	433	408	404	486
Mauritania	226	347	452	373	374	370	94	133	139	122	106	131	129	212	287	231	250	227
Mauritius	19	69	110	155	125	192	9	44	16	64	58	114	13	28	95	93	69	80
Morocco	1 102	1 221	1 451	930	993	1 237	569	631	614	705	599	842	361	327	455	323	382	371
Mozambique	1 639	1 777	1 996	2 012	1 952	2 047	938	1 073	1 341	1 288	1 357	1 699	698	682	652	723	590	343
Namibia	152	217	210	326	256	285	106	144	150	247	211	233	44	73	58	78	44	49
Niger	544	544	612	469	745	649	235	233	269	255	381	302	307	307	336	212	361	341

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Table 11. **Aid flows*, 2006-11 (USD million)** (cont.)

	ODA net total, all donors						ODA net total, DAC countries						ODA net total, multilateral					
	2006	2007	2008	2009	2010	2011	2006	2007	2008	2009	2010	2011	2006	2007	2008	2009	2010	2011
Nigeria	1 1428	1 956	1 290	1 657	2 062	1 813	10 820	1 385	637	688	849	856	607	570	651	967	1 210	956
Rwanda	603	723	934	934	1 032	1 278	321	375	452	520	548	605	281	347	480	411	482	664
São Tomé & Príncipe	23	51	47	31	49	75	18	31	26	20	33	38	5	20	21	11	16	37
Senegal	865	870	1 069	1 016	928	1 052	510	453	554	514	534	590	344	387	472	497	379	454
Seychelles	14	11	13	23	56	21	7	1	5	12	29	7	7	8	7	11	10	10
Sierra Leone	380	550	378	448	467	429	180	381	175	196	200	180	200	169	204	252	266	244
Somalia	396	394	766	662	498	1 096	263	257	566	500	308	754	124	124	185	152	181	230
South Africa	715	807	1 125	1 075	1 031	1 274	561	594	882	861	822	1 034	154	213	242	211	207	238
South Sudan	...	...	...	...	...	1 087	...	...	...	...	...	1 040	...	...	...	...	...	45
Sudan	2 048	2 121	2 566	2 351	2 076	1 138	1 518	1 665	1 821	1 911	1 538	673	440	334	603	379	487	402
Swaziland	35	51	70	56	91	130	12	12	18	19	31	67	23	39	53	38	60	59
Tanzania	1 883	2 822	2 331	2 933	2 958	2 445	996	1 839	1 373	1 409	1 655	1 662	885	982	960	1 526	1 298	776
Togo	80	122	330	499	419	557	55	65	176	362	253	328	24	58	153	136	165	229
Tunisia	431	321	375	503	550	657	286	194	251	350	355	491	154	137	133	159	192	149
Uganda	1 586	1 737	1 641	1 785	1 723	1 580	938	1 003	1 006	1 013	1 033	991	645	731	631	768	686	583
Zambia	1 468	1 008	1 116	1 267	914	1 073	1 115	714	704	701	593	701	350	294	412	564	321	365
Zimbabwe	278	478	612	736	732	718	200	372	532	620	525	540	78	106	80	115	209	178
Africa Unspecified	2 943	3 883	4 854	5 708	4 925	5 123	2 412	2 956	3 847	3 628	3 813	3 538	489	858	981	2 020	1 081	1 485
Africa	44 568	39 546	45 173	47 808	47 976	51 261	31 538	24 601	27 313	28 157	29 346	32 611	12 410	14 207	16 614	19 358	18 252	17 900

Note:
ODA : Official Development Assistance.
DAC : Development Assistance Committee of OECD.
* Net disbursements.
Sources: OECD Development Assistance Committee 2013.

Table 12. External debt indicators

	Debt outstanding, at year end				Total debt outstanding (as % of GDP)				Debt service (as % of exports of goods and services)			
	Total (Million USD)	Of Which : Multilateral (as % of total)	Bilateral	Private								
	2011	2011	2011	2011	2011	2012 (e)	2013 (p)	2014 (p)	2011	2012 (e)	2013 (p)	2014 (p)
Algeria	4 405.0	0.1	60.2	39.7	2.7	2.1	2.0	2.1	5.2	2.3	2.4	2.3
Angola	20 496.6	2.1	36.1	61.7	24.9	20.7	20.4	20.6	7.3	7.8	7.4	8.1
Benin	1 202.7	69.6	30.4	0.0	18.3	17.3	18.8	19.2	5.5	6.3	6.8	7.8
Botswana	3 156.4	57.3	0.0	42.7	21.2	21.0	21.0	19.3	7.1	6.7	6.5	6.8
Burkina Faso	1 158.5	71.9	129.1	-101.0	13.1	13.5	14.3	14.5	4.8	4.1	3.9	3.9
Burundi	523.7	50.8	44.3	4.8	38.0	29.1	27.5	26.3	4.0	4.7	9.3	13.5
Cameroon	1 944.6	28.0	71.9	0.1	8.2	8.5	10.0	11.0	4.0	4.4	3.7	3.3
Cape Verde	1 382.2	59.5	12.3	28.1	83.1	68.5	78.7	79.9	19.6	12.3	12.7	12.8
Central Afr. Rep.	355.0	6.1	93.9	0.0	17.9	19.0	17.9	16.1	5.0	10.2	9.4	9.0
Chad	1 925.9	81.9	18.1	0.0	18.1	17.2	19.7	21.2	2.4	2.1	3.3	2.3
Comoros	258.6	71.4	26.2	2.3	48.7	36.3	35.7	31.8	9.2	10.3	9.7	10.8
Congo	4 731.9	44.3	55.7	0.0	36.0	36.8	35.7	35.8	11.4	9.3	6.8	4.8
Congo Dem. Rep.	2 619.1	6.4	52.0	41.6	22.1	20.6	21.1	20.1	1.4	1.3	1.0	0.9
Côte d'Ivoire	17 511.6	19.4	36.9	43.7	76.3	51.1	55.7	54.2	5.7	7.6	9.9	10.2
Djibouti	648.4	55.9	44.1	0.0	65.9	55.5	57.6	57.2	10.5	10.8	10.8	11.1
Egypt	34 934.0	27.3	63.5	9.2	15.8	15.3	17.7	17.3	12.2	11.4	11.2	11.3
Equatorial Guinea	1 326.0	...	99.0	1.0	9.1	9.8	10.4	8.4	0.4	1.9	2.2	3.4
Eritrea	934.8	63.1	36.9	0.0	35.8	29.0	25.0	22.6	13.1	8.1	7.1	5.7
Ethiopia	6 630.8	39.6	60.4	0.0	25.0	21.7	19.8	21.1	6.9	10.3	12.2	16.1
Gabon	2 784.0	15.3	35.3	49.4	21.0	16.7	17.1	19.8	4.1	4.9	4.0	4.5
Gambia, The	386.0	57.1	42.9	0.0	40.3	33.5	35.3	32.0	35.2	28.3	29.5	29.9
Ghana	9 617.3	29.0	44.9	26.1	29.9	25.4	26.9	28.3	4.9	6.4	4.2	3.1
Guinea	3 193.6	61.0	39.0	0.0	67.4	59.6	59.6	57.5	9.2	6.2	4.6	5.0
Guinea-Bissau	173.4	40.4	59.6	0.0	20.5	18.6	21.6	19.9	0.7	1.0	4.0	8.7
Kenya	8 606.9	43.6	53.6	2.8	26.9	27.8	26.8	27.1	4.5	6.0	6.2	13.6
Lesotho	787.5	80.5	19.5	0.0	36.1	46.0	54.8	54.1	3.9	4.9	5.7	4.9
Liberia	129.0	13.3	86.7	0.0	13.0	12.1	19.0	25.0	1.1	0.7	0.9	1.4
Libya	5 573.5	...	57.4	42.6	7.6	16.2	7.6	6.4	0.0	0.0	0.0	0.0
Madagascar	4 965.7	51.6	0.0	48.4	56.8	51.5	50.7	46.6	15.9	8.7	9.6	9.1
Malawi	908.0	52.6	47.4	0.0	17.5	16.7	15.3	12.9	1.8	2.2	2.7	4.2
Mali	2 709.9	68.3	31.7	0.0	28.8	24.5	23.7	25.5	6.5	5.7	4.5	4.9
Mauritania	3 756.0	54.1	44.1	1.8	101.9	76.3	85.9	69.5	5.8	6.5	10.9	10.4
Mauritius	1 744.2	40.8	14.6	44.5	18.0	17.1	17.1	17.4	4.6	4.0	3.6	4.3
Morocco	23 451.7	38.9	43.7	17.5	25.8	23.6	24.9	24.8	7.6	7.0	6.6	6.1
Mozambique	6 999.5	56.3	3.3	40.4	76.0	54.1	55.6	54.6	14.4	23.8	28.3	24.2
Namibia	4 275.8	...	19.0	81.0	38.4	34.9	36.4	34.3	12.8	10.2	10.0	9.6
Niger	1 001.6	62.2	37.8	0.0	18.3	21.3	22.4	25.1	4.2	2.0	2.8	2.6

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Table 12. **External debt indicators** (cont.)

	Debt outstanding, at year end				Total debt outstanding (as % of GDP)				Debt service (as % of exports of goods and services)			
	Total (million USD)	of which : Multilateral (as % of total)	Bilateral	Private								
	2011	2011	2011	2011	2011	2012 (e)	2013 (p)	2014 (p)	2011	2012 (e)	2013 (p)	2014 (p)
Nigeria	5 799.0	36.6	63.4	0.0	2.9	2.7	2.6	2.5	0.3	0.5	0.5	0.5
Rwanda	1 007.1	74.3	25.7	0.0	17.9	18.6	18.3	17.9	5.6	15.7	11.9	10.1
São Tomé & Príncipe	200.9	18.0	82.0	0.0	99.6	78.4	77.5	74.3	13.8	12.1	14.6	15.3
Senegal	6 968.8	50.8	0.0	49.2	54.1	58.5	64.3	65.2	15.5	8.6	9.1	7.4
Seychelles	490.0	4.2	48.9	46.9	50.9	46.7	51.2	48.4	2.8	2.7	3.8	4.6
Sierra Leone	866.1	39.5	60.5	0.0	45.5	42.9	40.3	37.5	2.9	6.2	6.0	6.9
Somalia	3 050.1	26.2	0.0	73.8	…	…	…	…	…	…	…	…
South Africa	111 462.0	1.3	6.0	92.7	30.7	33.6	38.0	39.1	34.4	34.3	38.7	40.9
South Sudan	…	…	…	…	…	…	…	…	…	…	…	…
Sudan	41 444.5	16.5	66.9	16.6	63.9	71.0	78.7	87.8	2.2	6.4	5.7	5.4
Swaziland	474.0	35.4	43.5	21.1	12.8	10.9	10.7	10.3	3.9	3.2	3.5	3.5
Tanzania	8 304.7	47.4	38.7	13.9	36.2	38.9	39.1	37.8	3.4	3.5	4.8	5.5
Togo	574.3	34.7	65.3	0.0	18.0	19.8	23.9	25.6	3.2	3.7	3.6	3.9
Tunisia	22 040.3	34.2	22.7	43.2	50.9	49.8	53.2	54.0	11.7	10.4	9.8	9.1
Uganda	4 675.3	67.0	0.0	33.0	26.4	28.7	27.2	27.5	9.3	8.9	9.9	10.1
Zambia	7 550.5	22.2	5.5	72.3	44.1	35.5	35.6	31.1	2.5	5.4	4.1	3.4
Zimbabwe	10 725.7	25.3	25.3	49.4	114.3	196.8	196.6	188.8	16.4	19.9	22.3	26.4
Africa	412 843	22.4	32.5	45.1	23.9	23.5	24.1	24.2	10.4	10.0	10.0	10.4

Sources: AfDB Statistics Department; IMF, World Economic Outlook Database, September 2012; World Bank, GDF Online Database.

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Table 13. **Demographic indicators**

	Total population (thousands) 2012	Urban population (% of total) 2012	Sex ratio (males per 100 females) 2012	Population growth rate (%) 2005	Population growth rate (%) 2012	Infant mortality rate (per 1000) 2012	Total fertility rate (per woman) 2012	Mortality under age 5 (per 1000) 2012	Distribution by age (%) 0-14	Distribution by age (%) 15-64 2012	Distribution by age (%) 65+
Algeria	36 486	67.7	101.9	1.5	1.4	21.7	2.2	27.6	26.6	68.7	4.7
Angola	20 163	60.2	98.2	3.3	2.7	96.8	5.2	156.6	45.9	51.6	2.5
Benin	9 352	43.0	97.5	3.1	2.7	77.6	5.1	122.5	43.4	53.5	3.0
Botswana	2 053	62.5	102.2	1.3	1.1	35.0	2.6	46.4	32.0	63.8	4.2
Burkina Faso	17 482	27.4	98.8	2.9	3.0	71.8	5.8	149.6	45.2	52.5	2.3
Burundi	8 749	11.7	96.6	3.0	2.0	94.8	4.1	153.1	37.5	59.6	2.9
Cameroon	20 469	59.9	99.7	2.2	2.2	86.1	4.3	137.8	40.4	56.1	3.5
Cape Verde	505	62.5	98.6	1.3	0.9	18.4	2.3	21.6	30.2	64.2	5.6
Central Afr. Rep.	4 576	39.5	97.1	1.6	2.0	96.8	4.5	157.0	39.9	56.2	4.0
Chad	11 831	28.7	99.0	3.2	2.6	124.9	5.8	197.3	45.2	51.9	2.8
Comoros	773	28.5	101.5	2.7	2.5	64.0	4.8	87.3	42.6	54.7	2.7
Congo	4 233	62.9	100.2	2.5	2.2	67.4	4.5	104.8	40.5	55.8	3.7
Congo Dem. Rep.	69 575	36.5	99.0	2.9	2.6	110.2	5.5	181.5	45.8	51.5	2.7
Côte d'Ivoire	20 595	52.1	103.5	1.6	2.2	69.7	4.3	108.7	40.3	55.8	3.9
Djibouti	923	76.4	100.1	1.8	1.9	75.6	3.6	105.2	35.1	61.4	3.5
Egypt	83 958	43.7	100.8	1.8	1.7	22.2	2.7	25.4	31.0	63.6	5.3
Equatorial Guinea	740	40.2	105.0	3.0	2.8	94.3	5.0	152.3	39.0	58.2	2.8
Eritrea	5 581	22.6	97.3	3.8	3.0	48.0	4.3	62.8	41.5	55.9	2.5
Ethiopia	86 539	17.0	99.1	2.4	2.1	63.6	3.9	97.5	40.2	56.4	3.4
Gabon	1 564	86.8	100.8	2.0	1.9	44.5	3.2	65.0	34.6	61.0	4.4
Gambia	1 825	59.7	97.5	2.9	2.7	67.2	4.7	94.1	43.4	54.4	2.2
Ghana	25 546	52.9	103.6	2.4	2.3	44.1	4.0	63.8	38.2	57.8	3.9
Guinea	10 481	36.4	102.2	1.7	2.5	85.0	5.1	135.4	42.6	54.1	3.3
Guinea-Bissau	1 580	30.3	98.3	2.0	2.1	110.8	4.9	182.7	41.0	55.7	3.3
Kenya	42 749	22.9	99.8	2.6	2.7	58.9	4.6	90.3	42.4	54.9	2.7
Lesotho	2 217	28.4	97.4	0.9	1.0	63.8	3.1	92.1	36.6	59.1	4.3
Liberia	4 245	48.6	101.2	2.9	2.8	77.2	5.1	108.0	43.5	53.7	2.8
Libya	6 469	78.3	99.6	2.0	0.7	13.4	2.4	15.1	30.9	64.5	4.6
Madagascar	21 929	31.0	99.4	3.0	2.8	40.8	4.5	57.2	42.4	54.4	3.1
Malawi	15 883	20.8	100.4	2.8	3.2	86.8	6.0	119.9	45.9	50.9	3.1
Mali	16 319	37.4	100.1	3.1	3.0	93.1	6.2	175.0	47.1	50.7	2.2
Mauritania	3 623	42.0	101.1	2.8	2.3	71.1	4.4	107.8	39.5	57.8	2.7
Mauritius*	1 314	41.9	97.4	0.9	0.6	12.2	1.6	14.7	20.9	71.6	7.5
Morocco	32 599	59.4	95.9	1.0	1.0	29.0	2.2	31.9	27.3	67.0	5.7
Mozambique	24 475	40.0	95.2	2.6	2.3	78.8	4.8	124.9	43.7	52.9	3.4
Namibia	2 364	39.2	98.9	1.8	1.7	30.4	3.1	40.6	35.5	60.7	3.8
Niger	16 644	17.4	101.3	3.5	3.5	86.5	7.0	145.1	48.9	48.8	2.3

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Table 13. **Demographic indicators** (cont.)

	Total population (thousands) 2012	Urban population (% of total) 2012	Sex ratio (males per 100 females) 2012	Population growth rate (%) 2005	Population growth rate (%) 2012	Infant mortality rate (per 1000) 2012	Total fertility rate (per woman) 2012	Mortality under age 5 (per 1000) 2012	Distribution by age (%) 0-14	Distribution by age (%) 15-64 2012	Distribution by age (%) 65+
Nigeria	166 629	51.2	102.6	2.5	2.5	88.3	5.5	141.9	42.8	53.7	3.4
Rwanda	11 272	19.5	96.6	2.1	3.0	93.6	5.3	115.0	43.0	54.3	2.7
São Tomé & Príncipe	172	63.7	98.2	1.5	2.0	47.9	3.5	69.6	39.4	56.9	3.7
Senegal	13 108	43.0	98.4	2.7	2.6	50.4	4.7	85.9	43.3	54.3	2.4
Seychelles	88	...	...	0.5	1.0	10.3	2.4	...	0.0	0.0	0.0
Sierra Leone	6 126	39.1	95.7	4.0	2.1	104.0	4.8	157.9	42.8	55.3	1.9
Somalia	9 797	38.4	98.4	2.3	2.5	100.9	6.3	163.3	44.9	52.3	2.7
South Africa	50 738	62.7	98.3	1.2	0.5	47.0	2.4	65.6	29.7	65.4	4.9
South Sudan	10 386	...	104.6	...	4.8	...	4.9	...	...	...	...
Sudan	35 336	41.6	101.5	2.4	2.4	57.9	4.3	88.2	39.5	56.8	3.7
Swaziland	1 220	21.3	97.1	0.9	1.4	65.8	3.2	94.5	37.5	59.0	3.5
Tanzania	47 656	27.3	99.9	2.7	3.1	54.6	5.5	83.1	44.9	51.9	3.2
Togo	6 283	44.8	98.1	2.2	2.1	68.1	3.9	105.8	38.9	57.6	3.5
Tunisia	10 705	68.1	99.9	1.0	1.0	18.6	1.9	22.8	23.1	69.8	7.0
Uganda	35 621	13.7	100.1	3.3	3.2	72.7	6.0	114.5	48.3	49.2	2.5
Zambia	13 884	36.1	100.6	2.4	3.0	82.6	6.3	133.4	46.7	50.2	3.1
Zimbabwe	13 014	39.3	97.6	...0.2	2.0	48.6	3.1	73.8	37.6	58.3	4.2
Africa	1 068 444	40.8	100.0	2.3	2.3	71.5	4.4	111.3	40.0	56.4	3.6

Note: * Including Agalega, Rodrigues and Saint Brandon.
Source: AfDB Statistics Department ; United Nations, Department of Economic and Social Affairs, Population Division, World Population Prospects , The 2010 Revision.

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Table 14. Poverty and income distribution indicators

	National poverty line*				International poverty line			Gini coefficient**		Share	
	Population below the poverty line (%)				Population below the poverty line (%)					of consumption (%)	
	Survey year	Rural	Urban	National	Survey year	Below USD 1.25	Below USD2	Survey year	Index	Lowest 10%	Highest 10%
Algeria	1995	30.3	14.7	22.6	1995	6.8	23.6	1995	35.3	2.9	26.9
Angola	2001	94.3	62.3	68.0	2000	54.3	70.2	2000	58.6	0.6	44.7
Benin	2007	36.1	28.3	33.3	2003	47.3	75.3	2003	38.6	3.0	31.2
Botswana	2003	44.8	19.4	30.6	1994	31.2	49.4	1994	61.0	1.3	51.2
Burkina Faso	2009	52.6	27.9	46.7	2009	44.6	72.6	2009	39.8	2.9	32.2
Burundi	2006	68.9	34.0	66.9	2006	81.3	93.5	2006	33.3	4.1	28.0
Cameroon	2007	55.0	12.2	39.9	2007	9.6	30.4	2007	38.9	2.9	30.4
Cape Verde	2007	44.3	13.2	26.6	2002	21.0	40.9	2002	50.5	1.9	40.6
Central Afr. Rep.	2008	69.4	49.6	62.0	2008	62.8	80.1	2008	56.3	1.2	46.1
Chad	2003	58.6	24.6	55.0	2003	61.9	83.3	2003	39.8	2.6	30.8
Comoros	2004	48.7	34.5	44.8	2004	46.1	65.0	2004	64.3	0.9	55.2
Congo	2011	74.8	..	46.5	2005	54.1	74.4	2005	47.3	2.1	37.1
Congo Dem. Rep.	2006	75.7	61.5	71.3	2006	87.7	95.2	2006	44.4	2.3	34.7
Côte d'Ivoire	2008	54.2	29.4	42.7	2008	23.8	46.3	2008	41.5	2.2	31.8
Djibouti	...	...	...	...	2002	18.8	41.2	2002	40.0	2.4	30.9
Egypt	2008	30.0	10.6	22.0	2008	1.7	15.4	2008	30.8	4.0	26.6
Equatorial Guinea	2006	79.9	31.5	76.8	...	...	...	...	...	..	..
Eritrea	1993	...	62.0	69.0	...	...	...	...	...	..	..
Ethiopia	2011	30.4	25.7	29.6	2005	39.0	77.6	2005	29.8	4.1	25.6
Gabon	2005	44.6	29.8	32.7	2005	4.8	19.6	2005	41.5	2.6	33.0
Gambia	2010	73.9	32.7	48.4	2003	33.6	55.9	2003	47.3	2.0	36.9
Ghana	2006	39.2	10.8	28.5	2006	28.6	51.8	2006	42.8	2.0	32.8
Guinea	2007	63.0	30.5	53.0	2007	43.3	69.6	2007	39.4	2.7	30.3
Guinea-Bissau	2012	64.7	35.4	55.2	2002	48.9	78.0	2002	35.5	3.1	28.1
Kenya	2005	49.1	33.7	45.9	2005	43.4	67.2	2005	47.7	2.0	38.0
Lesotho	2003	60.5	41.5	56.6	2003	43.4	62.3	2003	52.5	1.0	39.4
Liberia	2007	67.7	55.1	63.8	2007	83.8	94.9	2007	38.2	2.4	30.1
Libya	...	...	...	...	...	...	...	...	...	...	...
Madagascar	2005	73.5	52.0	68.7	2010	81.3	92.6	2010	44.1	2.2	34.7
Malawi	2010	56.6	17.3	50.7	2004	73.9	90.5	2004	39.0	3.0	31.9
Mali	2010	50.6	18.9	43.6	2010	50.4	78.7	2010	33.0	3.5	25.8
Mauritania	2008	59.4	20.8	42.0	2008	23.4	47.7	2008	40.5	2.4	31.6
Mauritius***	...	...	...	...	...	...	...	2006	38.9	...	...
Morocco	2007	14.5	4.8	9.0	2007	2.5	14.0	2007	40.9	2.7	33.2
Mozambique	2008	56.9	49.6	54.7	2008	59.6	81.8	2008	45.7	1.9	36.7
Namibia	2004	49.0	17.0	38.0	2004	31.9	51.1	2004	63.9	1.4	54.8
Niger	2007	63.9	36.7	59.5	2009	43.6	75.2	2008	34.6	3.6	28.5

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Table 14. **Poverty and income distribution indicators** (cont.)

	National poverty line*				International poverty line			Gini coefficient**		Share	
	Population below the poverty line (%)				Population below the poverty line (%)					of consumption (%)	
	Survey year	Rural	Urban	National	Survey year	Below USD 1.25	Below USD2	Survey year	Index	Lowest 10%	Highest 10%
Nigeria	2004	63.8	43.1	54.7	2010	68.0	84.5	2010	48.8	1.8	38.2
Rwanda	2011	48.7	22.1	44.9	2011	63.2	82.4	2011	50.8	2.1	43.2
São Tomé & Príncipe	2009	64.9	45.0	66.2	2001	28.2	54.2	2001	50.8	2.2	43.6
Senegal	2011	57.1	33.1	46.7	2005	33.5	60.4	2005	39.2	2.5	30.1
Seychelles	...	...	2007	0.3	1.8	2007	65.8	1.6	60.2	...	...
Sierra Leone	2003	78.5	47.0	66.4	2003	53.4	76.1	2003	42.5	2.6	33.6
Somalia	...	...	...	...	...	...	...	...	...	...	...
South Africa	2006	...	...	23.0	2009	13.8	31.3	2009	63.1	1.2	51.7
South Sudan	2009	55.4	24.4	50.6	...	...	...	...	...	...	...
Sudan	2009	57.6	26.5	46.5	2009	19.8	44.1	2009	35.3	2.7	26.7
Swaziland	2010	73.1	31.1	63.0	2010	40.6	60.4	2010	51.5	1.7	40.1
Tanzania	2007	37.4	21.8	33.4	2007	67.9	87.9	2007	37.6	2.8	29.6
Togo	2011	73.4	34.6	58.7	2006	38.7	69.3	2006	34.4	3.3	27.1
Tunisia	2010	...	...	15.5	2005	1.4	8.1	2005	41.4	2.4	32.5
Uganda	2009	27.2	9.1	24.5	2009	38.0	64.7	2009	44.3	2.4	36.1
Zambia	2010	77.9	27.5	60.5	2006	68.5	82.6	2006	54.6	1.5	43.1
Zimbabwe	2003	82.4	42.3	72.0	2004	61.9	...	2004	50.1	1.8	40.3

Notes:
* The national poverty line is defined as two...thirds of the average consumption.
** The Gini coefficient is defined on income distribution.
*** Including Agalega, Rodrigues and Saint Brandon.
Sources: Domestic authorities and World Bank, Online Database, Country DHS.

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Table 15. Access to services

	Telecommunications						Access to electricity		Water supply coverage			Sanitation coverage		
	Main telephone line per 100 inhabitants		Mobile line per 100 inhabitants		Internet users per 100 inhabitants		Electricity - consumption (KWh - millions)		(%)			(%)		
									Total	Urban	Rural	Total	Urban	Rural
	2004	2011	2004	2011	2004	2011	2004	2009	2010			2010		
Algeria	7.68	8.50	15.07	98.99	4.63	14.00	29 587	40 345	83	85	79	95	98	88
Angola	0.59	1.55	4.64	48.38	0.46	14.78	2 121	3 337	51	60	38	58	85	19
Benin	0.98	1.68	6.21	85.33	1.18	3.50	659	993	75	84	68	13	25	5
Botswana	7.11	7.37	28.23	142.82	3.30	7.00	2 588	3 284	96	99	92	62	75	41
Burkina Faso	0.62	0.83	2.87	45.27	0.40	3.00	557	834	79	95	73	17	50	6
Burundi	0.39	...	1.43	14.46	0.35	1.11	150	207	72	83	71	46	49	46
Cameroon	0.58	3.34	8.92	52.35	0.98	5.00	4 110	5 202	77	95	52	49	58	36
Cape Verde	15.36	14.88	14.09	79.19	5.32	32.00	212	285	88	90	85	61	73	43
Central Afr. Rep.	0.25	0.05	1.52	25.04	0.22	2.20	125	134	67	92	51	34	43	28
Chad	0.14	0.27	1.30	31.80	0.36	1.90	88	93	51	70	44	13	30	6
Comoros	2.41	3.13	1.34	28.71	1.33	5.50	42	41	95	91	97	36	50	30
Congo	0.40	0.24	11.13	93.84	1.08	5.60	736	861	71	95	32	18	20	15
Congo Dem. Rep.	0.02	0.06	3.57	23.13	0.20	1.20	5 668	7 034	45	79	27	24	24	24
Côte d'Ivoire	1.45	1.33	9.44	86.42	0.85	2.20	3 939	5 370	80	91	68	24	36	11
Djibouti	1.40	2.04	4.34	21.32	0.78	7.00	205	262	88	99	54	50	63	10
Egypt	13.09	10.56	10.49	101.08	5.15	35.62	100 353	137 210	99	100	99	95	97	93
Equatorial Guinea	1.78	...	10.50	59.15	0.84	...	85	100	…	…	…	…	…	…
Eritrea	0.91	1.07	0.46	4.47	1.16	6.20	266	278	…	…	…	…	…	4
Ethiopia	0.67	0.98	0.21	16.67	0.16	1.10	2 305	3 789	44	97	34	21	29	19
Gabon	2.88	1.96	36.41	117.32	2.98	8.00	1 477	1 583	87	95	41	33	33	30
Gambia	2.94	2.76	11.98	89.02	3.31	10.87	180	236	89	92	85	68	70	65
Ghana	1.48	1.14	8.03	84.78	1.72	14.11	5 796	8 385	86	91	80	14	19	8
Guinea	0.29	0.18	1.74	44.02	0.51	1.30	963	817	74	90	65	18	32	11
Guinea-Bissau	0.72	...	2.94	25.98	1.81	2.67	63	72	64	91	53	20	44	9
Kenya	0.86	0.68	7.34	64.84	3.02	28.00	6 589	6 436	59	82	52	32	32	32
Lesotho	1.82	1.63	9.59	47.91	2.18	4.22	330	200	78	91	73	26	32	24
Liberia	...	0.08	3.05	49.17	0.03	3.00	320	333	73	88	60	18	29	7
Libya	14.14	15.57	8.85	155.70	3.53	17.00	17 812	26 749	…	…	…	97	97	96
Madagascar	0.34	0.65	1.92	38.28	0.53	1.90	1 100	1 256	46	74	34	15	21	12
Malawi	0.75	1.13	1.78	25.07	0.35	3.33	1 444	1 742	83	95	80	51	49	51
Mali	0.52	0.66	3.19	68.32	0.43	2.00	457	506	64	87	51	22	35	14
Mauritania	1.32	2.04	17.62	92.71	0.48	4.50	566	759	50	52	48	26	51	9
Mauritius*	28.40	28.67	43.97	99.04	13.69	34.95	2 116	2 538	99	100	99	89	91	88
Morocco	4.35	11.05	31.04	113.26	11.61	51.00	17 971	25 507	83	98	61	70	83	52
Mozambique	0.37	0.37	3.50	32.83	0.68	4.30	10 439	11 750	47	77	29	18	38	5
Namibia	6.26	6.02	14.00	104.96	3.80	12.00	3 131	3 800	93	99	90	32	57	17
Niger	0.19	0.56	1.37	27.01	0.19	1.30	491	750	49	100	39	9	34	4

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Table 15. **Access to services**

	Telecommunications						Access to electricity		Water supply coverage			Sanitation coverage		
	Main telephone line per 100 inhabitants		Mobile line per 100 inhabitants		Internet users per 100 inhabitants		Electricity - consumption (KWh - millions)		Total	(%) Urban	Rural	Total	(%) Urban	Rural
	2004	2011	2004	2011	2004	2011	2004	2009		2010			2010	
Nigeria	0.75	0.44	6.71	58.58	1.29	28.43	19 701	19 211	58	74	43	31	35	27
Rwanda	0.25	0.36	1.52	40.63	0.43	7.00	248	288	65	76	63	55	52	56
São Tomé & Príncipe	4.69	4.72	5.15	68.26	13.32	20.16	37	34	89	89	88	26	30	19
Senegal	2.31	2.71	10.60	73.25	4.39	17.50	2 268	2 627	72	93	56	52	70	39
Seychelles	25.74	32.13	65.80	145.71	24.27	43.16	197	248	…	100	…	…	98	…
Sierra Leone	0.54	...	...	35.63	0.20	...	116	64	55	87	35	13	23	6
Somalia	1.22	...	6.12	6.85	1.05	1.25	280	324	29	66	7	23	52	6
South Africa	10.27	8.18	44.13	126.83	8.43	21.00	227 321	233 290	91	99	79	79	86	67
South Sudan	…	…	…	…	…	…	…	…	…	…	…	…	…	…
Sudan	2.74	1.08	2.80	56.25	0.79	19.00	3 446	6 726	58	67	52	26	44	14
Swaziland	4.06	4.40	13.24	63.70	3.23	18.13	…	…	71	91	65	57	64	55
Tanzania	0.39	0.35	5.14	55.53	0.88	12.00	3 007	4 680	53	79	44	10	20	7
Togo	1.25	3.90	6.29	50.45	1.50	3.50	673	808	61	89	40	13	26	3
Tunisia	12.26	11.49	38.06	116.93	8.53	39.10	11 537	14 991	…	99	…	…	96	…
Uganda	0.26	1.35	4.23	48.38	0.72	13.01	1 739	2 124	72	95	68	34	34	34
Zambia	0.82	0.64	4.15	60.59	2.01	11.50	8 075	10 227	61	87	46	48	57	43
Zimbabwe	2.52	2.79	3.38	72.13	6.56	15.70	11 589	12 959	80	98	69	40	52	32
Africa	2.99	2.88	9.09	61.40	2.41	16.01	515 274	611 677	64	84	52	39	54	30

Sources: AfDB Statistics Department; Telecommunications : International Telecommunication Union ... ICT Indicators Online Database.
Electricity : United Nations Statistics Division, Energy Statistics Database ... online database
Water supply coverage and sanitation coverage: WHO / UNICEF Joint Monitoring Programme (JMP) for Water Supply and Sanitation, February 2013.
Domestic authorities.
Note: * Including Agalega, Rodrigues and Saint Brandon.

Table 16. **Basic health indicators**

	Life expectancy at birth (years)			Prevalence of undernourished in total population (%)	Food availability (Kcal/person/day)	Total health expenditure				Health personnel (per 100 000)		
		With AIDS	No...AIDS scenario			as % of GDP	Per capita** (USD)	Distribution Public (%)	Distribution Private (%)	Survey year	Physicians	Nurses and midwives
	2012	2010-2015		2011	2009	2010						
Algeria	73.4	...	...	5	3 239	4.2	178.2	77.9	22.1	2007	120	194
Angola	51.5	51.7	52.8	27	2 079	2.9	123.2	82.5	17.5	2004	7	116
Benin	56.5	56.8	57.5	8	2 592	4.1	31.1	49.5	50.5	2008	6	85
Botswana	53.0	52.7	69.6	28	2 164	8.3	614.6	72.5	27.5	2006	31	263
Burkina Faso	55.9	56.0	57.7	26	2 647	6.7	39.8	51.0	49.0	2008	6	68
Burundi	50.9	51.1	53.6	73	1 604	11.6	20.7	38.2	61.8	2004	11	19
Cameroon	52.1	52.5	56.1	16	2 457	5.1	61.3	29.6	70.4	2004	55	152
Cape Verde	74.3	...	...	9	2 644	4.1	154.6	75.0	25.0	2008	64	147
Central Afr. Rep.	49.1	49.5	53.1	30	2 181	4.0	18.2	35.4	64.6	2004	25	41
Chad	49.9	50.1	52.1	33	2 074	4.5	30.6	25.0	75.0	2004	11	26
Comoros	61.5	...	...	70	2 139	4.5	33.2	67.2	32.8	2004	55	94
Congo	57.8	58.0	60.3	37	2 056	2.5	72.3	46.7	53.3	2007	11	94
Congo Dem. Rep.	48.7	48.9	49.9	...	1 605	7.9	15.8	42.5	57.5	2004	42	52
Côte d'Ivoire	56.0	56.4	59.5	21	2 670	5.3	59.7	21.6	78.4	2008	14	49
Djibouti	58.3	58.5	59.3	20	2 419	7.2	91.7	65.3	34.7	2006	22	81
Egypt	73.5	...	...	5	3 349	4.7	123.2	37.4	62.6	2009	283	352
Equatorial Guinea	51.4	51.5	53.9	...	...	4.5	896.2	75.9	24.1	2004	78	46
Eritrea	62.0	62.2	62.7	65	1 640	2.7	11.9	48.2	51.8	2004	15	58
Ethiopia	59.7	60.0	60.9	40	2 097	4.9	15.7	53.5	46.5	2007	2	25
Gabon	63.1	63.3	66.8	7	2 745	3.5	302.1	52.9	47.1	2004	88	504
Gambia	58.8	59.0	60.2	14	2 643	5.7	26.1	50.9	49.2	2008	4	57
Ghana	64.6	64.7	66.2	5	2 934	5.2	67.0	59.5	40.5	2009	9	105
Guinea	54.5	54.7	55.6	17	2 652	4.9	23.0	11.3	88.7	2005	10	4
Guinea-Bissau	48.6	48.8	49.9	9	2 476	8.5	46.9	10.0	90.0	2008	5	66
Kenya	57.7	58.0	62.7	30	2 092	4.8	36.8	44.3	55.7	2004	13	107
Lesotho	48.7	49.1	64.1	17	2 371	11.1	108.9	76.2	23.8	2003	4	55
Liberia	57.3	57.5	58.7	31	2 261	11.9	29.2	32.5	67.5	2008	1	27
Libya	75.0	...	...	5	3 157	3.9	483.7	68.8	31.2	2009	192	686
Madagascar	66.9	...	...	33	2 117	3.8	15.9	60.3	39.7	2007	17	30
Malawi	54.8	55.1	63.2	23	2 318	6.6	25.6	60.2	39.8	2008	2	28
Mali	51.9	52.1	53.5	8	2 624	5.0	31.7	46.6	53.4	2008	5	30
Mauritania	58.9	...	...	9	2 856	4.4	42.7	53.1	46.9	2009	13	68
Mauritius*	73.5	...	...	6	2 993	6.0	448.9	41.7	58.3	2004	418	370
Morocco	72.4	...	...	6	3 264	5.2	148.0	38.0	62.0	2009	65	94
Mozambique	50.7	51.0	58.2	39	2 112	5.2	21.3	71.7	28.3	2008	2	32
Namibia	62.6	62.7	71.3	34	2 151	6.8	361.3	58.4	41.6	2007	36	266
Niger	55.1	...	...	13	2 489	5.2	18.3	50.9	49.1	2008	2	15

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Table 16. **Basic health indicators** (cont.)

	Life expectancy at birth (years)			Prevalence of undernourished in total population (%)	Food availability (Kcal/person/day)	Total health expenditure				Health personnel (per 100 000)		
		With AIDS	No...AIDS scenario			as % of GDP	Per capita** (USD)	Distribution Public (%)	Distribution Private (%)	Survey year	Physicians	Nurses and midwives
	2012	2010-2015		2011	2009	2010						
Nigeria	52.3	52.5	55.1	9	2 711	5.1	62.8	37.9	62.1	2008	37	149
Rwanda	55.7	55.8	57.5	29	2 188	10.5	55.5	50.1	49.9	2005	2	44
São Tomé & Príncipe	64.9	...	...	8	2 734	7.2	90.0	38.3	61.7	2004	162	205
Senegal	59.6	...	...	21	2 479	5.7	58.5	55.5	44.5	2008	6	45
Seychelles	74.2	...	...	9	2 426	3.4	368.5	91.9	8.1	2004	440	769
Sierra Leone	48.1	48.2	49.1	29	2 162	13.1	42.5	11.3	88.7	2008	2	18
Somalia	51.5	...	...	...	...	...	...	...	...	2006	4	11
South Africa	53.4	53.8	65.8	5	3 017	8.9	648.7	44.1	55.9	2004	74	391
South Sudan	59.8	...	...	...	...	...	...	...	...	...	...	...
Sudan	61.8	...	...	39	2 326	6.3	83.9	29.8	70.2	2008	26	78
Swaziland	48.9	49.2	63.7	27	2 249	6.6	203.1	63.7	36.3	2004	62	623
Tanzania	58.9	59.3	63.7	39	2 137	6.0	30.9	67.3	32.7	2006	1	24
Togo	57.5	57.8	60.1	17	2 363	7.7	40.6	44.2	55.8	2008	6	31
Tunisia	74.7	...	...	5	3 314	6.2	237.8	54.3	45.7	2009	121	333
Uganda	54.5	54.7	59.0	35	2 260	9.0	46.7	21.7	78.3	2005	12	132
Zambia	49.4	49.6	57.7	47	1 879	5.9	72.9	60.3	39.7	2006	6	71
Zimbabwe	52.7	53.5	67.5	33	2 219	...	...	...	...	2004	17	74
Africa	58.1	54.2	57.9	20	2 481	5.5	95.6	45.1	54.9	...	...	...

Note:
* Including Agalega, Rodrigues and Saint Brandon.
** at average exchange rate.
Sources: AfDB Statistics Department, Life expectancy at birth and HIV/AIDS from UN Revision 2010.
Undernourishment prevalence and food availability: FAO, Food Insecurity Online Database.
Total health expenditure and public health expenditure: WHO Online Database.

Table 17. Major diseases

	Healthy life expectancy at birth (years)			HIV/AIDS			Malaria (Number of reported cases)		Tuberculosis (New and relapse cases)	Measles Incidence (Number of reported cases)	Vaccination (%)	
	Total	Male	Female	People living with HIV / AIDS (000)	Adult prevalence (%)	AIDS deaths in adults & children (000)					MCV	DTP3
	2007			2011			Survey year		2011	2010	2011	
Algeria	62	62	63	13	<0.1	<1	2010	5	53 496	103	95	95
Angola	45	44	47	230	2.1	12	2010	1 682 870	108 318	1 190	88	86
Benin	50	50	50	64	1.2	2.8	2009	889 597	10 579	928	72	85
Botswana	49	49	48	300	23.4	4.2	2010	1 046	15 874	853	94	96
Burkina Faso	43	42	43	120	1.1	6.8	2010	804 539	15 041	2 511	63	91
Burundi	43	42	43	80	1.3	5.8	2010	1 763 447	18 799	495	92	96
Cameroon	45	45	45	550	4.6	34	...	...	73 583	240	76	66
Cape Verde	61	59	64	3	1	<0.2	2010	18	1 162	...	96	90
Central Afr. Rep.	42	43	42	130	4.6	10	...	...	23 642	2	62	54
Chad	40	40	40	210	3.1	12	2008	47 757	27 565	194	28	22
Comoros	56	55	58	0	0.1	<0.1	2010	36 538	422	...	72	83
Congo	48	48	49	83	3.3	4.6	2009	92 855	27 043	4	90	90
Congo Dem. Rep.	45	44	46	...	...	...	2010	2 417 780	330 182	5 407	71	70
Côte d'Ivoire	47	45	48	360	3	23	2010	62 726	60 535	441	49	62
Djibouti	48	47	50	9	1.4	<1	2010	1 019	9 352	7	84	87
Egypt	60	59	62	10	<0.1	<1	...	...	23 037	16	96	96
Equatorial Guinea	46	45	46	20	4.7	<1	2009	14 184	2 444	...	51	33
Eritrea	55	54	56	23	0.6	1.4	2010	35 982	8 307	51	99	99
Ethiopia	50	49	51	790	1.4	54	2010	1 158 197	376 611	4 235	57	51
Gabon	52	50	53	46	5	2.5	2010	8 566	11 368	1	55	45
Gambia	51	50	53	14	1.5	<1	2010	116 353	7 193	2	91	96
Ghana	50	49	50	230	1.5	15	2010	1 071 637	35 467	641	91	91
Guinea	47	46	48	85	1.4	4	2009	35 841	30 420	45	58	59
Guinea-Bissau	42	40	43	24	2.5	<1	2009	11 757	5 819	26	61	76
Kenya	48	47	48	1 600	6	62	2010	898 531	217 401	95	87	88
Lesotho	40	38	41	320	23.3	14	...	...	25 514	2 488	85	83
Liberia	48	47	49	25	1	2.3	2010	922 173	19 970	2 200	40	49
Libya	64	63	66	...	...	...	...	...	4 177	329	98	98
Madagascar	52	51	53	34	0.3	2.6	2010	202 450	77 070	1	70	89
Malawi	44	43	44	910	10	44	...	...	48 427	118 712	96	97
Mali	42	41	43	110	1.1	6.6	2010	227 482	15 284	1 719	56	72
Mauritania	51	49	52	24	1.1	1.5	2010	1 994	13 791	1 292	67	75
Mauritius*	63	61	65	7	1	<1	...	...	435	12	99	98
Morocco	62	61	63	32	0.2	1.6	2010	3	61 726	633	95	99
Mozambique	42	42	42	1 400	11.3	74	2010	1 522 577	174 661	2 321	82	76
Namibia	52	52	53	190	13.4	5.2	2010	0 556	27 870	3 138	74	82
Niger	44	44	45	65	0.8	4	2010	620 058	27 384	372	76	75

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Table 17. **Major diseases** (cont.)

	Healthy life expectancy at birth (years)			HIV/AIDS			Malaria (Number of reported cases)		Tuberculosis (New and relapse cases)	Measles Incidence (Number of reported cases)	Vaccination (%)	
	Total	Male	Female	People living with HIV / AIDS (000)	Adult prevalence (%)	AIDS deaths in adults & children (000)	Survey year		2011	2010	MCV	DTP3
	2007			2011							2011	
Nigeria	42	42	42	3 400	3.7	210	2010	551 187	276 823	8 491	71	47
Rwanda	43	43	44	210	2.9	6.4	2010	638 669	16 687	121	95	97
São Tomé & Príncipe	53	52	54	1	1	<0.1	2010	2 740	382	...	91	96
Senegal	51	50	52	53	0.7	1.6	2009	165 933	28 085	428	82	83
Seychelles	63	60	65	...	...	...	...	...	127	...	99	99
Sierra Leone	35	34	37	49	1.6	2.6	2010	934 028	55 763	1 089	80	84
Somalia	45	44	46	35	0.7	3.1	2010	24 553	38 696	115	46	41
South Africa	48	47	48	5 600	17.3	270	2010	3 875	843 784	5 857	78	72
South Sudan	…	…	…	150	3.1	11	...	...	22 265	…	64	46
Sudan	50	50	50	69	0.4	5.6	2010	1 620 840	59 396	680	87	93
Swaziland	42	42	42	190	26	6.8	2010	0 147	24 390	313	98	91
Tanzania	45	45	45	1 600	5.8	84	2009	40	137 433	167	93	90
Togo	51	49	52	150	3.4	8.9	2010	617 101	7 452	120	67	81
Tunisia	66	65	67	2	0.1	<0.1	...	...	6 310	1	96	98
Uganda	42	41	44	1 400	7.2	62	2010	1 581 160	113 375	1 313	75	82
Zambia	40	39	40	970	12.5	31	...	...	103 656	15 754	83	81
Zimbabwe	39	40	38	1 200	14.9	58	2010	249 379	115 454	9 696	92	99
Africa	47.1	46.5	47.7	23 190	4.1	1 170.9	2010	21 038 190	3 840 047	193 921	76	73

Notes:
DTP: Diphtheria, tetanus toxoids and pertussis antigen. MCV: Measles Containing Vaccine.
Sources: UNAIDS and WHO, Global report: UNAIDS report on the global AIDS epidemic 2010. UNAIDS, 2010.; Malaria reported cases, Tuberculosis new and relapse cases; Measles incidence, Vaccination coverage MCV and DTP3; WHO, Global Health Observatory Data Repository online Database March 2013.

Table 18. **Basic education indicators**

	Estimated adult literacy rate, 2005-09 (%) (people over 15)			Estimated youth literacy rate, 2006-10 (%) (people between 15 and 24)			Public expenditure on education 2000-12
	Total	Male	Female	Total	Male	Female	(% of GDP)
Algeria	72.6	81.3	63.9	91.8	94.4	89.1	4.3
Angola	70.1	82.7	58.1	73.1	80.5	65.8	3.5
Benin	42.4	55.2	30.3	55.0	65.6	44.6	5.3
Botswana	84.5	84.0	84.9	95.3	93.6	96.9	7.8
Burkina Faso	28.7	36.7	21.6	39.3	46.7	33.1	4.0
Burundi	67.2	72.9	61.8	77.6	77.6	77.6	6.1
Cameroon	70.7	78.9	63.0	83.1	89.4	77.5	3.2
Cape Verde	84.3	89.3	79.4	98.3	97.5	99.1	5.6
Central Afr. Rep.	56.0	69.3	43.2	65.2	72.3	58.2	1.2
Chad	34.5	45.0	24.2	47.0	53.5	40.6	2.9
Comoros	74.9	80.2	69.7	85.6	85.9	85.3	7.6
Congo	...	...	...	80.5	86.8	78.0	6.2
Congo Dem. Rep.	66.8	76.9	57.0	65.0	68.3	61.8	2.5
Côte d'Ivoire	56.2	65.2	46.6	67.0	72.2	61.9	4.6
Djibouti	...	...	...	...	...	...	8.4
Egypt	72.0	80.3	63.5	87.5	90.6	84.3	3.8
Equatorial Guinea	93.9	97.1	90.6	98.0	97.7	98.3	0.6
Eritrea	67.8	78.7	57.5	89.3	92.0	86.7	2.1
Ethiopia	...	...	...	55.0	63.0	47.0	4.7
Gabon	88.4	91.9	84.9	97.7	98.7	96.8	3.8
Gambia	50.0	60.0	40.4	66.7	71.9	61.7	3.9
Ghana	67.3	73.2	61.2	80.8	81.7	79.9	8.2
Guinea	41.0	52.0	30.0	63.4	69.6	57.0	3.1
Guinea-Bissau	54.2	68.2	40.6	72.1	78.9	65.3	5.2
Kenya	87.4	90.6	84.2	92.8	91.7	93.9	6.7
Lesotho	89.6	83.3	95.6	91.9	85.8	98.1	13.0
Liberia	60.8	64.8	56.8	76.5	71.0	82.1	2.7
Libya	89.2	95.6	82.7	99.9	99.9	99.8	2.7
Madagascar	64.5	67.4	61.6	64.9	65.9	64.0	2.8
Malawi	74.8	81.1	68.5	87.1	87.2	87.0	5.4
Mali	31.1	43.4	20.3	44.3	56.4	33.9	4.8
Mauritania	58.0	64.9	51.2	68.3	71.3	65.3	3.9
Mauritius*	88.5	90.9	86.2	96.7	95.7	97.7	3.7
Morocco	56.1	68.9	43.9	79.5	86.7	72.1	5.4
Mozambique	56.1	70.8	42.8	71.8	78.5	65.1	5.0
Namibia	88.8	89.0	88.5	93.1	91.1	95.1	8.3
Niger	28.7	42.9	15.1	36.5	52.4	23.2	4.5

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Table 18. **Basic education indicators** (cont.)

	Estimated adult literacy rate, 2006-10 (%) (people over 15)			Estimated youth literacy rate, 2006-10 (%) (people between 15 and 24)			Public expenditure on education 2000-12
	Total	Male	Female	Total	Male	Female	(% of GDP)
Nigeria	61.3	72.1	50.4	72.1	78.0	66.1	...
Rwanda	71.1	74.8	67.5	77.5	77.1	77.8	4.8
São Tomé & Príncipe	89.2	93.9	84.7	95.3	94.7	95.9	...
Senegal	49.7	61.8	38.7	65.0	74.2	56.2	5.6
Seychelles	91.8	91.4	92.3	99.1	98.8	99.4	4.8
Sierra Leone	42.1	53.6	31.4	59.4	69.1	50.1	3.6
Somalia	...	...	...	...	...	...	...
South Africa	88.7	90.7	87.0	97.6	97.0	98.1	6.0
South Sudan	...	...	...	...	...	...	...
Sudan	71.1	80.1	62.0	86.7	89.6	83.6	...
Swaziland	87.4	88.1	86.8	93.6	92.1	95.1	8.2
Tanzania	73.2	79.0	67.5	77.3	78.2	76.5	6.2
Togo	57.1	71.2	43.6	81.7	87.6	74.6	4.6
Tunisia	77.6	86.4	71.0	96.8	98.1	95.8	6.2
Uganda	73.2	82.6	64.6	87.4	89.6	85.5	3.3
Zambia	71.2	80.7	61.7	74.4	81.7	67.1	1.3
Zimbabwe	92.2	94.7	89.9	99.0	98.5	99.6	2.5
Africa	67.0	75.5	58.7	75.8	79.9	71.6	4.1

Sources: AfDB Statistics Department UNESCO Institute for Statistics (UIS) Database March 2013; Domestic authorities.

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Table 19. **School enrolment**

	Primary school, 2006-12							Secondary school, 2006-12				Enrolment ratio in technical and vocational programmes 2006-08		
	Gross enrolment ratio			Net enrolment ratio			Pupil /teacher	Gross enrolment ratio			Pupil /teacher			
	Total	Male	Female	Total	Male	Female	Ratio	Total	Male	Female	Ratio	Total secondary	Lower secondary	Upper secondary
Algeria	109.0	112.1	105.7	96.2	97.0	95.4	23.3	94.9	94.1	95.8	20.8	…	…	…
Angola	124.5	137.3	111.6	85.7	93.1	78.2	45.6	31.3	37.2	25.5	38.7	…	…	…
Benin	128.7	137.3	120.1	92.1	82.3	48.9	44.2	51.4	64.2	38.7	23.9	…	…	…
Botswana	110.1	112.1	108.1	87.1	86.5	87.6	25.4	81.7	79.2	84.2	13.9	6%	…	19%
Burkina Faso	79.4	82.4	76.4	63.2	65.2	61.1	52.7	22.6	25.3	19.8	26.5	6%	2%	24%
Burundi	164.5	164.1	164.9	89.7	90.8	88.7	48.3	28.0	32.2	23.7	29.4	5%	2%	19%
Cameroon	119.4	127.8	110.9	92.4	98.2	85.5	45.4	51.3	55.6	47.0	24.1	19%	20%	18%
Cape Verde	109.3	113.8	104.9	93.5	94.9	92.1	23.3	89.7	82.6	96.9	17.2	…	…	…
Central Afr. Rep.	94.1	109.2	79.2	68.5	78.0	59.2	81.3	18.0	23.3	12.8	66.8	…	…	…
Chad	100.8	115.4	86.1	62.3	73.4	51.1	62.6	25.4	35.3	15.4	32.0	1%	0%	4%
Comoros	97.8	105.8	89.6	77.8	80.7	74.8	27.7	46.3	52.7	39.9	13.8	…	…	…
Congo	116.1	119.2	113.0	92.6	94.7	90.3	49.1	45.3	49.0	41.5	34.3	…	…	…
Congo Dem. Rep.	96.0	102.9	89.0	33.1	33.9	32.2	37.4	39.8	50.1	29.4	15.2	19%	2%	34%
Côte d'Ivoire	88.0	95.9	80.0	61.5	67.1	55.8	48.8	27.1	34.9	19.4	29.4	…	…	…
Djibouti	61.1	64.5	57.7	53.8	56.9	50.7	34.9	39.1	44.3	33.8	26.6	5%	1%	16%
Egypt	106.1	108.2	103.8	96.7	96.9	94.2	27.7	72.5	73.9	71.1	13.5	…	…	…
Equatorial Guinea	86.9	87.8	86.0	57.8	57.9	57.7	27.9	27.5	34.9	20.1	23.2	…	…	…
Eritrea	46.6	51.0	42.1	35.6	38.3	32.8	40.5	32.6	36.6	28.6	39.5	1%	…	2%
Ethiopia	105.6	110.6	100.5	86.5	89.5	83.5	55.1	37.6	40.3	34.9	40.3	6%	…	54%
Gabon	181.7	184.4	179.0	91.8	92.0	91.6	24.5	53.1	51.5	44.3	28.1	…	…	…
Gambia	80.5	79.1	81.9	67.5	66.0	69.1	37.6	54.1	55.6	52.6	20.7	…	…	…
Ghana	110.3	113.3	107.1	82.1	82.9	81.1	33.0	59.2	62.2	56.1	17.8	4%	…	14%
Guinea	98.0	104.9	90.9	81.4	86.5	76.1	44.1	41.7	50.7	32.4	33.1	2%	0%	7%
Guinea-Bissau	123.1	127.1	119.2	73.9	75.5	72.4	51.9	36.0	23.9	13.2	37.3	2%	…	…
Kenya	113.3	114.6	112.0	82.8	82.3	83.2	46.8	60.2	63.2	57.1	29.7	1%	…	2%
Lesotho	102.4	104.1	100.7	74.0	72.8	75.1	33.8	49.2	41.1	57.4	24.0	2%	4%	3%
Liberia	103.0	107.6	98.2	40.8	42.0	39.6	26.8	44.8	49.3	40.2	26.4	…	…	…
Libya	114.2	116.5	111.8	98.3	100.0	96.5	16.9	110.3	101.5	119.4	11.1	…	…	…
Madagascar	148.4	149.6	147.1	79.2	79.0	79.3	43.2	31.1	32.0	30.2	23.5	4%	1%	14%
Malawi	141.3	138.5	144.1	96.9	90.4	97.0	76.1	34.2	35.7	32.6	42.1	…	…	…
Mali	81.7	86.7	76.4	62.9	66.9	58.8	48.5	39.5	46.0	32.7	24.7	12%	…	40%
Mauritania	101.0	98.1	103.9	74.5	72.4	76.7	39.3	27.0	29.4	24.7	26.6	3%	2%	5%
Mauritius	99.4	99.1	99.7	93.4	90.6	91.1	20.4	90.9	91.2	90.6	15.9	…	14%	…
Morocco	114.9	117.9	111.8	87.5	89.8	85.1	25.8	69.8	75.5	63.9	18.7	6%	2%	5%
Mozambique	110.9	116.3	105.4	89.6	91.9	87.3	55.4	26.4	28.3	24.5	34.3	6%	5%	7%
Namibia	106.8	107.6	106.1	85.1	83.1	87.2	29.8	64.0	58.9	69.3	24.6	…	…	…
Niger	70.8	76.9	64.3	62.5	68.0	56.6	39.0	14.4	17.5	11.3	34.7	1%	1%	4%

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Table 19. **School enrolment** (cont.)

	Primary school, 2006-12							Secondary school, 2006-12				Enrolment ratio in technical and vocational programmes 2006-08		
	Gross enrolment ratio			Net enrolment ratio			Pupil /teacher	Gross enrolment ratio			Pupil /teacher			
	Total	Male	Female	Total	Male	Female	Ratio	Total	Male	Female	Ratio	Total secondary	Lower secondary	Upper secondary
Nigeria	83.3	87.1	79.3	57.6	60.1	54.8	36.0	44.0	46.8	41.2	33.1	4%	4%	5%
Rwanda	141.7	139.9	143.5	98.7	89.0	92.2	58.1	35.8	34.9	36.7	23.7	16%	…	45%
São Tomé & Príncipe	127.3	129.1	125.4	98.4	96.3	97.6	28.7	69.2	64.9	73.6	19.8	2%	…	11%
Senegal	86.2	83.4	89.0	75.7	73.3	78.1	32.9	42.1	43.9	40.3	27.4	6%	6%	5%
Seychelles	112.8	112.6	113.1	95.1	96.2	94.0	13.3	123.9	117.5	131.0	11.8	…	…	…
Sierra Leone	124.7	129.4	120.1	49.6	59.7	40.3	31.3	27.6	33.0	22.5	26.6	5%	1%	16%
Somalia	32.5	41.9	23.0	13.6	17.0	10.3	35.5	7.8	10.7	4.9	19.3	…	…	…
South Africa	101.7	103.9	99.5	85.1	85.3	84.9	30.7	93.8	91.6	96.0	25.0	…	…	…
South Sudan	68.8	81.4	54.5	44.4	50.8	37.1	52.6	4.2	5.6	2.6	14.9	…	…	…
Sudan	72.7	76.4	68.8	82.6	47.0	38.8	38.4	39.0	41.4	36.5	22.2	2%	…	5%
Swaziland	115.1	121.3	108.9	98.0	84.8	80.4	29.3	60.0	60.8	59.1	16.4	…	…	…
Tanzania	93.6	92.2	95.1	91.8	98.3	97.7	45.6	35.1	37.4	32.7	26.4	…	…	…
Togo	139.4	146.3	132.6	99.4	94.2	69.5	40.9	56.5	59.8	31.4	26.2	8%	1%	25%
Tunisia	109.9	111.8	107.8	93.8	98.2	95.6	17.4	92.6	91.1	94.1	13.6	9%	1%	9%
Uganda	113.2	112.2	114.2	95.5	92.4	95.1	47.8	28.1	30.4	25.8	17.9	5%	2%	21%
Zambia	117.3	117.7	117.0	91.4	94.5	96.5	62.6	20.7	25.8	15.2	25.4	8%	…	20%
Zimbabwe		…	…	…	39.3	43.2	44.7	38.3	27.7	…	…	…		
Africa	104.2	107.0	101.3	83.1	83.0	79.9	39.1	48.0	51.6	44.8	22.0	…	…	…

Sources: AfDB Statistics Department ; UNESCO Institute for Statistics (UIS) Database, March 2013; Various Domestic Authorities.

Table 20. **Employment and remittances**

	Year	Unemployment rate			Participation rate (age>15) 2012	Inactivity rate age (15-64) 2012			Worker remittances (USD million)				
		Total	Male	Female	Total	Total	Male	Female	2008	2009	2010	2011	2012 (e)
Algeria	2010	10.0	8.1	19.1	43.8	53.5	24.2	83.6	2 202	2 059	2 044	1 942	1 824
Angola	2006	25.2	...	...	69.8	29.1	21.9	36.0	82	0	18	0	0
Benin	2002	0.7	0.9	0.4	72.7	26.3	21.6	31.0	251	150	185	185	189
Botswana	2006	17.6	15.3	19.9	76.8	20.7	16.9	24.8	114	110	63	63	58
Burkina Faso	2007	3.3	...	...	83.7	14.8	9.1	20.3	99	111	111	111	101
Burundi	1990	0.5	0.7	0.3	83.0	16	17.0	14.9	4	28	34	45	42
Cameroon	2010	3.8	3.1	4.5	71.0	28	22.2	33.7	167	192	115	115	112
Cape Verde	2008	17.8	15.0	28.0	67.2	28.8	13.7	44.2	155	138	133	178	200
Central Afr. Rep.	...	...	...	...	78.7	20.7	14.5	27.0	...	...	...	...	...
Chad	1993	0.7	1.1	0.3	72.3	27.2	19.7	34.8	...	...	...	...	...
Comoros	1991	20.0	21.3	16.9	57.9	41.5	19.3	63.9	...	...	...	...	...
Congo	...	...	...	...	70.7	27.8	25.8	30.1	...	...	...	...	...
Congo Dem. Rep.	...	...	...	...	71.4	28.1	27.2	29.1	...	...	...	...	...
Côte d'Ivoire	1998	4.1	...	...	67.0	32.2	18.1	47.0	199	315	373	373	323
Djibouti	2002	59.5	54.6	68.6	51.9	45.7	30.1	61.6	30	32	33	32	31
Egypt	2010	9.0	4.9	22.6	49.1	47.7	21.4	74.2	8 694	7 150	12 453	14 324	17 971
Equatorial Guinea	1983	24.2	27.4	18.5	86.7	11.6	6.0	17.9	..	..	..	..	..
Eritrea	...	...	...	...	84.8	13.5	9.1	17.6	..	..	..	..	..
Ethiopia	2006	17.0	11.7	22.6	84.0	14.1	9.5	18.8	387	262	345	513	535
Gabon	1993	17.8	19.1	16.1	60.9	37.7	33.3	42.2	...	...	...	...	...
Gambia	...	...	...	...	77.6	22.2	17.0	27.1	65	80	116	91	89
Ghana	2006	3.6	3.5	3.6	69.5	29.2	27.2	31.4	126	114	136	152	151
Guinea	1994	3.1	4.6	1.7	72.0	26.5	20.4	32.8	72	64	60	78	75
Guinea-Bissau	...	...	...	...	73.1	25.3	20.5	30.2	49	49	46	46	42
Kenya	1999	9.8	...	...	66.8	32.5	27.5	37.7	...	...	...	...	...
Lesotho	2008	25.3	23.0	28.0	66.1	32.5	25.2	39.6	576	548	610	649	600
Liberia	2010	3.7	3.4	4.1	61.4	37.9	35.1	40.8	58	25	31	360	378
Libya	2007	13.5	...	...	52.8	44.7	20.2	68.6	...	...	...	...	...
Madagascar	2005	2.6	1.7	3.5	85.9	12.6	10.6	14.8	...	...	...	...	...
Malawi	2004	7.8	5.4	10.0	83.0	17.3	19.3	15.5	17	17	17	17	16
Mali	2004	8.8	7.2	10.9	53.2	45.4	28.5	62.0	431	454	473	473	451
Mauritania	2008	31.2	23.9	44.0	54.0	45.0	19.8	70.6	...	...	...	...	...
Mauritius	2011	7.9	5.2	12.3	59.5	35.2	19.5	50.9	215	211	226	249	244
Morocco	2011	8.9	8.4	10.2	49.6	48.2	21.7	73.0	6 895	6 270	6 423	7 256	7 014
Mozambique	1997	2.2	3.4	1.3	84.4	15.3	17.3	13.6	116	111	132	157	97
Namibia	2008	37.6	32.5	43.0	64.4	33.5	28.1	39.0	14	14	16	16	17
Niger	2001	1.5	1.7	0.9	64.7	34.5	9.1	59.5	94	102	102	102	95

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Table 20. **Employment and remittances*** (cont.)

	Year	Unemployment rate			Participation rate (age>15) 2012	Inactivity rate age (15-64) 2012			Worker remittances (USD million)				
		Total	Male	Female	Total	Total	Male	Female	2008	2009	2010	2011	2012 (e)
Nigeria	1986	3.9	3.7	4.4	55.7	44.0	36.6	51.8	19 206	18 368	19 818	20 619	20 610
Rwanda	1996	0.6	0.9	0.4	86.0	12.5	13.3	11.6	68	93	103	103	94
São Tomé & Príncipe	2006	16.7	11.0	24.5	60.1	37.4	21.0	53.4	3	2	6	7	5
Senegal	2006	10.0	7.9	13.6	77.0	21.7	10.3	32.8	1 476	1 350	1 478	1 478	1 379
Seychelles	2005	5.5	6.1	4.9	...	...	...	...	3	16	17	26	26
Sierra Leone	2004	3.4	4.5	2.3	67.7	31.2	30.1	32.3	28	47	58	77	80
Somalia	...	...	...	...	56.9	41.4	21.4	60.8	...	...	...	...	...
South Africa	2011	24.7	22.3	27.7	52.5	44	36.0	52.1	823	902	1 119	1 212	1 115
South Sudan	...	...	...	...	...	..	...	...	...	...	...	...	...
Sudan	...	...	...	...	53.8	45.0	23.0	67.5	3 100	2 135	1 420	1 420	1 441
Swaziland	1997	22.5	20.0	26.0	57.1	41.5	27.7	54.7	90	93	55	55	50
Tanzania	2006	4.3	2.8	5.8	89.2	9.5	8.7	10.2	37	40	55	76	75
Togo	...	...	...	...	80.9	17.5	17.3	17.7	337	335	337	337	330
Tunisia	2010	13.0	...	...	47.9	48.7	25.3	72.1	1 977	1 964	2 063	2 004	2 202
Uganda	2009	4.2	3.1	5.1	77.6	21.7	20.2	23.3	724	778	768	949	953
Zambia	2005	15.9	...	...	79.3	20.3	14.1	26.7	68	41	44	46	46
Zimbabwe	2004	4.2	4.2	4.1	86.3	12.5	9.5	15.4	...	...	...	...	...
Africa									49 051	44 770	51 634	55 935	59 059

Sources: Employment: ILO. KILM database, seventh edition.
World Bank, World Development Indicators: Workers' remittances and compensation of employees, received (current, millions USD), accessed 03/2013

Table 21. **Corruption perception index (CPI)***

	2006		2007		2008		2009		2010		2011		2012	
	Index	Country rank / 163	Index	Country rank / 179	Index	Country rank / 180	Index	Country rank / 180	Index	Country rank / 178	Index	Country rank / 182	Index	Country rank / 174
Algeria	3.1	84	3	99	3.2	92	2.8	111	2.9	105	2.9	112	3.4	105
Angola	2.2	142	2.2	147	1.9	158	1.9	162	1.9	168	2.0	168	2.2	157
Benin	2.5	121	2.7	118	3.1	96	2.9	106	2.8	110	3.0	100	3.6	94
Botswana	5.6	37	5.4	38	5.8	36	5.6	37	5.8	33	6.1	32	6.5	30
Burkina Faso	3.2	79	2.9	105	3.5	80	3.6	79	3.1	98	3.0	100	3.8	83
Burundi	2.4	130	2.5	131	1.9	158	1.8	168	1.8	170	1.9	172	1.9	165
Cameroon	2.3	138	2.4	138	2.3	141	2.2	146	2.2	146	2.5	134	2.6	144
Cape Verde	...	...	4.9	49	5.1	47	5.1	46	5.1	45	5.5	41	6.0	39
Central Afr. Rep.	2.4	130	2	162	2	151	2	158	2.1	154	2.2	154	2.6	144
Chad	2	156	1.8	172	1.6	173	1.6	175	1.7	171	2.0	168	1.9	165
Comoros	...	...	2.6	123	2.5	134	2.3	143	2.1	154	2.4	143	2.8	133
Congo	2.2	142	2.1	150	1.9	158	1.9	162	2.1	154	2.2	154	2.6	144
Congo, Dem. Rep.	2	156	1.9	168	1.7	171	1.9	162	2.2	146	2.0	168	2.1	160
Côte d´Ivoire	2.1	151	2.1	150	...	...	2.1	154	2	164	2.2	154	2.9	130
Djibouti	...	...	2.9	105	3	102	2.8	111	3.2	91	3.0	100	3.6	94
Egypt	3.3	70	2.9	105	2.6	115	2.8	111	3.1	98	2.9	112	3.2	118
Equatorial Guinea	2.1	151	1.9	168	1.7	171	1.8	168	1.9	168	1.9	172	2.0	163
Eritrea	2.9	93	2.8	111	2.6	126	2.6	126	2.6	123	2.5	134	2.5	150
Ethiopia	2.4	130	2.4	138	2.6	126	2.7	120	2.7	116	2.7	120	3.3	113
Gabon	3	90	3.3	84	3.1	96	2.9	106	2.8	110	3.0	100	3.5	102
Gambia	2.5	121	2.3	143	1.9	158	2.9	106	3.2	91	3.5	75	3.4	105
Ghana	3.3	70	3.7	69	3.9	67	3.9	69	4.1	62	3.9	69	4.5	64
Guinea	1.9	160	1.9	168	1.6	173	1.8	168	2	164	2.1	164	2.4	154
Guinea-Bissau	...	...	2.2	147	1.9	158	1.9	162	2.1	154	2.2	154	2.5	150
Kenya	2.2	142	2.1	150	2.1	147	2.2	146	2.1	154	2.2	154	2.7	139
Lesotho	3.2	79	3.3	84	3.2	92	3.3	89	3.5	78	3.5	75	4.5	64
Liberia	...	...	2.1	150	2.4	138	3.1	97	3.3	87	3.2	91	4.1	75
Libya	2.7	105	2.5	131	2.6	126	2.5	130	2.2	146	2.0	168	2.1	160
Madagascar	3.1	84	3.2	94	3.4	85	3	99	2.6	123	3.0	100	3.2	118
Malawi	2.7	105	2.7	118	2.8	115	3.3	89	3.4	85	3.0	100	3.7	88
Mali	2.8	99	2.7	118	3.1	96	2.8	111	2.7	116	2.8	118	3.4	105
Mauritania	3.1	84	2.6	123	2.8	115	2.5	130	2.3	143	2.4	143	3.1	123
Mauritius	5.1	42	4.7	53	5.5	41	5.4	42	5.4	39	5.1	46	5.7	43
Morocco	3.2	79	3.5	72	3.5	80	3.3	89	3.4	85	3.4	80	3.7	88
Mozambique	2.8	99	2.8	111	2.6	126	2.5	130	2.7	116	2.7	120	3.1	123
Namibia	4.1	55	4.5	57	4.5	61	4.5	56	4.4	56	4.4	57	4.8	58
Niger	2.3	138	2.6	123	2.8	115	2.9	106	2.6	123	2.5	134	3.3	113

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Table 21. **Corruption perception index (CPI)*** (cont.)

	2006		2007		2008		2009		2010		2011		2012	
	Index	Country rank / 163	Index	Country rank / 179	Index	Country rank / 180	Index	Country rank / 180	Index	Country rank / 178	Index	Country rank / 182	Index	Country rank / 174
Nigeria	2.2	142	2.2	147	2.7	121	2.5	130	2.4	134	2.4	143	2.7	139
Rwanda	2.5	121	2.8	111	3	102	3.3	89	4	66	5.0	49	5.3	50
São Tomé & Príncipe	...	...	2.7	118	2.7	121	2.8	111	3	101	3.0	100	4.2	72
Senegal	3.3	70	3.6	71	3.4	85	3	99	2.9	105	2.9	112	3.6	94
Seychelles	3.6	63	4.5	57	4.8	55	4.8	54	4.8	49	4.8	50	5.2	51
Sierra Leone	2.2	142	2.1	150	1.9	158	2.2	146	2.4	134	2.5	134	3.1	123
Somalia	...	...	1.4	179	1	180	1.1	180	1.1	178	1.0	182	0.8	174
South Africa	4.6	51	5.1	43	4.9	54	4.7	55	4.5	54	4.1	64	4.3	69
Sudan	2	156	1.8	172	1.6	173	1.5	176	1.6	172	1.6	177	1.3	173
South Sudan	…	…	…	…	…	…	…	…	…	…	…	…	…	…
Swaziland	2.5	121	3.3	84	3.6	72	3.6	79	3.2	91	3.1	95	3.7	88
Tanzania	2.9	93	3.2	94	3	102	2.6	126	2.7	116	3.0	100	3.5	102
Togo	2.4	130	2.3	143	2.7	121	2.8	111	2.4	134	2.4	143	3.0	128
Tunisia	4.6	51	4.2	61	4.4	62	4.2	65	4.3	59	3.8	73	4.1	75
Uganda	2.7	105	2.8	111	2.6	126	2.5	130	2.5	127	2.4	143	2.9	130
Zambia	2.6	111	2.6	123	2.8	115	3	99	3	101	3.2	91	3.7	88
Zimbabwe	2.4	130	2.1	150	1.8	166	2.2	146	2.4	134	2.2	154	2.0	163

Note: * 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) and 0 (highly corrupt).
Source : Transparency International: http://www.transparency.org

Table 22. **Public protest**

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Algeria	4.0	2.3	6.7	1.4	0.0	9.9	10.0	6.6	1.3	0.7	4.0	1.5	2.5	1.8	9.0	23.3	5.0
Angola	…	…	…	…	…	…	…	…	1.5	0.0	1.0	0.0	0.0	0.3	0.0	2.5	1.8
Benin	0.8	0.8	0.0	0.8	0.0	0.0	0.5	0.0	1.5	0.0	0.5	0.0	0.0	0.0	0.0	0.8	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	0.0	0.0	0.3	6.0	0.0
Burkina Faso	0.0	1.5	0.8	3.2	9.4	0.5	1.1	0.0	1.6	0.9	3.8	0.5	2.5	4.3	0.8	9.8	2.8
Burundi	…	…	…	…	…	…	…	…	…	…	2.3	11.8	0.0	4.8	3.8	5.3	0.3
Cameroon	8.2	4.4	0.3	2.2	0.3	0.0	1.5	2.0	1.0	2.7	4.5	2.8	1.0	4.0	6.8	1.0	0.8
Cape Verde	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.5	0.0	0.0
Central Afr. Rep.	…	…	…	…	…	…	…	…	…	…	12.8	3.5	1.8	1.8	3.3	1.5	1.3
Chad	0.3	3.0	0.7	0.5	0.0	2.2	0.0	1.5	0.0	1.6	1.3	5.3	1.0	2.5	0.5	2.3	4.0
Comoros	…	…	…	…	…	…	…	…	0.0	0.0	0.5	1.0	1.8	1.8	0.0	0.5	1.3
Congo	…	…	…	…	…	…	…	…	1.5	0.0	0.3	0.0	0.0	0.8	0.0	0.0	0.5
Congo, Dem. Rep.	…	…	…	…	…	…	…	…	2.0	2.8	7.3	4.8	1.8	6.0	1.8	2.3	3.3
Côte d'Ivoire	1.0	8.2	6.7	10.0	6.7	0.0	2.9	0.8	2.4	1.1	12.8	6.8	4.9	7.2	3.0	1.8	1.3
Djibouti	…	…	…	…	…	…	…	…	…	…	0.0	0.8	0.0	0.0	0.0	0.8	0.0
Egypt	0.0	4.2	0.0	0.0	1.6	3.2	2.6	1.3	3.1	2.3	4.1	5.8	4.6	3.0	3.5	16.5	20.8
Equatorial Guinea	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0	0.5	0.0
Eritrea	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Ethiopia	1.3	1.2	0.8	0.0	0.0	1.3	0.3	0.0	0.0	2.3	0.6	0.3	0.0	0.3	0.0	0.0	0.8
Gabon	8.0	0.0	2.1	1.3	0.0	0.0	1.3	0.0	0.5	5.0	6.1	1.5	0.9	4.5	7.5	3.0	9.0
Gambia	…	…	…	…	…	…	…	…	…	…	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Ghana	0.5	0.0	0.3	2.0	0.0	0.0	0.0	0.5	0.0	0.0	0.0	0.0	0.5	0.0	0.0	0.3	0.3
Guinea	…	…	…	…	…	…	…	…	…	…	3.8	11.8	0.8	3.5	3.0	3.5	4.0
Guinea-Bissau	…	…	…	…	…	…	…	…	…	…	4.0	1.8	0.5	0.0	0.8	4.3	0.8
Kenya	2.3	4.4	8.1	0.0	0.0	0.5	0.0	0.9	2.4	2.2	2.5	1.0	5.1	1.4	0.5	3.0	4.5
Lesotho	…	…	…	…	…	…	…	…	…	…	0.0	0.8	0.0	0.0	0.0	0.0	0.0
Liberia	…	…	…	…	…	…	…	…	…	…	3.3	0.3	0.0	0.3	0.0	0.5	0.0
Libya	0.5	0.0	0.0	0.0	0.5	0.0	0.0	0.0	0.5	0.5	0.3	0.0	0.0	0.0	0.0	5.0	7.5
Madagascar	…	…	…	…	…	…	…	…	1.0	3.3	0.8	1.0	0.0	8.3	0.8	0.5	6.5
Malawi	0.5	1.3	1.5	0.0	0.0	0.8	0.8	1.0	0.3	0.8	0.3	0.8	0.0	0.0	0.5	0.5	0.8
Mali	1.4	3.9	1.2	0.9	0.0	0.0	0.0	0.7	0.5	0.4	0.5	2.1	0.0	1.4	0.8	1.0	7.0
Mauritania	…	…	…	…	…	…	…	…	…	…	1.8	0.5	5.3	2.3	0.3	10.8	11.8
Mauritius	0.0	0.0	0.0	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.3	0.0	0.0	0.0	0.5	0.0
Morocco	5.9	1.6	1.4	0.7	0.7	0.0	0.0	0.0	1.2	0.5	2.0	3.9	2.7	2.2	1.0	10.0	9.5
Mozambique	1.3	0.0	0.0	1.5	0.5	0.0	0.0	0.8	0.0	0.0	0.0	0.0	0.5	0.8	0.5	0.5	0.5
Namibia	3.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.3	0.8	0.0
Niger	…	…	…	…	…	…	…	…	1.3	1.5	6.0	1.8	1.0	7.3	0.0	1.0	0.5

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Table 22. **Public protest** (cont.)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Nigeria	3.7	2.3	2.8	6.3	4.1	5.3	1.0	0.8	2.9	0.5	3.2	2.3	2.8	3.6	3.8	2.8	4.8
Rwanda	…	…	…	…	…	…	…	…	0.0	0.0	0.0	0.0	0.8	0.0	0.0	0.0	0.0
São Tomé & Príncipe	…	…	…	…	…	…	…	…	…	…	0.8	2.3	0.0	0.5	0.0	0.3	0.0
Senegal	1.2	5.0	1.9	1.1	0.0	1.4	0.0	0.0	1.3	2.2	5.4	4.5	2.5	2.9	2.5	5.0	11.0
Seychelles	…	…	…	…	…	…	…	…	…	…	0.3	0.0	0.0	0.0	0.0	0.0	0.0
Sierra Leone	…	…	…	…	…	…	…	…	…	…	0.5	1.3	0.3	0.0	0.3	0.5	1.0
South Africa	6.3	10.3	2.0	5.6	1.9	1.5	1.0	0.6	3.0	1.0	3.6	7.5	2.3	8.8	6.3	7.8	22.3
South Sudan	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	0.3	0.3
Sudan	…	…	…	…	…	…	…	…	…	…	2.0	0.5	1.0	1.3	1.3	6.0	7.3
Swaziland	…	…	…	…	…	…	…	…	…	…	0.0	1.8	0.0	0.0	0.0	2.5	2.0
Tanzania	0.8	0.0	0.8	0.0	0.0	1.0	0.0	0.3	0.3	0.3	0.0	0.0	0.3	0.0	0.3	0.8	1.8
Togo	1.0	0.5	0.8	0.3	1.8	1.3	0.3	0.5	0.0	6.3	0.0	0.3	0.0	0.5	1.8	3.0	3.5
Tunisia	0.0	0.0	0.3	0.7	0.7	0.0	0.0	2.8	0.0	1.3	5.6	1.9	1.7	3.4	0.8	19.3	30.5
Uganda	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0	1.0	0.3	1.3	0.0	0.5	0.0	4.3	1.3
Zambia	2.5	1.5	2.1	1.5	0.5	5.0	0.5	3.4	1.8	0.9	6.6	2.4	1.5	1.6	0.3	2.0	1.0
Zimbabwe	7.3	3.7	4.8	4.6	1.3	1.4	1.0	5.9	0.3	1.0	2.0	6.9	2.7	4.4	3.5	5.0	0.8

Sources: Authors' calculations based on *Marchés Tropicaux et Méditerranéens*, between 1996 and 2007, and *Agence France Presse* for 2008 onwards. The change in the source might affect the comparability of 2008 indicator to its historical values. For more details about the sources and computation, see note on methodology.

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Table 23. **Public violence**

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Algeria	35.2	31.3	37.6	43.0	37.8	35.0	15.4	5.5	19.2	10.7	12.8	14.8	10.8	11.0	5.8	15.3	6.3
Angola	…	…	…	…	…	…	…	…	13.5	0.8	0.3	0.0	0.3	0.5	1.3	1.3	1.3
Benin	0.8	0.0	0.0	0.8	0.0	0.0	0.5	0.0	0.3	0.0	0.3	0.0	0.0	0.8	0.0	1.0	0.5
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	0.0	0.0	0.0	0.0	0.0
Burkina Faso	0.0	0.0	0.0	0.3	0.0	0.5	0.5	0.0	0.5	0.0	0.0	0.0	0.3	0.0	0.0	6.0	2.3
Burundi	…	…	…	…	…	…	…	…	…	…	6.3	2.8	2.3	4.3	3.0	6.0	2.3
Cameroon	4.8	14.2	0.3	0.0	0.7	0.4	0.0	0.0	0.3	0.9	1.8	1.3	1.3	3.3	0.0	3.5	1.3
Cape Verde	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Central Afr. Rep.	…	…	…	…	…	…	…	…	…	…	6.0	2.8	2.5	7.3	9.0	4.5	8.3
Chad	2.4	2.4	1.3	6.4	7.7	4.7	3.0	4.5	1.0	3.2	13.8	8.3	3.4	3.0	1.3	1.3	0.5
Comoros	…	…	…	…	…	…	…	…	…	…	0.0	1.5	0.8	0.0	0.0	0.5	0.0
Congo	…	…	…	…	…	…	…	…	0.0	0.5	0.0	0.5	0.0	1.0	0.0	0.0	1.0
Congo, Dem. Rep.	…	…	…	…	…	…	…	…	4.5	4.5	12.0	17.3	10.3	18.8	11.5	4.8	12.0
Côte d'Ivoire	4.5	0.0	0.0	1.7	6.2	1.2	3.1	4.7	6.0	5.7	7.0	1.3	1.0	1.0	2.5	10.8	7.3
Djibouti	…	…	…	…	…	…	…	…	…	…	0.0	0.0	0.8	0.5	0.0	0.5	0.0
Egypt	6.5	10.8	0.0	0.5	2.0	1.0	0.0	1.2	1.3	2.3	3.5	2.0	4.3	4.1	1.3	12.3	16.8
Equatorial Guinea	0.5	0.0	0.5	0.0	0.0	0.0	0.0	0.3	0.3	0.0	0.0	0.0	0.0	0.8	0.0	0.0	0.0
Eritrea	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	1.5	0.0
Ethiopia	13.3	4.1	0.0	7.2	2.0	1.5	12.4	4.7	8.1	3.6	7.4	7.9	4.2	5.0	2.0	1.8	2.8
Gabon	0.5	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.3	0.0	0.0	0.0	0.8	0.0	0.5	2.5
Gambia	…	…	…	…	…	…	…	…	…	…	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Ghana	1.1	0.0	0.0	0.5	0.5	1.0	1.0	0.0	0.5	0.0	0.0	0.5	0.5	0.0	0.0	0.0	1.0
Guinea	…	…	…	…	…	…	…	…	…	…	0.0	0.5	1.3	0.3	2.0	3.3	2.5
Guinea-Bissau	…	…	…	…	…	…	…	…	…	…	1.5	0.3	0.0	0.3	0.0	0.5	0.5
Kenya	3.0	5.3	6.5	0.0	0.0	2.8	0.5	1.5	0.5	2.3	8.3	6.3	8.3	4.8	0.8	3.3	17.8
Lesotho	…	…	…	…	…	…	…	…	…	…	0.3	0.3	0.0	0.0	0.0	0.0	0.0
Liberia	…	…	…	…	…	…	…	…	…	…	2.5	0.3	0.8	0.8	0.5	0.3	0.8
Libya	0.8	0.0	0.0	0.0	0.8	0.0	0.0	0.0	0.3	0.3	0.0	0.0	0.3	0.0	0.0	15.0	22.3
Madagascar	…	…	…	…	…	…	…	…	1.3	1.3	0.8	0.0	0.0	2.8	0.5	0.3	4.0
Malawi	0.0	2.5	2.0	0.3	0.0	0.0	0.3	1.0	0.3	1.3	0.3	0.0	0.0	0.0	0.0	0.8	0.0
Mali	0.6	2.3	0.0	2.0	0.0	0.0	0.0	0.0	0.0	0.6	1.0	2.3	4.2	2.6	1.0	4.0	12.3
Mauritania	…	…	…	…	…	…	…	…	…	…	0.0	1.3	1.5	1.3	0.8	2.5	2.5
Mauritius	0.0	0.0	0.0	1.0	0.0	0.0	0.0	0.0	0.5	0.3	0.0	0.0	0.0	0.0	0.0	0.3	0.0
Morocco	1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.5	0.3	0.0	1.3	1.0	0.0	0.0	2.5	2.0
Mozambique	9.5	0.0	0.0	0.3	1.5	0.0	0.0	0.8	1.0	0.3	0.0	0.0	0.8	0.3	0.8	0.0	4.0
Namibia	0.0	0.0	0.0	2.0	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.3	0.0	0.3	0.0
Niger	…	…	…	…	…	…	…	…	1.0	0.3	0.3	7.3	5.5	2.8	0.3	3.3	0.5

Table 23. **Public violence** (cont.)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Nigeria	12.8	16.6	5.7	16.0	12.4	12.7	6.4	6.0	11.3	0.8	16.4	22.5	12.9	13.8	12.5	31.5	34.8
Rwanda	…	…	…	…	…	…	…	…	0.0	0.0	0.0	0.3	0.5	0.8	1.0	1.5	5.0
São Tomé & Príncipe	…	…	…	…	…	…	…	…	…	…	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Senegal	0.0	4.2	0.6	1.4	1.6	1.4	2.2	1.9	2.1	0.3	1.9	1.9	0.3	4.1	4.8	7.5	6.0
Seychelles	…	…	…	…	…	…	…	…	…	…	0.0	0.0	0.0	0.3	0.0	0.0	0.0
Sierra Leone	…	…	…	…	…	…	…	…	…	…	0.0	0.5	0.0	1.5	0.0	0.5	0.8
South Africa	20.0	7.0	4.5	8.3	4.5	0.0	0.5	0.3	2.0	0.3	0.5	0.0	4.3	4.3	0.5	4.3	8.3
South Sudan	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	16.0	8.3
Sudan	…	…	…	…	…	…	…	…	…	…	8.8	9.5	9.5	24.0	18.3	17.5	15.0
Swaziland	…	…	…	…	…	…	…	…	…	…	0.5	0.0	0.0	0.5	0.0	0.5	0.3
Tanzania	1.0	0.5	0.0		0.0	1.0	0.0	0.0	0.0	1.3	0.0	0.0	0.0	0.0	0.0	2.0	1.8
Togo	1.0	0.0	0.5	0.0	0.8	0.0	0.0	0.5	0.0	2.8	0.0	0.0	0.0	0.8	0.0	1.0	0.0
Tunisia	0.0	0.0	0.0	0.5	0.0	0.0	0.8	0.0	0.0	0.3	0.0	0.0	0.3	0.3	0.0	7.0	11.5
Uganda	21.0	4.0	2.8	2.5	0.0	6.3	3.8	4.5	10.3	1.8	3.8	2.5	1.8	3.5	0.0	2.8	1.0
Zambia	0.8	0.8	0.5	0.5	0.0	2.8	0.0	0.8	0.0	0.3	0.5	0.0	0.3	0.0	0.0	1.3	0.5
Zimbabwe	0.0	1.5	1.0	0.0	3.8	3.0	3.8	0.3	0.8	0.8	0.0	0.0	8.0	0.8	0.8	2.3	0.0

Sources: Authors' calculations based on *Marchés Tropicaux et Méditerranéens*, between 1996 and 2007, and *Agence France Presse* for 2008 onwards. The change in the source might affect the comparability of 2008 indicator to its historical values. For more details about the sources and computation, see note on methodology.

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Table 24. **Political hardening**

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Algeria	8.2	7.0	6.5	6.1	5.6	7.4	9.0	6.5	7.5	5.5	4.6	6.1	6.8	5.1	1.8	4.7	3.4
Angola	…	…	…	…	…	…	…	…	1.4	0.1	0.5	0.2	0.8	0.4	0.7	2.9	1.1
Benin	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.3	0.1	0.5	0.1	0.2	0.4	0.1
Botswana	0.1	0.1	0.0	0.2	0.0	0.0	0.0	0.0	0.3	0.1	0.0	0.0	0.0	0.0	0.0	0.1	0.0
Burkina Faso	0.2	0.5	0.2	1.2	0.4	0.3	0.7	0.6	0.7	0.2	0.2	0.1	0.8	0.3	0.1	2.1	0.1
Burundi	…	…	…	…	…	…	…	…	…	…	3.6	1.4	1.2	1.8	2.5	1.9	0.8
Cameroon	2.7	2.3	1.3	1.3	1.1	1.7	1.1	1.4	1.5	0.9	1.9	1.2	1.6	1.5	1.8	2.3	1.6
Cape Verde	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.3	0.2	0.0	0.0	0.0	0.0
Central Afr. Rep.	…	…	…	…	…	…	…	…	…	…	4.2	0.8	0.5	1.7	1.9	0.8	1.5
Chad	0.7	0.3	0.3	0.0	0.3	0.6	0.4	1.6	0.2	1.7	4.3	2.2	5.7	1.2	0.8	1.7	0.4
Comoros	…	…	…	…	…	…	…	…	…	…	0.4	0.9	0.6	0.4	0.0	0.0	0.8
Congo	…	…	…	…	…	…	…	…	0.3	0.3	0.5	0.4	0.2	0.9	0.3	1.1	0.5
Congo, Dem. Rep.	…	…	…	…	…	…	…	…	6.9	8.1	10.5	8.9	4.0	4.7	5.0	1.7	1.1
Côte d'Ivoire	1.0	0.9	0.5	2.8	2.3	0.7	1.1	2.1	2.7	2.1	3.3	1.2	1.5	0.6	4.0	6.0	1.8
Djibouti	…	…	…	…	…	…	…	…	…	…	0.2	0.1	0.6	0.0	0.1	0.6	0.1
Egypt	5.9	5.3	4.9	4.1	5.4	4.6	6.4	4.8	4.6	6.4	5.7	7.1	7.9	4.7	5.4	8.7	7.5
Equatorial Guinea	0.0	0.3	1.3	0.0	0.0	0.2	1.5	0.2	2.1	0.0	0.5	0.3	0.5	0.8	0.5	1.2	1.2
Eritrea	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	0.3	0.0
Ethiopia	4.0	3.2	2.8	2.2	2.4	3.1	4.2	2.5	2.5	5.2	3.4	3.4	1.9	2.0	1.4	1.5	1.5
Gabon	0.4	1.4	0.3	0.7	0.2	0.1	0.3	0.5	1.0	2.1	0.7	0.5	0.2	1.3	0.9	1.0	2.6
Gambia	…	…	…	…	…	…	…	…	…	…	1.4	0.3	0.9	2.1	0.2	0.1	0.2
Ghana	0.6	0.2	0.6	0.6	0.0	0.2	0.3	0.0	0.1	0.0	0.0	0.0	0.1	0.0	0.2	0.1	0.7
Guinea	…	…	…	…	…	…	…	…	…	…	1.7	3.0	2.8	5.4	1.6	3.4	1.9
Guinea-Bissau	…	…	…	…	…	…	…	…	…	…	1.2	0.8	0.6	2.0	0.1	0.5	0.5
Kenya	1.0	2.7	0.9	0.0	0.0	0.2	0.3	0.5	0.6	0.7	1.8	2.6	7.4	0.4	0.0	0.5	1.0
Lesotho	…	…	…	…	…	…	…	…	…	…	0.1	0.3	0.0	0.0	0.0	0.0	0.0
Liberia	…	…	…	…	…	…	…	…	…	…	0.8	0.3	0.5	0.2	0.0	0.4	0.0
Libya	0.7	0.4	0.0	0.0	0.0	0.1	0.0	0.1	0.3	0.1	0.6	0.5	0.5	0.4	0.1	7.9	3.5
Madagascar	…	…	…	…	…	…	…	…	0.8	0.3	1.1	0.9	0.0	2.7	0.7	0.4	2.7
Malawi	0.0	0.5	0.3	0.0	0.0	0.4	0.2	0.2	0.2	0.8	0.3	0.3	0.3	0.6	0.5	1.2	0.0
Mali	0.1	1.3	0.0	0.1	0.3	0.3	0.1	0.3	0.1	0.0	0.4	0.5	1.9	1.2	0.1	0.3	4.7
Mauritania	…	…	…	…	…	…	…	…	…	…	1.3	1.1	9.0	1.3	0.6	1.9	1.5
Mauritius	0.1	0.0	0.0	0.1	0.0	0.0	0.0	0.6	0.1	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Morocco	4.7	4.4	3.9	3.8	4.3	4.2	4.1	4.4	4.9	4.0	4.3	4.4	4.6	2.0	2.2	2.4	3.9
Mozambique	0.1	0.2	0.6	0.3	0.9	0.3	0.0	0.1	0.4	0.0	0.0	0.0	0.4	0.5	0.9	0.1	0.4
Namibia	0.0	0.1	0.0	0.3	0.4	0.1	0.1	0.2	0.1	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0
Niger	…	…	…	…	…	…	…	…	0.4	0.8	1.3	1.4	2.2	3.9	0.7	0.5	0.0

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Table 24. **Political hardening** (cont.)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Nigeria	5.7	4.2	3.4	3.1	3.1	2.7	2.6	2.9	5.0	2.7	4.6	3.7	4.3	2.9	0.6	3.2	8.3
Rwanda	…	…	…	…	…	…	…	…	1.1	0.1	0.1	0.1	0.2	0.2	0.6	0.7	0.6
São Tomé & Príncipe	…	…	…	…	…	…	…	…	…	…	0.1	0.3	0.1	0.7	0.0	0.0	0.0
Senegal	1.7	2.0	1.9	1.3	1.2	1.7	1.5	1.6	1.5	1.9	1.5	2.6	1.8	1.2	1.4	1.3	3.5
Seychelles	…	…	…	…	…	…	…	…	…	…	0.4	0.0	0.0	0.4	0.0	0.0	0.0
Sierra Leone	…	…	…	…	…	…	…	…	…	…	0.4	0.6	0.2	1.0	0.2	0.4	0.8
South Africa	4.6	3.6	1.5	1.1	0.5	0.3	0.5	0.4	1.0	1.1	0.5	1.2	1.5	1.6	0.4	0.3	7.1
South Sudan	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	2.5	1.3
Sudan	…	…	…	…	…	…	…	…	…	…	3.5	3.6	7.6	5.0	6.2	7.9	7.3
Swaziland	…	…	…	…	…	…	…	…	…	…	0.3	0.3	0.9	0.2	0.0	1.2	1.1
Tanzania	0.3	0.1	0.1	0.0	0.1	0.1	0.0	0.1	0.0	0.4	0.0	0.0	0.0	0.3	0.2	1.4	1.0
Togo	0.1	0.0	0.3	0.2	0.5	0.6	0.3	0.0	0.0	0.8	0.0	0.0	0.0	0.7	0.8	0.8	1.0
Tunisia	2.4	1.8	1.8	2.0	1.8	2.2	2.1	1.8	3.0	2.1	1.3	1.9	3.4	2.1	1.1	4.9	8.9
Uganda	1.2	0.4	0.6	0.7	0.4	1.9	0.8	1.4	3.5	1.1	3.3	2.0	0.9	3.0	0.9	2.3	2.3
Zambia	1.9	2.7	1.6	1.3	0.9	1.8	1.9	1.0	1.2	0.9	1.7	0.5	0.2	0.5	0.6	0.7	0.2
Zimbabwe	1.0	0.9	1.9	1.3	1.2	3.1	4.4	3.9	4.1	3.3	2.2	3.0	9.9	3.3	0.7	3.6	0.5

Sources: Authors' calculations based on *Marchés Tropicaux et Méditerranéens*, between 1996 and 2007, and *Agence France Presse* for 2008 onwards. The change in the source might affect the comparability of 2008 indicator to its historical values. For more details about the sources and computation, see note on methodology.

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