African Economic Outlook

2010

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The African Development Bank Group is a regional multilateral development finance institution the members of which are all of the 53 countries in Africa and 24 countries from Asia, Europe, North and South America.

The purpose of the Bank is to further the economic development and social progress of African countries, individually and collectively. To this end, the Bank promotes the investment of public and private capital for development, primarily by providing loans and grants for projects and programmes that contribute to poverty reduction and broad-based sustainable development in Africa.

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

By the end of 2009, the African Development Bank Group cumulatively approved 3 414 loans and grants for commitments of close to UA 52.26 billion (approximately USD 81.93 billion). The commitments were made to 53 regional member countries and institutions to support development projects and programmes in agriculture, transport, public utilities, industry, education and health services. Since the mid-1980s, a significant share of commitments has also gone to promoting economic reform and adjustment programmes that help to accelerate socio-economic development. About 69.3% of the total Bank Group commitments were financed on non-concessional terms, while the balance benefited from concessional financing.

ECONOMIC COMMISSION FOR AFRICA

The Economic Commission for Africa (ECA) was established by the Economic and Social Council (ECOSOC) of the United Nations (UN) in 1958 as one of the UN's five regional commissions. ECA's mandate is to promote the economic and social development of its member states, foster intra-regional integration, and promote international co-operation for Africa's development.

ECA's dual role as a regional arm of the UN, and a part of the regional institutional landscape in Africa, positions it well to make unique contributions to member states' efforts to address their development challenges.

Its strength derives from its role as the only UN agency mandated to operate at the regional and subregional levels to harness resources and bring them to bear on Africa's priorities. ECA's work programme now focuses on achieving results in two related and mutually supportive areas:

Promoting Regional Integration in support of the African Union vision and priorities. ECA's support to the implementation of AUC's regional integration agenda focuses on undertaking research and policy analysis on regional integration issues, strengthening capacity and providing technical assistance to institutions driving the regional integration agenda, including strengthening and supporting the Regional Economic Communities (RECs), and working on a range of trans-boundary initiatives and activities in sectors vital to the regional integration agenda.

Meeting Africa's special needs and emerging global challenges. ECA recognises the importance of focusing attention on Africa's special needs, particularly within the context of achieving the Millennium Development Goals (MDGs). In this regard, ECA places emphasis on supporting efforts to eradicate poverty, placing African countries on the path of growth and sustainable development, reversing the marginalisation of Africa in the globalisation process, and accelerating the empowerment of women. It aims to provide significant technical support to the African Peer Review Mechanism (APRM) and also to promote peer learning and knowledge sharing in a range of development areas.

FOREWORD

The ninth edition of the *African Economic Outlook* portrays a continent that is slowly emerging from the lingering effects of the world's deepest and most widespread economic crisis in half a century. Almost all African countries are expected to register higher growth in 2010 than in 2009.

Indeed, if the world economy and world trade continue to recover, and commodity prices remain close to current levels, the continent's outlook in 2010 and 2011 is promising, with average growth accelerating to 4.5% in 2010 and above 5% in 2011. However, whereas the commodity story and recovery in the world economy are important, it is now clear that domestic factors and, in particular, prudent macroeconomic management as well as governance reforms continue to be crucial for the continent's resilience and eventual return to pre-crisis growth rates. That case is made stronger by the fact that even with the 2009 slump in prices for minerals and hydrocarbons and the collapse of world trade, the continent has weathered the storm quite well. Even more significant, reversals of earlier economic reforms were avoided. Instead, most African governments have maintained fiscal prudence. In some cases, domestic countercyclical policies have helped to cushion the impact of the crisis in the short term.

Another significant factor in the generally optimistic economic outlook for the continent in the near term is the increasingly important role that emerging partners are playing in the continent, in terms of trade and development finance. This trend is expected to continue and could even be reinforced if structural bottlenecks are addressed and the business environment further improved. Foreign investment is also set to play a critical role in boosting the continent's recovery.

The analysis in this volume shows that both the growth rate and the impact of the global economic downturn have been uneven. Eastern Africa, which had best weathered the global crisis, is likely to achieve again the highest average growth in 2010-11, exceeding 6%. Real output is expected to grow at around 5% in North Africa and West Africa, and at 4% in Central Africa during the forecasting period. The Southern African region, which has been most hit in 2009, will recover more slowly than the other regions, with average growth of almost 4% during 2010-11.

However, over the long term, greater reliance on domestic resources is critical for Africa to build more resilient economies, implement its own development agenda and effectively fight poverty. For African governments, this requires an expansion of their fiscal space, and therefore more effective and fairer tax collection policies. Donor support will continue to play an important role for many countries in Africa, but raising more domestic resources will provide additional policy space. We thus strongly believe that the special focus of this edition of the *Outlook* – public resource mobilisation – is very timely.

The Outlook provides an analysis of African economies and evidence-based policy advice on key development challenges for policy makers, academics, civil society, as well as the general public within and outside the African continent. It continues to benefit from the financial support of the European Commission and the Committee of Ambassadors of the African, Caribbean and Pacific Group of States, for which we are deeply grateful.

Once again, we would like to reaffirm our commitment to sound and objective analysis, peer learning, and good governance, all goals to which the Outlook makes an essential and invaluable contribution.

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Executive Summary

Africa's economies face a major challenge overcoming the economic contraction, which resulted from the global recession, while at the same time striving to achieve the UN Millennium Development Goals. While Africa is on the path to recovery, helped by strengthened global trade and the rebound of commodity prices, there is a risk that growth will not be enough to significantly reduce unemployment and poverty. Africa must, therefore, overcome the numerous obstacles, which had, even before the crisis, reduced its growth potential and increased inequality. Part I of this year's *African Economic Outlook* analyses Africa's macroeconomic and structural developments. It examines how the African continent, its regions and countries, have weathered the global crisis and forecasts economic developments in 2010 and 2011. It describes changes in external financial flows and discusses trade policies and measures to foster regional integration and also reports on progress towards the Millennium Development Goals and discusses political and economic governance developments.

Part II explores how public resources can be better mobilised for development through more effective, more efficient and fairer taxation. This issue is particularly important given the uncertainties about future export revenues and unstable and unpredictable inflows of Foreign Direct Investment and Official Development Aid.

Part One: Overview

Chapter 1 - Macroeconomic Situation and Prospects

The world economic crisis brought a period of relatively high economic growth in Africa to a sudden end. Average economic growth was slashed from an average of about 6% in 2006-08 to 2.5% in 2009 with per capita Gross Domestic Product (GDP) growth coming to a near standstill. The global crisis of 2009 had its strongest effect on Southern Africa, where growth was slashed (from the average over the preceding three years) by almost 8 percentage points to negative growth of around 1%. East Africa and North Africa proved to be the most resilient regions. While in most African countries GDP continued to grow in 2009, albeit at a lower rate, in 10 of the 50 African countries covered in this report, output declined. In half of the countries, per capita GDP stagnated or fell.

The economic slowdown was most pronounced in mining, manufacturing and tourism. These sectors were particularly exposed to the fall of commodity prices and global trade in goods and services. Other sectors, notably agriculture and services, were more resilient and mitigated the downturn. In fact, in most African countries the agricultural sector benefited from good harvests due to favourable weather, although in some countries bad harvests exacerbated the effect of the global crisis.

In Africa, the global crisis was mainly felt through the collapse of commodity prices and the fall of export volumes. In 2009, Africa's export volumes declined by 2.5% and import volumes by about 8%. Due to the fall in commodity prices, Africa's terms of trade deteriorated. Export values declined sharply, and more than import values, leading to a deterioration of trade and current account balances.

The global crisis also hit through the decline of worker remittances and of foreign direct investment.

On the positive side, donor countries have generally maintained their aid flows to Africa, despite substantial fiscal pressures at home. Furthermore, debt relief under the Heavily Indebted Poor Countries initiative by the International Monetary Fund (IMF) and the World Bank has reduced debt service costs. This together with additional loans by the IMF, the World Bank and the African Development Bank has helped African countries to better cope with the crisis.

Another positive factor was that due to past fiscal prudence and to disinflation, many African countries could pursue expansionary fiscal and monetary policies, which mitigated the downturn. Major public spending programmes were mostly continued and key policy interest rates were reduced. However, in a few countries, where economic fundamentals were less favourable, governments were forced to pursue tight macro policies to counter deteriorating current balances, falling exchange rates and losses of international reserves.

A gradual recovery of African economies is expected with average growth reaching 4.5% in 2010 and 5.2% in 2011. All African regions will achieve higher growth although the recession will leave its mark. Southern Africa, which was hardest hit in 2009, will recover more slowly than other regions. East Africa, which best weathered the global crisis, is likely to again achieve the highest average growth in 2010-11.

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This forecast for Africa rests on the assumption that the world economy and world trade continues to recover, and that prices of oil and other commodities will remain close to current levels. However, there are positive and negative risks for this forecast. On the upside, the global recovery may be stronger than expected. Indeed, several international indicators improved significantly towards the end of 2009, and confidence continued to increase in many countries in early 2010. Stronger global growth would boost Africa's growth. On the downside, the global recovery could be weaker than assumed. Uncertainties persist in particular about remaining problems in advanced countries' banking sectors and to what degree this will constrain investment financing and the global recovery. There is also a risk over how worldwide fiscal and monetary policies manage the exit from highly expansionary policies into a more neutral stance during the recovery. Exiting too early could lead to a double-dip recession. Exiting too late could undermine credibility and nurture inflation.

Besides these external factors, risks also exist inside Africa. In some countries, social discontent and political tensions could rise or emerge, cutting growth. African policy makers need to be aware of these international and domestic risks. The weakening of economies and the prospect of a relatively moderate recovery has made it even more pressing to address the structural problems which existed even before the global crisis, and which reduced growth potential and led to inequalities and high poverty levels in many countries.

Chapter 2 - External Financial Flows to Africa

Foreign direct investment (FDI) can be a major source of growth. It increases activity not only of FDI-beneficiary firms but the effect can also be spread to other firms and sectors through technological spillover and increased competition, thus raising productivity for the whole economy. Many African governments have implemented investment-friendly frameworks to attract more foreign investment. Nonetheless, most foreign investment in Africa goes to extractive industries in a relatively limited group of countries. Thus, the broader development impact of FDI-backed projects is often limited. Attracting investment into diversified and higher value-added sectors remains a challenge for Africa. However, constraints on investment such as weak infrastructure and fragmented markets also adversely affect FDI flows to Africa.

Despite these constraints, prior to the financial crisis, FDI to Africa had been rising strongly, driven by a surge in prices for raw materials, particularly oil, which triggered a boom in commodity-related investment. The global crisis led to a considerable slowdown and preliminary estimates for 2009 indicate foreign investment fell by more than one third. As FDI is a major source of investment for Africa, this drop had a significant adverse effect on the continent's overall investment activity.

FDI levels still vary widely by region, sector and country. Prior to the global crisis, North Africa attracted large and diversified inflows due to privatisation programmes and investment-friendly policies. By contrast nearly 80% of total foreign investment in West Africa came through the oil industry, mostly reflecting expansion projects. South Africa, the continent's most diversified economy, registered strong FDI growth prior to the crisis, but estimates for 2009 indicate a drop by a quarter.

Besides FDI from industrial countries, inflows from emerging countries are becoming more important, in particular from China. Measuring these flows is, however, difficult as some of the finance comes through tax havens. African countries are developing Special Economic Zones (SEZs) to attract FDI. Foreign investors, notably China, are promoting the creation of such zones, which provide employment and spillovers to domestic economies and allow firms to benefit from better infrastructure and easier regulations. By investing in Africa, emerging countries also benefit from the preferential trade agreements of African countries with Europe and the United States.

Official Development Aid (ODA) to Africa appears to have been broadly sustained during the global crisis. In the years prior to the crisis, ODA had declined from its peak in 2005 but this peak was exceptional as it included large debt relief operations. Prospects for meeting the Group of Eight (G8) target of increasing aid to poor countries by USD 50 billion from 2004 to 2010 will depend on sharply accelerating growth in core development aid.

Donors outside the OECD's Development Assistance Committee (DAC) are becoming more important for Africa. China receives much attention in terms of aid as well as trade. China gives aid to almost every country in sub-Saharan Africa. Some argue that Chinese aid is only motivated by access to Africa's natural resources. However, there is little evidence that China gives more aid to countries with more natural resources, or specifically targets countries with a poor governance record. In addition, China is not alone in its interest in Africa's natural resources, and natural resources are not the primary motivating factor for Chinese aid. Like all donors, China is motivated by a mix of political, commercial, and social/ideological factors. But the scarcity of data on the growing Chinese presence in Africa in terms of aid, debt relief and direct investment flows represents a serious impediment to evaluating the real impact of China's engagement in Africa.

Many donor countries are reforming their development systems to make aid more effective, in particular by orienting ODA towards maximizing poverty reduction and achieving the other Millennium Development Goals. To ensure transparency and accountability, there must be high-quality evaluation based on solid evidence for measuring the impact on development goals. The DAC has developed quality standards for evaluation and donors are increasingly working together to improve evaluation. Several African countries are also making progress in strengthening development strategies and institutional frameworks. The Accra High Level Forum 2008 is supporting these efforts by setting priorities to increase aid effectiveness, for example by increasing development actors' delivery capacity, involving civil society in the delivery process, improving the transparency and accountability on the part of both donors and governments, and adapting the evaluation and monitoring criteria.

Chapter 3 - Trade Policies and Regional Integration in Africa

In the years before the global crisis, international trade increased rapidly and African countries benefited from this. Nonetheless, Africa's share of world trade remained low with exports from the continent amounting to only about 3% of the global total. This poor performance partly stems from trade protection against African products, but also from constraints that inhibit trade within Africa.

A rapid conclusion of the Doha Round of trade talks and outstanding issues in Economic Partnership Agreements with the European Union are crucial to Africa's medium-term trade prospects. No breakthrough on the World Trade Organisation (WTO) Doha talks was made in 2009, however, and the stalemate since the Cancun ministerial meeting of 2003 has been attributed to a lack of consensus among WTO countries on market access. Furthermore, a rising number of protectionist measures were adopted by advanced countries in 2009 to curb the effect of the financial crisis. Often stimulus packages were geared to favour domestic sectors, such as through export support or preferences for buying, lending, hiring or investing in local goods and services. Such measures clearly discriminate against developing countries, including those in Africa.

Some recent policy developments could affect Africa's trade. The General Agreement on Trade in Bananas, also known as the "Banana Deal" could, if approved, have important implications for African exporters, which currently enjoy quota- and duty-free access to European markets. African banana exporters could lose market share to more competitive Latin American producers. On the other hand, an agreement has been reached between the "Cotton Four" coalition (Benin, Chad, Mali and Burkina Faso) and the EU and United States, which could lead to lower subsidies for cotton producers in industrial countries, which harm African producers.

A critical reason for Africa's relatively poor trade performance is the weak diversification of African trade in terms of structure and destination. Most African economies depend on few primary agricultural and mining commodities for their exports and mainly import manufactured goods from advanced countries. As traditional markets in advanced countries are expected to grow less than those in emerging Asian and Middle East countries as well as markets in Africa, trade relations with these more dynamic markets must be enhanced.

Despite some progress, intra-African trade is still low, representing on average only about 10% of total African exports. Many factors contribute to the low trade performance, including the economic structure of African countries, which constrains the supply of diversified products, poor institutional policies, poor infrastructure, weak financial and capital markets, political instability, insecurity in several regions and intra-African trade barriers. For instance, less than a third of the African road network is paved and its railway network is very poor. These factors contribute to high transport costs compared to the rest of world. The numerous roadblocks and checkpoints on African highways further raise transport costs and contribute to delivery delays. They also limit the free movement of commodities, persons, inputs and investments. African customs administrations are often inefficient, reinforcing trade barriers within and outside the continent. Customs regulations require excessive documentation, which must be done manually as information and communication technologies are absent in most customs offices. Customs procedures are outdated and lack transparency, predictability and consistency. The resulting delays all increase transaction costs

Various initiatives aim to improve intra-African trade, such as the Minimum Integration Programme launched by the African Union Commission. The African Development Bank (AfDB) is supporting the institutional setup to improve macroeconomic and financial convergence on the continent. It has also focused on the preparation of a continental Programme on Infrastructure Development in Africa, as well as on the development of an Economic Partnership Agreement template to be used as a guide in the negotiations for the agreements

The African Economic Community (AEC) is planned as a gradual process with six stages to create a common market in Africa. Currently, the AEC is at the third stage of the process, which requires the establishment of a Free Trade Area (FTA) and

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customs union in each of the regional blocs by 2017. However, the progress of the different FTAs and customs unions varies considerably in the eight regional economic communities that the African Union recognises.

African countries, with the assistance of the regional communities and development partners, are working to strengthen infrastructure development. They are developing an integrated network of roads, railways, maritime transport, inland waterways and civil aviation. In addition, the regional communities are developing and implementing harmonised laws, standards, regulations and procedures to ensure the smooth flow of goods and services and to reduce transport costs.

A lack of adequate financing is holding up infrastructure development. Financial support programmes that target Africa's infrastructure development must be scaled up. The World Bank, European Union, African Development Bank and other multilateral agencies need to increase funding for infrastructure development as African governments lack the financial capacity. It is also necessary to increase support for the Infrastructure Consortium for Africa (ICA) and the NEPAD Infrastructure Project Preparation Facility (NEPAD-IPPF).

Chapter 4 - Progress towards the Millennium Development Goals

With five years left to the target date to reach the UN Millennium Development Goals (MDGs), progress on most of them has been sluggish and it is unlikely that they will be attained. African governments must choose between aiming to achieve all the goals by 2015 or reaching a few of the goals that they consider most critical for long-term development.

Goal 1 - Eradicating Extreme Poverty and Hunger. This target suffered a serious setback last year. Africa's rapid growth from 2000 to 2008 came to an abrupt halt in the worldwide financial crisis. Although figures are not yet available, it is likely that the trend of poverty reduction has been reversed in many African countries, knocking them seriously off track to achieving the goal. The African Development Bank estimates that the continent would need about USD 50 billion per year of additional financing to reach the GDP growth rates needed to achieve the stated goal of halving poverty by 2015. While extreme hunger has been eradicated in many regions, such as North Africa, it persists in several countries, notably in Niger, Burkina Faso, Madagascar, Eritrea and Chad. The earlier food crisis and the recent economic crisis have made it more difficult to eradicate hunger.

Goal 2 - Achieving Universal Primary School Completion. Despite absolute improvements in primary school enrolment and completion rates, the continent is likely to miss the goal, although it could come close. While the completion rate is not an official MDG indicator, it has nonetheless been used as a measure of the quality of the education system. Countries reporting the most progress in primary enrolment and completion rates are those with significant private primary education sectors. In general, the continent has shown great improvement in primary-level completion compared to its 1991 level.

Goal 3 - Promoting Gender Equality and Empowering Women. Countries have made uneven progress in this area. While there has been much progress in achieving gender parity at primary school level, this goal also calls for gender parity in secondary and tertiary education, gender equality in employment, and increased political representation for women. Africa's progress has been slower and more uneven in these areas. In 2009, the overall trend for an increased number of women in African national parliaments remained strongly visible, as it was in 2008. Countries such as Rwanda, Angola and Mozambique lead the continent on this indicator.

Goal 4 - Reducing Mortality of Children Under Five. This is unlikely to be met by the target date. In particular, poverty and malnutrition, HIV/AIDS, low immunisation coverage, high neo-natal deaths, and malaria still factor into the stagnation and reversal of previous gains made in reducing children mortality rates in some countries.

Goal 5 - Improving Maternal Health. Again progress is uneven. The well-being of mothers and that of their children is inextricably linked. When mothers are poor, uneducated and unable to access health care, the risks to them and their children multiply. Despite some improvement, the risk of dying from maternal causes remains high in many African countries.

Goal 6 - Combating HIV/AIDS, Malaria and Other Diseases. The picture is still gloomy in Africa. In 2008 sub-Saharan Africa accounted for about two thirds of new HIV infections among adults worldwide and about 90% of new HIV infections among children. The region also accounted for almost three quarters of the world's AIDS-related deaths in 2008. Over time, there have been encouraging gains, but progress must be accelerated if the millennium targets are to be met. By 2008, the prevalence rate in sub-Saharan Africa, where most HIV patients live, had dropped to around 5%, confirming the declining trend since 2005. Some improvements were made in the worst-hit countries, such as in Botswana, Lesotho, Uganda and Burundi. West and Central Africa are still much less affected than Southern Africa.

Goal 7 - Ensuring Environmental Sustainability. African countries face a significant challenge achieving their set goals by 2015 while also sustaining development and preserving the environment in the longer term. Africa is the lowest emitter of carbon dioxide and these emissions decreased between 1990 and 2006, except for Seychelles and Algeria. Libya and Equatorial Guinea lead the continent in terms of emissions because of gas flaring in oil fields. Climate change also exacerbates water stress for many countries, which further complicates access to safe drinking water. As water use for irrigation and other agricultural purposes continues to increase, countries will need to introduce more efficient water management systems. Despite some improvements, the urban-rural divide in access to improved water sources continues to be a major policy challenge.

Chapter 5 - Political and Economic Governance

In 2008, the sharp increase in the price of food and other basic consumption goods triggered social tensions and strong reactions from several governments. This raised fears that the economic weakening would further undermine social stability and ***political governance***. Stability was broadly maintained however in 2009. Lower food and energy prices relieved the burden on households, including the vocal urban middle class that had instigated protests in 2008. Several governments put measures in place to sustain internal demand, thus limiting social tensions. Nonetheless, rising unemployment exacerbated social discontent in several countries. Concerns remain for the future, as fiscal stimulus measures have to be phased out to restore fiscal sustainability while at the same time unemployment may remain high or increase. Overall in 2009, tensions and hardening indicators decreased. Several countries successfully undertook fair democratic elections, and government accountability increased. While setbacks are still common, improvements in checks and balance mechanisms bode well for future institutional consolidation in Africa. High-intensity conflicts and rebellions generally calmed down, with some important exceptions. When confronted with tensions, many governments struck a better balance between hardening their military stance and launching/strengthening dialogue with rebellion movements. By and large, governments reacted more strongly and more responsively than in the past, which may contribute to reducing long-term tensions. The notable cases of co-operation among governments in the Great Lakes region provided significant steps towards reinforcing regional stability.

To further strengthen political governance, however, and step up social progress, civil society must continue to develop and increase its capacity to become more involved in the political process. On the government side, institutional capacity needs to be strengthened and reforms pushed forward, in particular in the judiciary and security realms. Credible and independent courts are still rare in Africa but are key to guaranteeing the rule of law and protecting citizens from abuse, including abuse of political power. Africa still suffers from human and financial deficits in its governance institutions and this creates a disconnection between legal and formal provisions/stipulations and implementation and execution. Improved access, quality and affordability of basic public services are necessary to increase institutional effectiveness and accountability.

Despite the efforts recorded in some countries and rising domestic and international attention, ***corruption*** remains a serious problem in Africa. According to Transparency International's Corruption Perception Index, in about 70% of African countries covered, corruption is perceived as rampant (with scores of less than 3 out of 10). In more than a quarter of the countries corruption is considered a serious challenge. As in 2008, only Botswana, Mauritius and Cape Verde scored above 5.

With respect to ***economic governance,*** Africa registered a marked new improvement in its regulatory environment in 2009. Several countries have introduced new laws or reformed existing laws, making it easier to do business. According to the World Bank report *Doing Business 2010*, 67 regulatory reforms were registered in 29 of the 49 sub-Saharan African countries. The report further noted that for the first time an African country – Rwanda – has ranked as the world's top reformer. Mauritius also continued to perform well with a ranking of 17 out of the 183 countries for the overall ease of doing business. Several other countries also made progress in implementing business-friendly reforms with the most significant changes taking place in the use of information technology to making processes simpler and more efficient.

Part Two: Public Resource Mobilisation and Aid in Africa

The global economic crisis has given a new impetus to dialogue on domestic resource mobilisation in Africa. Lower export revenues, uncertain future foreign investment and aid inflows amidst generally high levels of indebtedness have raised the importance of increasing domestic resources. This part explores how public resources can be better mobilised for development through more effective, more efficient and fairer taxation systems.

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Africa faces three types of challenges with respect to mobilising additional public resources. First, there are structural bottlenecks: high levels of informality, a lack of fiscal legitimacy and administrative capacity constraints, under-pinned by insufficient support from donors. Second, existing tax bases are often eroded by excessive granting of tax preferences, inefficient taxation of extractive activities and an inability to fight abuses of transfer pricing by multinational enterprises. Third, the tax mix of many African countries is unbalanced with countries relying excessively on a narrow set of taxes. In particular, the lack of urban cadastres and population censuses makes collecting urban property taxes particularly challenging for local administrations on top of the difficulty of collecting taxes from higher income groups. Additionally, trade tax revenues are bound to suffer from trade liberalisation agreements.

The solution is not to simply raise existing taxes. This could undermine economic recovery without necessarily improving the quality of tax systems. Strategies towards more effective, efficient, and fair taxation in Africa typically lie with deepening the tax base in administratively feasible ways. Policy options include removing tax preferences, dealing with abuses of transfer pricing techniques by multinationals and taxing extractive industries more fairly and more transparently. The international community has a key role to play in enhancing administrative capacity, while African partners should provide peer-learning opportunities.

In the longer term, the capacity constraints of African tax administrations must be ended to open up policy options and enable generating tax revenues through a more balanced tax mix. Indeed, taxing new potential payers is crucial. A wide tax base is more stable because it relies on a diversified set of tax revenues. It is also more efficient as it keeps a moderate burden on each type of taxpayer and each type of economic activity. Additionally, it engages a wide range of stakeholders in the political process thus strengthening democracy. The report identifies in particular urban property taxation as an instrument that can be more easily implemented with the aid of development partners. This type of taxation is progressive and can be scaled up with Africa's rapid pace of urbanisation and the corresponding need for financing urban infrastructure.

Considering the administrative bottlenecks, options to pursue redistributive tax policies are usually few in the short run and take different forms than in industrialised countries. To pursue a genuinely redistributive tax strategy, instead of a highly progressive income tax, countries would do better to consider taxes on luxury goods or ones that target higher income categories such as road tolls and car registration fees as these are important consumption items for richer Africans.

Excise taxes could also be used more intensively. Higher income groups, which are targeted by this kind of taxation, will probably try to oppose such reform. But if public service quality were improved it would be easier for governments to convince citizens that they have a stake in a better-funded state. Given the limited scope for redistributive taxation, more needs to be done to tackle inequality and poverty on the expenditure side.

Taxation quality matters as much as the quantity of money raised. States need tax revenue to function and taxes are the primary platform for political negotiations among a country's stakeholders in the form of a social contract. There is no representation without taxation. Furthermore, increasing fiscal revenue in a sustainable way increases ownership of government policies, paving the way for Africa to move away from aid in the long run. Ideally, taxes should be levied at low and relatively flat rates on bases broadened through the elimination of exemptions and other loopholes. Lower, simpler taxes are easier to collect and administer, and a more effective policy to stimulate private sector development.

The average African tax revenue as a share of GDP has been increasing since the early 1990s, mostly because of taxes on the extraction of natural resources. Obtaining natural resource rents distracts governments away from more politically demanding forms of taxation. Indeed, income taxes (mainly personal and non-resource corporate) have stagnated over this period. At the same time, trade liberalisation in Africa has led to a reduction of revenue from trade taxes. Indirect taxes, corporate taxes and resource-related tax revenues have increased since the late 1990s.

There are very large differences in the tax raising performance of individual countries. Annual taxes per capita range from as low as USD 11 to USD 3 600. In fact, tax effort estimates confirm that some countries collect as little as half of what they would be expected, given their living standards and economic structures, while others collect two to three times what would be expected. When resource-related tax revenues are excluded from this analysis, some resource-rich African countries switch from a high tax effort to a low tax effort, which implies that these countries have made little effort to broaden their tax base.

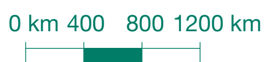
Many African countries are still heavily dependent on aid. In the past, donors have devoted little attention to public resource mobilisation. But if a larger share of aid were targeted at this goal, countries would become less dependent on aid in the long run, to the benefit of recipients and donors.

Part One

Overview

ALGIERS
TUNIS
Oran
Constantine
RABAT
Fès
Casablanca
Marrakech
MEDITERRANEAN SEA
TRIPOLI
Alexandria
CAIRO
La Youn
NOUAKCHOTT
PRAÏA
DAKAR
BANJUL
BISSAU
BAMAKO
NIAMEY
OUGADOUGOU
Lake Victoria
NDJAMENA
KHARTOUM
ASMARA
DJIBUTI
ADDIS ABABA
CONAKRY
FREETOWN
MONROVIA
YAMOUSSOUKRO
ABIDJAN
ACCRA
LOME
PORTO NOVO
Lagos
ABUJA
BANGUI
MALABO
YAOUNDE
EQUATOR
MOGADISHU
SÃO TOMÉ
LIBREVILLE
KAMPALA
Lake Victoria
NAIROBI
KIGALI
BUJUMBURA
BRAZZAVILLE
KINSHASA
DODOMA
Dar Es Salaam
VICTORIA
LUANDA
MORONI
SOUTH ATLANTIC OCEAN
LUSAKA
LILONGWE
HARARE
ANTANANARIVO
PORT LOUIS
WINDHOEK
GABORONE
PRETORIA
Johannesburg
MAPUTO
MBABANE
MASERU
Durban
INDIAN OCEAN
Cape Town
Cape of Good Hope

Rivers
Main Road
National Capital
over 5 000 000
over 1 000 000
over 500 000



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Macroeconomic Situation and Prospects

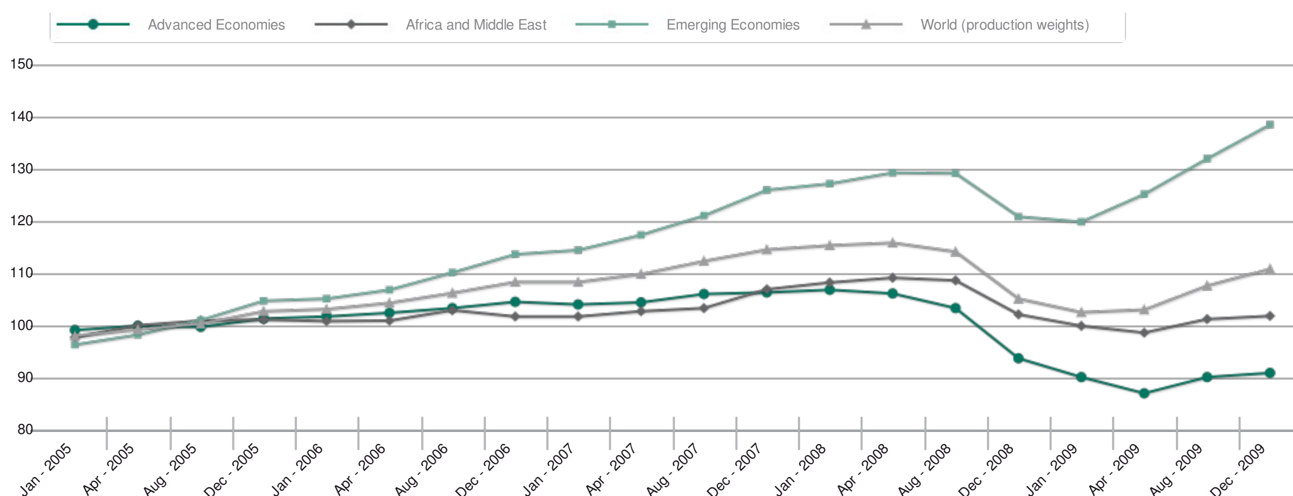
In the years before the global recession in 2009 most African economies had enjoyed impressive economic growth, with average annual growth in 2006-08 amounting to about 6% and gross domestic product (GDP) per capita growth to almost 4%. The African economies benefited from a combination of favourable factors, including high commodity prices and rapidly growing export volumes, generally prudent macro policies, debt relief and sustained aid and foreign direct investment (FDI) inflows. Moves towards more market-friendly economic framework conditions had also helped to foster growth. African growth would have been even higher had it not been restrained by infrastructure bottlenecks (notably in transport and energy), pervasive corruption and political instability in several regions. The world economic crisis brought this period of relatively high African growth to a sudden end. In the meantime, the world economy is recovering again, and Africa is expected to benefit from improved international conditions. This chapter first looks at the international environment and then explores the various channels through which the global crisis has been transmitted to Africa. It then discusses how the African continent and the various regions and countries have weathered the global crisis and what the economic prospects are for 2010 and 2011.

The global economy is recovering from its deepest recession since World War-II

In early 2009 there were fears that developed countries could fall into a depression like that of the early 1930s. One year later, there are clear signs that the worst is over. Since mid-2009, the world economy is gradually recovering, mainly driven by expansionary macro policies and a positive inventory cycle. The global recession of 2008/09 had started in the United States with the breakdown of the subprime mortgage market as a result of insufficient regulations. It then spread to almost all parts of the world. Stock markets collapsed world wide, and business and consumer confidence declined to historically low levels.

The financial turmoil hit the global economy at a time when it had already passed its cyclical peak after the supply shocks due to price hikes of oil and non-oil commodities. Around the world, domestic demand weakened, and the downturn was amplified and spread internationally through sharply falling foreign trade. The recession was sharpest in developed countries. However, the crisis also severely affected some emerging countries (such as Russia, Singapore, Mexico, and Hong Kong, China). In contrast, in China and India, boosted by expansionary policies, output continued to grow at relatively high rates, although somewhat lower than before. The African economy also suffered from the global recession but has maintained – on average – positive growth.

Figure 1.1: Industrial production levels in international comparison (index 2005 = 100)

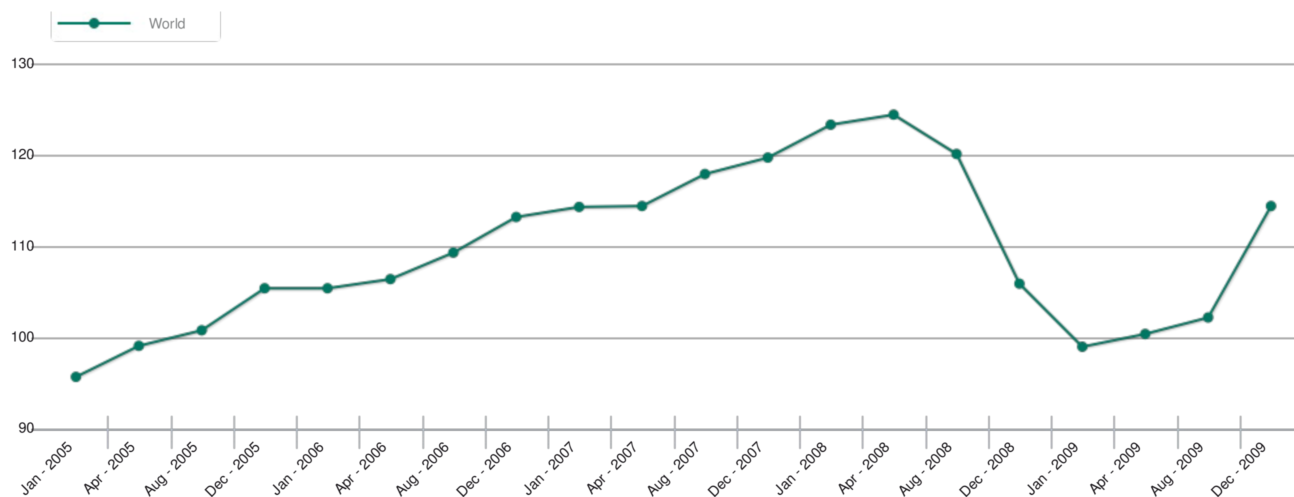


Source: CPB, Netherlands Bureau for Economic Policy Analysis.

StatLink http://dx.doi.org/10.1787/848707675413

The recovery of global output since mid-2009 could not compensate for the earlier losses. Therefore, in 2009 world real GDP declined by around 2% against the previous year making 2009 the first year with negative global growth since World War-II. Output growth in the OECD area contracted even more, by 3.5%. Global trade collapsed mainly owing to weaker import demand in developed countries. Despite a recovery during the second half of 2009, global trade volumes contracted in 2009 by 12.5%.

Figure 1.2: World trade (level of average export and import volumes)



Source: CPB, Netherlands Bureau for Economic Policy Analysis.

StatLink http://dx.doi.org/10.1787/848721405434

The recession in the developed countries led to a sharp fall of oil prices and other commodity prices. This was an important channel through which the crisis has been transmitted to commodity exporting countries including those in Africa. While the drop in commodity prices led to terms-of-trade losses in Africa and other commodity-exporting countries, it provided terms-of-trade gains to commodity-importing countries. In that sense, commodity exporters including those in Africa acted as shock absorbers and helped commodity-importing countries overcome the recession. The terms-of-trade effects reversed, however, in the course of 2009 when commodity prices recovered again.

The global downturn would have been even more severe and lasted longer had central banks and governments all over the world not acted forcefully by implementing large stimulus measures. Short-term interest rates were reduced in developed countries to historically low levels, near zero. Monetary conditions were further eased by unconventional measures to inject liquidity into markets, in particular by the so-called quantitative easing, which is an indirect way of monetising government and private debt. Governments also provided direct support to ailing banks and sometimes nationalised private banks. Fiscal policy supported aggregate demand both through automatic stabiliser effects; that is, by accepting higher cyclical budget deficits due to the economic downturn and by implementing additional large-scale stimulus packages. These packages included additional infrastructure investment, tax cuts and subsidies to households including for the purchase of new cars. The cyclical effect on public budgets together with the stimulus measures led to a sharp increase of budget deficits. In OECD countries, fiscal deficits increased in 2009 on average by almost 5% of GDP to above 8% of GDP. These forceful monetary and fiscal policies helped restore confidence and halted the economic downturn. In the second half of 2009 most developed countries again achieved positive output growth. However, because of the earlier decline, real GDP in 2009 as a whole remained lower than in 2008.

In April 2010 the global recovery was still not self-sustained and it is unclear at what point the monetary and fiscal stimuli can be withdrawn without the risk of jeopardising the recovery. Given the large fiscal deficits and future fiscal pressures from the ageing populations in many developed and emerging countries, the fiscal room for further supporting aggregate demand is limited, and countries will have to return to fiscal consolidation. Monetary policies will also have to tighten and absorb the excess liquidity to prevent the resurgence of inflationary expectations and asset bubbles. Indeed, a large part of the newly created liquidity has flown into financial assets and has raised asset prices with the risk of new bubbles while business investment has remained weak. But given the low capacity utilisation, as reflected by the large gaps between actual and potential output, and the expected further deterioration in labour markets in many countries, the exit from expansionary policies is expected only after 2010.

Global conditions are expected to improve in 2010 and 2011, but risks remain

Since the trough of the recession in the first half of 2009, the global recovery has made significant progress. Global output is on the rise and business sentiment is improving world wide. But towards the end of 2009 global industrial production and world trade levels were still much lower than before the crisis (Figures 1.1 and 1.2). An exception is the development in emerging countries where – boosted by China – industrial production already exceeds pre-crisis levels. A number of constraining factors continue to

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weigh on the global recovery. In many countries private consumption is constrained by household indebtedness, high unemployment, weak income growth and the withdrawal of fiscal stimuli. Investment activity is dampened by the high degree of unused capacity and also by credit constraints as banks consolidate their balance sheets. Financial markets remain nervous as the financial position of some banks remains unclear and as sovereign risks of some high-debt countries have increased. Furthermore, foreign trade growth could be constrained if trade protectionist measures gain in importance.

The global recovery is precarious. Nonetheless, global output is expected to increase by 3.4% in 2010 and 3.7% in 2011. In many advanced countries, GDP growth will be lower than growth of potential output so that unused capacities remain high and will further rise. While developed countries are expected to recover only gradually, emerging countries, notably China, and also India, will remain important engines for global growth (Figure 1.3). World trade volume is expected to increase by 6% in 2010 and by 7.7% in 2011. Given the moderate recovery of global output, the increase in oil prices and non-fuel commodity prices is likely to remain subdued in the near future.

The ***United States*** has achieved economic turnaround through expansionary fiscal and monetary policies and special measures to support the banking sector. Real income gains due to lower energy prices also helped the recovery. After the sharp decline in output in the second half of 2008 and the first half of 2009, output has increased again in the second half of 2009. The recovery was mainly driven by fiscal stimulus and replenishing of stocks. The fall in housing investment, which had lasted for 3.5 years and been the main cause of the recession, came to a halt and was followed by a moderate increase. Housing prices, which had declined from their peak in April 2006 by 30% until May 2009, started to edge upwards, supported by massive government support and the lowering of interest rates. Business confidence improved, but business investment remained weak as low capacity utilisation remained a drag on net investment. Subsidies for car purchases (the so-called "cash for clunkers" programme) temporarily boosted private consumption. However, consumption weakened again after the programme was terminated and as income perspectives deteriorated owing to the sharp rise in unemployment. Furthermore, many households were forced to increase their savings as the crash in financial and real assets has reduced their wealth; recent improvements in asset prices compensate only partially for earlier losses. As imports fell even more than exports, the foreign balance improved, thus providing a positive contribution to output growth. While this improvement in the foreign balance of the United States also reduced global imbalances, its impact on aggregate demand of trading partners was negative and contributed to their economic weakening. As a result of cyclical revenue shortfalls, massive fiscal stimulus programmes and support measures for banks, the United States general government budget deficit increased by over 8% of GDP to around 11% of GDP in 2009, the highest level since 1945. In the United States, deep recessions are often followed by strong recoveries, which would point to relatively high growth during 2010 and 2011. This is, however, unlikely to happen. A good part of the recent recovery has been driven by temporary fiscal measures and their effects on aggregate demand will become weaker during the projection period. Furthermore, although conditions in the banking sector have improved, bad loans and other "toxic assets" continue to constrain banks. Banks may therefore be more cautious than in previous upswings to provide loans to the private sector. Households are also expected to spend more cautiously and use a larger part of their income to replenish their savings. After a decline by 2.5% in 2009, GDP is expected to increase by 2.5% in 2010 and by 2.8% in 2011.

In ***Europe,*** the recession was even deeper than in the United States. The stabilisation of the financial sector and of the real economy were achieved through an armoury of measures including historically low interest rates, quantitative easing to increase liquidity in financial markets, targeted support to non-performing banks and large fiscal stimulus programmes, including subsidies for the purchase of new cars (similar to the United States' cash for clunkers programme). Some European countries also introduced measures to mitigate the effect of the recession on the labour market by subsidising reductions in working hours per employee. This led to labour hoarding, which helped to contain the increase in unemployment during 2009 but could lead to rising unemployment in 2010. Similar to that in the United States, the recovery in Europe has so far mainly been driven by fiscal programmes, which supported infrastructure investment and private consumption. Consumers also benefited from the lowering of the inflation rate to close to zero. Exports were another driving force and started to increase again in some European countries despite the relatively strong euro exchange rate. In the euro area, GDP declined in 2009 by 4% and is expected to increase by only about 1% in 2010 and by less than 2% in 2011. In some European countries such as Spain, Greece, Ireland and the three Baltic countries Lithuania, Estonia and Latvia, the recession has been most severe. In Lithuania, Estonia and Latvia, which are not members of the euro area, GDP declined on average by 16%, and is likely to continue falling in 2010. Positive growth is expected only by 2011. In Greece, the risk premium has significantly increased owing to fears of sovereign insolvency; the government has been forced to take harsh austerity measures to prevent insolvency.

Japan suffered from the deepest recession among the large developed countries. The Bank of Japan and the government responded to the crisis by adopting expansionary monetary and fiscal policies, which were even more aggressive than in the United States and Europe. The key interest rate of the central bank was reduced to 0.1%. Additional liquidity was created by central bank purchases of government bonds, corporate bonds and shares. The government implemented various stimulus programmes, with a total amount of around 5% of GDP. These measures, together with rising exports to emerging countries in Asia, notably China, helped to stop the decline in output in spring 2009, and to achieve moderate growth during the rest of the year. Nonetheless, real GDP declined in

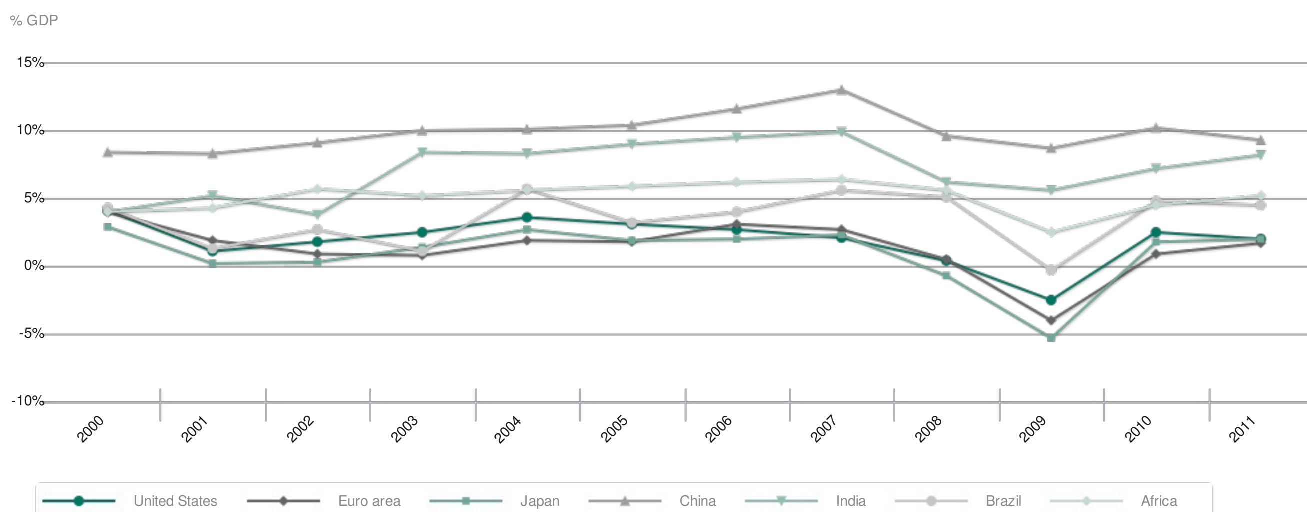
2009 by more than 5%. As only moderate growth of around 2% is expected in both 2010 and 2011, the level of GDP in 2011 will be similar to five years earlier. As a result of cyclical factors and large fiscal stimulus packages, the general government budget deficit increased to around 7% of GDP in 2009. The Japanese economy has now regained a moderate growth path, but inflation has remained negative. While falling prices are supporting real incomes of households, the real debt burden of the government and indebted private agents is rising, which increases the risk that the economy may fall again in a deflation-low growth trap, as in the so-called “lost decade” of the 1990s. Japan’s government has responded to this risk by adopting another stimulus programme at the end of 2009 to support domestic demand.

China managed to overcome the global recession with only a moderate slowdown of economic growth. The contraction of world trade led to a sharp fall in exports. However, higher domestic demand due to large-sized fiscal stimulus programmes and the lowering of interest rates largely compensated for this export decline. The current account balance deteriorated but continued to record a substantial surplus. With abundant domestic savings and foreign reserves and a highly regulated banking sector, which remained mostly unaffected by the turmoil in the global financial markets, bank loans were both freely available and in great demand, notably for investment by state-owned enterprises and housing. However, as a result of the loose monetary conditions, asset prices rose rapidly, indicating a risk of asset bubbles. It is likely that monetary conditions will be tightened to contain such risk. After a slowdown from 13% in 2007 to 9.6% in 2008 and to above 8.7% in 2009, growth is expected to accelerate to around 10% in 2010. With the end of the fiscal stimulus, growth should then decelerate slightly, to above 9% in 2011. Expectations for China´s medium-term growth are generally positive, but there are also risks that a continued high credit growth could create bubbles in both the stock and real estate markets and that the investment boom could lead to overcapacities in some sectors.

India was also relatively resilient to the global recession. The crash in global trade did affect the Indian economy and cause a slowdown of growth. However, the impact remained relatively small because the economy is less open than many other emerging economies and because the industrial sector is relatively small in relation to services, which were less affected. The government implemented a number of stimulus measures including infrastructure programmes in rural areas, job-creation programmes and reductions of indirect taxes. India’s traditionally high fiscal deficit increased from above 7% of GDP in 2008 to above 10% in 2009. Public debt increased to around 80% of GDP. India also eased its monetary policy in response to the global crisis. The central bank halved its key interest rates to 4.75% but bank loans to the private sector remained relatively weak. Economic growth slowed from almost 10% in (calendar year) 2007 to around 6.2% in 2008 and 5.6% in 2009. It is expected to accelerate above 7% in 2010 and to around 8% in 2011. Consumer price inflation picked up during 2009 because of supply shortages after a historically low monsoon rainfall and the turnaround in commodity prices.

Latin America experienced a sharp slowdown of economic activity towards the end of 2008 and early 2009 but also recovered during 2009. The rebound of commodity prices and expansionary fiscal and monetary policies drove the recovery. Countries such as Brazil with more diversified and less open economies recovered faster than countries such as Mexico with stronger links to the United States economy. Mexico suffered both from a sharp fall of US imports and from lower inflows of workers´ remittances.

Figure 1.3: Economic growth in international comparison



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Africa's economic growth has been slashed by the global recession

Various channels transmitted the global economic crisis to Africa. The direct effect of the crisis of the world's financial centres on African banks was relatively small because of the banks' low degree of integration with international financial markets and relatively strict capital market regulations. The major channel of crisis transmission was through the collapse of commodity prices and the fall of export volumes. Another channel of crisis transmission was the decline of workers´ remittances. Many African countries depend on remittances and, faced with job losses or wage declines in their host countries, African workers reduced the transfers to their families at home. A third important channel of crisis transmission was the decline of foreign direct investment. Multinational firms reduced their investment globally and also in Africa, notably in those sectors most affected by the global crisis, such as mining and tourism. On the positive side, donor countries have generally maintained their aid commitments and disbursements to Africa, despite substantial fiscal pressures at home. Furthermore, the debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative by the International Monetary Fund (IMF) and the World Bank, which benefited 29 African countries[1], has reduced debt service costs and helped these countries cope better with the crisis. Last but not least, loans by the IMF[2], the World Bank and the African Development Bank (AfDB) [3] have been increased significantly.

The major adverse effect came through falling commodity prices and export volumes

In 2008, before the financial crisis had started biting the real sectors, the value of Africa's trade broke the USD 1 trillion mark. On the back of favourable commodity prices, African exports reached USD 557.8 billion, which enabled the continent to support an import bill of USD 465.6 billion (ECA and AU, forthcoming). However, owing to lack of diversification of the export products and destinations, the collapse in commodity prices in the second half of 2008 and the beginning of 2009 led to the shrinking of the African trade. Approximately 80% of African exports are oil, minerals and agricultural goods, with fuels and mining products accounting for the largest part. All of these exports were hit hard by the economic crisis. Africa's bias towards the US and European Union (EU) markets, which are recipients of nearly two-thirds of its exports, contributed towards the strong effect of the crisis through the trade channel. Intra-regional trade, which could have provided a shock-absorbing mitigation of the crisis, accounts for barely 10% of total African trade (ECA and AU, 2009). As a result, the global recession led to a sharp decline in demand for African exports of goods and services and affected all main export sectors, such as mining, manufacturing and tourism. In 2009 Africa's export volumes declined by 2.5% and import volumes declined even more, by around 8%. Because of the fall in commodity prices, Africa's terms of trade deteriorated, and export values declined more (by above 30%) than import values (around 20%), leading to a deterioration of trade and current account balances in many African countries.

The commodity price boom had lasted for five years, until mid-2008. Prices of both oil and non-oil commodities then fell sharply until the beginning of 2009 before rebounding again in the course of 2009. Food prices also declined from their historical peak in mid-2008. The vulnerability of individual African countries to commodity price shocks depends on their net export and import position with respect to the different commodities. Commodity exports also have major effects on government revenues in those countries, which depend heavily on the mining sector. Food prices also affect income distributions within countries because producers benefit from higher food prices while consumers, notably in urban areas, suffer. Although the commodity price boom had benefited many African countries, the sharp fall of prices was a major blow. However, the rebound from the early 2009 trough brought some relief and helped many African countries recover. At the same time, oil-importing countries benefited from the fall in oil prices but are now adversely affected by the rebound.

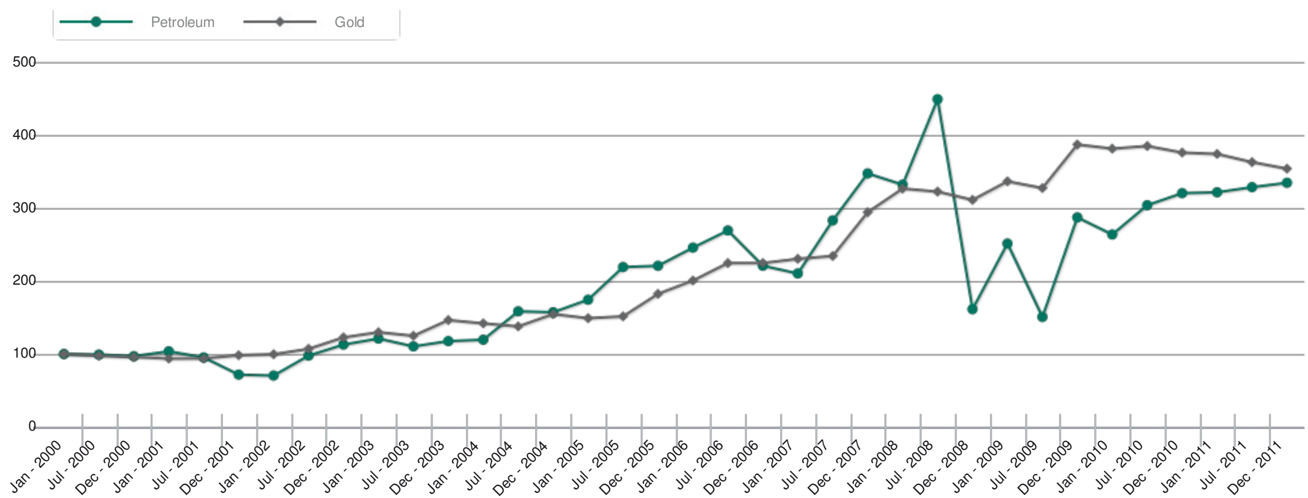
A combination of factors caused the boom-bust roller coaster of commodity prices. The driving force both for the boom and the bust was the change in demand for commodities. Shifting weather conditions (for food prices), price speculation and conflicts in producing countries also contributed to price volatility. After the sharp increase in commodity demand by both developed and emerging economies, notably China, the weakening of global growth caused the reversal of the price boom by mid-2008. When the crisis of financial markets pushed the world economy into recession, the fall of commodity prices accelerated, and prices halved until the end of the year. Commodity producers, notably oil-producing countries, responded by sharply curtailing supply. This, together with the stabilisation of the global economy, brought the price decline to a halt and initiated its rebound.

The commodity price boom and bust was led by the oil price but was widespread among non-fuel commodities (Figures 1.4-1.7). Both food and energy prices also interacted as energy is a cost of food production, and rising oil prices increased incentives for biofuel production. This had contributed to the earlier food price hike. Other factors affecting the hike included rising food demand and supply shortfalls. The sharp fall in oil prices made biofuel production less profitable, which increased the supply of food. These events together with good harvests in many (but not all) regions of Africa, thus contributed to lower food prices. Owing to biofuel production agricultural commodity and food prices are now more closely tied to the oil price than before [4].

The ***oil price*** (crude Brent) reached an all-time high of USD 145 per barrel in July 2008 after having sharply increased during the preceding years from USD 20 in 2002. After this peak, it dropped sharply to USD 30 in December 2008 before moving up again

and stabilising at around USD 75-80 since mid-2009. The technical assumption of this report is that the oil price will remain at around this level during the projection period. The four largest African oil exporters, Nigeria, Angola, Libya and Sudan, benefited from the oil price boom until mid-2008 and consequently suffered from the later price decline. In these countries, growth decelerated but remained positive. The exception is Angola, where GDP slightly declined after having increased by above 13% in 2008.

Figure 1.4: Oil price and gold price (base in January 2000)



Source: Bloomberg; World Bank; African Development Bank.

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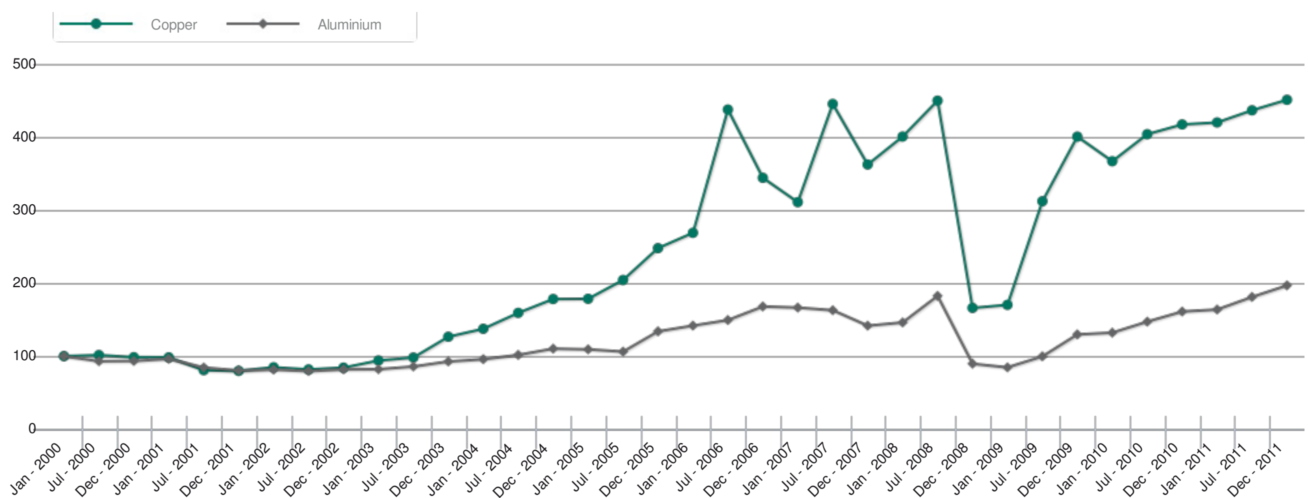
Figure 1.5: Copper and aluminium prices (base in January 2000)



Sources: IMF; World Bank; African Development Bank.

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The ***price of gold***, however, did not follow the general pattern. It continued its trend increase during the recession, driven by global demand that aimed hedging against inflation risks and equity and exchange rate fluctuations. The surge in the gold price did not, however, prevent South Africa, which is the largest producer of gold in the world, from falling into a recession. South Africa's mining sector (including gold and diamond production) declined. The exceptions were iron and ore, which increased thanks to demand from China. South Africa's manufacturing sector also declined. In contrast, global demand and prices of ***diamonds*** declined sharply and

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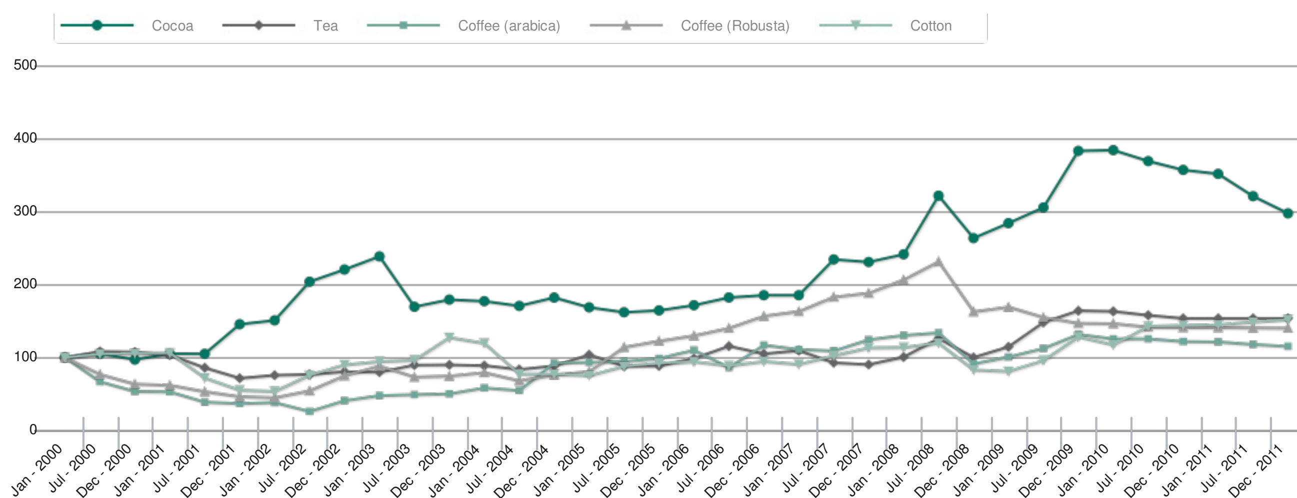
pushed Botswana, which heavily depends on diamonds, into recession. Due to a gradual recovery of the diamond market during the course of 2009, Botswana's recession was, however, milder - with GDP falling by 4% - than the earlier expected -10%. Other *metal prices, such as* ***copper and aluminium,*** which had peaked by mid-2008, also declined sharply in the wake of the global recession. With the global demand recovering, metal prices have also gradually increased from their troughs. Although the main exporters of these raw materials suffered from the earlier price collapse, some, like Zambia (for copper), managed to at least partially compensate for price declines by increasing production.

Figure 1.6: Exports prices of agricultural products (base in January 2000)



Sources: Bloomberg; IMF; World Bank; African Development Bank.

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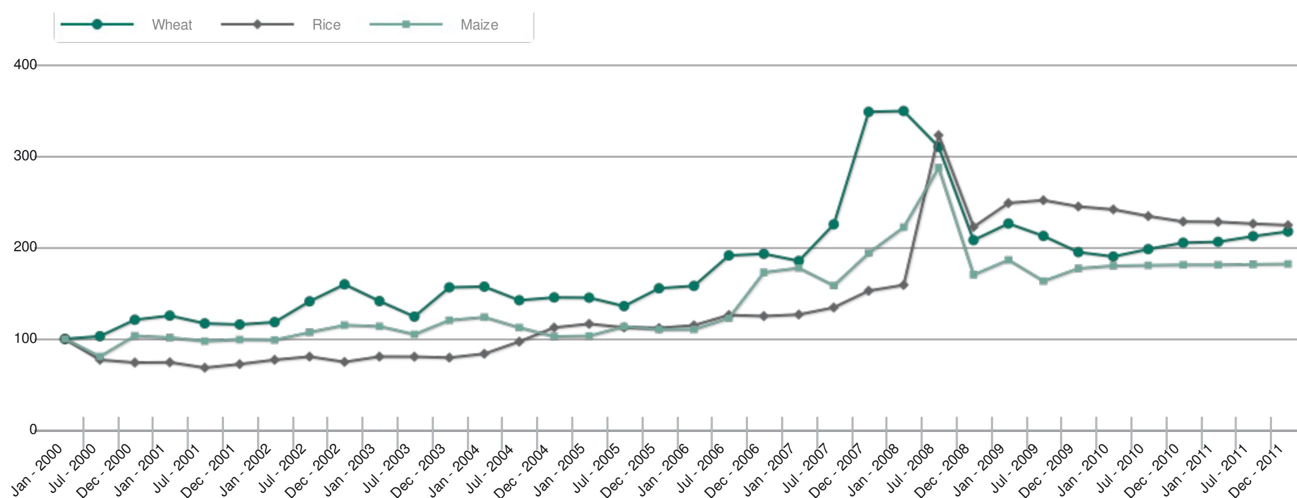
Figure 1.7: Import prices of basic foodstuff (base in January 2000)



Sources: IMF; World Bank; African Development Bank.

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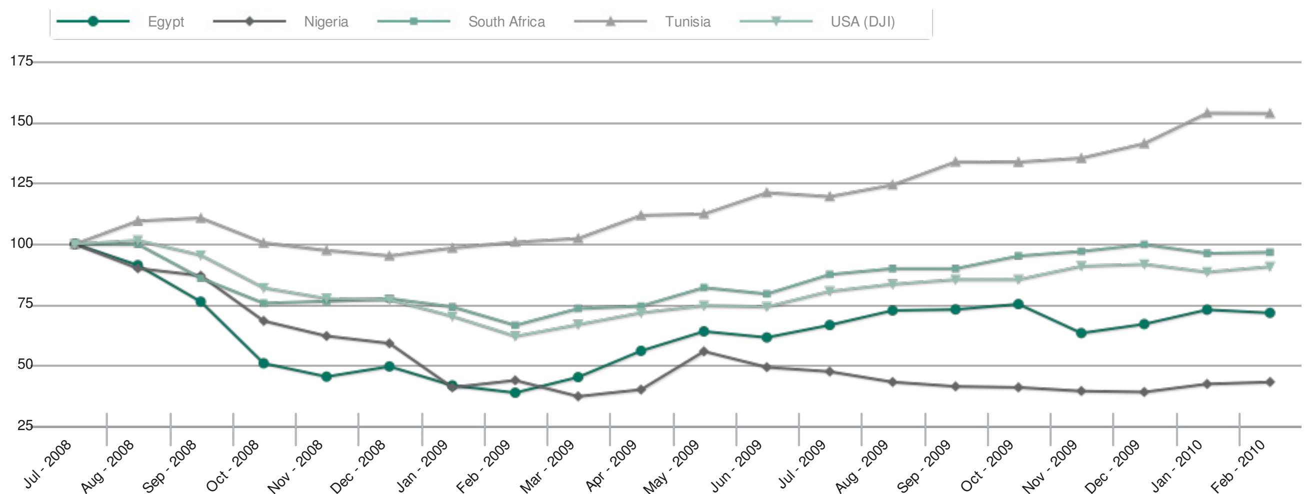
The export price for ***Robusta coffee*** declined sharply from its peak in 2008, but export prices for other agricultural goods, such as for ***Arabica coffee*** and ***tea,*** recovered again after smaller declines. The price for ***cocoa*** climbed to a new peak in early 2010. Overall, agricultural sectors in these goods' main African producer countries, such as Ethiopia, Uganda, Côte d´Ivoire and Togo, did not suffer but in fact supported GDP growth in 2009. The price of ***sugar*** soared by almost 60% in 2009, owing to strong demand and supply

constraints due to unfavourable weather conditions in Brazil (the largest sugar exporter in the world) and in India. While Mauritius sugar producers benefited from this price hike, Swaziland's producers did not benefit because the Sugar Protocol has fixed their export price to the European Union. The export price for ***cotton*** declined significantly during the second half of 2008 but also recovered again during 2009; the overall lower cotton price, together with falling production, reduced growth of some African producers, such as Benin and Burkina Faso. The import prices of basic foodstuffs, such as ***rice, wheat and maize,*** declined sharply from their peaks in 2008 but remained at higher levels than before their surge had started in 2006.

The global financial crisis depressed stock prices and exchange rates in Africa, but most markets have rebounded

Figure 1.8: Stock price developments (end-July 2008=100)



Sources: Bloomberg; African Development Bank.

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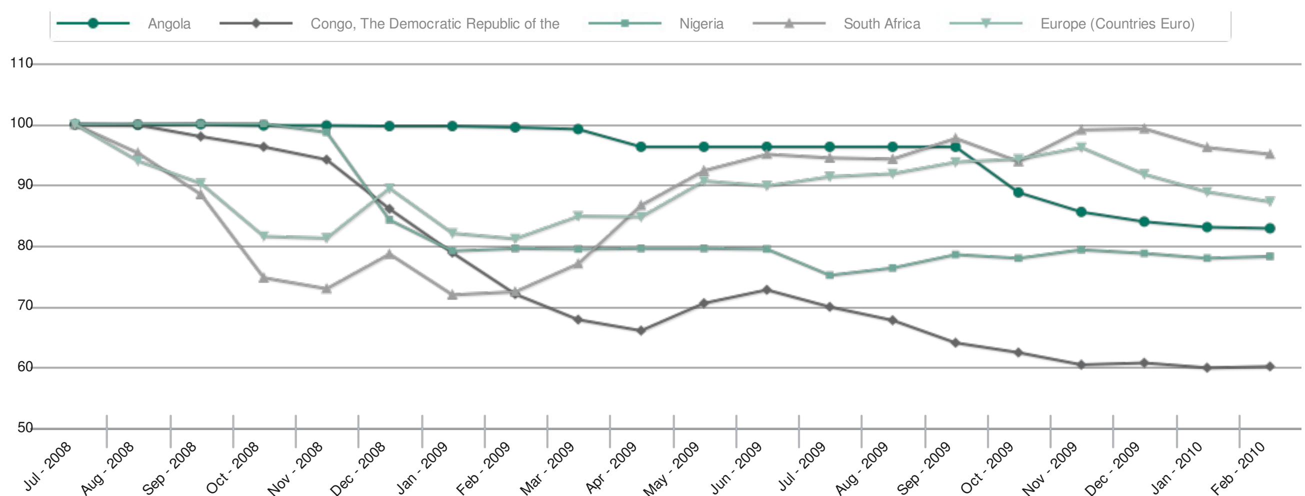
Figure 1.9: Exchange rate developments (currencies per USD, end-July 2008=100)



Sources: Bloomberg; African Development Bank.

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Excluding South Africa's Johannesburg Stock Exchange, African equity markets remain mostly small and illiquid. Though the number of functioning stock markets has risen from five in 1989 to 19 in 2009, the majority of markets list only a handful of companies and post very low turnovers. Equity financing therefore does not play a significant role in financing Africa's investment activity. Nonetheless, the global financial crisis has been a major blow to African stock markets. During 2009 African stock markets generally improved, again mirroring improvements in international markets. The stock market rally was most pronounced in Tunisia. However, some African stock markets, such as in Nigeria, failed to improve, owing to domestic problems including difficulties in the banking sector (Figure 1.8). Currencies of African countries also came under pressure; most of them depreciated significantly during the second half of 2008 but strengthened again during 2009. However, some currencies did not recover, or continued to weaken (Figure 1.9).

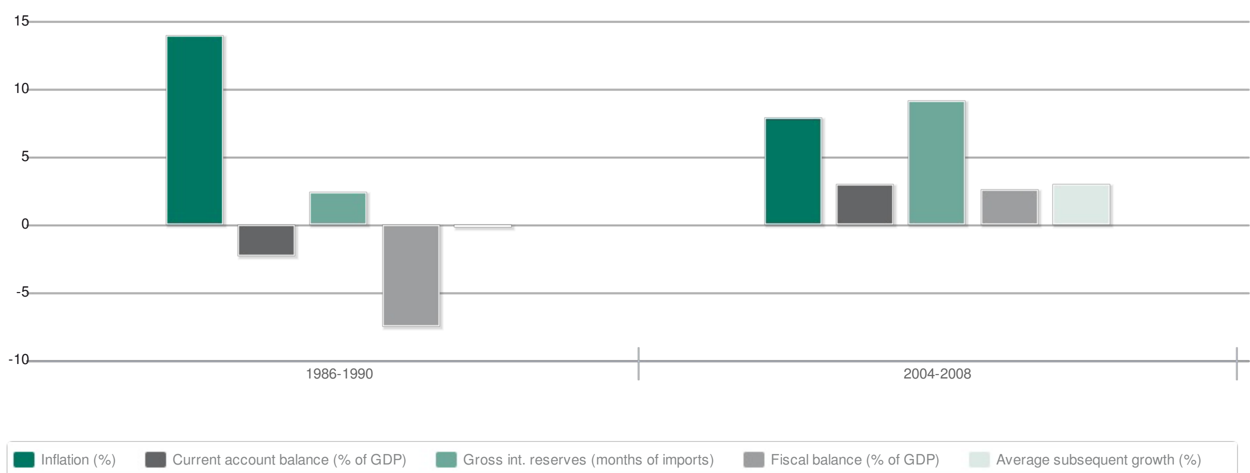
Past fiscal prudence and disinflation have created space for expansionary macro policies

During previous economic crises in Africa, such as the commodity price busts of the late 1980s, the response of many African governments had been to introduce direct controls, including exchange rate controls and untargeted subsidies. This time policy responses were quite different. Authorities generally refrained from direct controls with a few exceptions, such as in Sudan, where the central bank introduced restrictions on foreign exchange to reduce import demand. Owing to fiscal prudence and generally better macroeconomic fundamentals, in the years prior to the global crisis, and to the earlier debt relief, many countries were able to continue their major public spending programmes. They thus avoided a pro-cyclical policy, which would have aggravated the downturn (Figure 1.10). A number of countries, including South Africa and Egypt, went further by adopting stimulus packages and targeted programmes to mitigate the downturn's effect on poverty. But faced with deteriorating current accounts and falling exchange rates, some countries, such as Angola, Ethiopia, Sudan and the Democratic Republic of Congo, were forced to pursue tight fiscal policies to contain the fiscal and current account deficits and to protect their foreign reserves.

The weakening of the economies together with stimulus packages caused fiscal balances in Africa to deteriorate on average by around 6.5% of GDP, from a surplus of 2.2% of GDP in 2008 to a deficit of 4.4% of GDP in 2009, thus mitigating the downturn of aggregate demand.

Monetary policy was also eased in most African countries by reductions in key policy interest rates. The fall in inflationary pressures due to lower energy and food prices facilitated this monetary easing. In South Africa, the central bank responded to the recession by cutting the repo rate by 500 base points. Other African countries also instituted sizeable rate cuts.

Figure 1.10: Macroeconomic fundamentals prior to the global crisis



Source: African Development Bank.

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Africa’s economic growth weakened but remained positive

Overall, it appears that the African economy has been more resilient to the global crisis than other emerging economies, with the exception of those in Asia, notably China and India. The effect of the crisis, although less severe than on most other continents, was nonetheless significant. Although in the three years before the 2009 global recession Africa had achieved an average annual growth of around 6%, in 2009 the growth rate was slashed by 3.5 percentage points to 2.5%; actual growth in Africa was almost exactly what had been predicted in last year's *African Economic Outlook* (2.3%). The economic weakening was most pronounced in the mining and manufacturing sectors, which recorded negative growth in many countries; these sectors were particularly exposed to the fall of commodity prices and global trade. The other sectors, notably agriculture and services, were more resilient and mitigated the economic downturn. In fact, in most African countries agricultural sectors benefited from good harvests thanks to favourable weather conditions. But in some countries, such as South Africa, Kenya, Chad and parts of Namibia, bad harvests led to falling agricultural production, thus exacerbating the effect of the global crisis. Domestic services including real estate and telecommunications (notably mobile telephony) were generally resilient to the crisis and continued to contribute to growth. In contrast, the global crisis heavily affected tourism sectors, which weakened GDP growth in many countries (notably in Egypt, Madagascar, Morocco, Mauritius, Namibia, Senegal, Cape Verde, São Tomé and Principe, and Seychelles).

On the demand side, both falling export demand and a weakening of domestic demand mostly led the downturn. Private consumption benefited from lower food and energy prices, but deteriorating labour markets and lower workers´ remittances often outweighed this positive effect. Remittances declined in most African countries with the decline being most pronounced in North Africa and in the neighbouring countries of South Africa (Box 1.1). Business investment weakened in most African countries as a result of falling capacity utilisation in mining and manufacturing and falling foreign direct investment (FDI). Preliminary estimates indicate a sharp decrease in FDI inflows to Africa by over a third (see chapter "External financial flows to Africa"). The decline in commodity prices reduced investment in mining sectors, which are often those where most foreign investment inflows to Africa have historically been concentrated. In contrast, in several countries public investment and public consumption increased as a result of fiscal stimulus programmes. The weakening of exports and domestic demand, together with exchange rate depreciations in some countries, led to a sharp decline in imports. As import volumes declined more than export volumes, the real foreign balances of African countries improved (on average), thus mitigating the adverse effect from weaker aggregate demand on domestic output.

Box 1: Remittances to African countries

Workers´ remittances are an important source of income for many African countries. With labour markets deteriorating everywhere, many workers were forced to cut the transfers to their families, with potentially large impacts on household income and consumption at home and – through lower consumption and import taxes – also on government revenue. A number of African countries appear to be particularly remittances-dependent.

It is, however, notoriously difficult to measure remittances as a good part is transferred informally and does not appear in official balance-of-payments statistics. According to the World Bank, remittances-to-GDP ratios (prior to the crisis) were between approximately 8% and 11% in Nigeria, Sierra Leone, Togo, Guinea-Bissau, Senegal, Cape Verde and Morocco. Gambia, Egypt, Sudan, Comoros, and Uganda followed, with ratios between approximately 5% and 7%; in 2008 Lesotho, with 27%, had the highest remittances-to-GDP ratio in Africa, with remittances mainly received from neighbouring South Africa (World Bank, 2009a).

When measured in absolute amounts, in 2008 Nigeria and Egypt belonged to the top worldwide recipients of remittances, with inflows of USD 10 billion to Nigeria and USD 9 billion to Egypt. Initial results (or estimates) for 2009 show that some countries experienced sharp falls in remittances, while others were less affected by the crisis.

In Egypt and Morocco, remittances appear to have declined by about 20% in the first nine months of 2009. In Kenya, remittance inflows declined by 8.5% in the first seven months of 2009 against the previous year. Senegal, Lesotho, Sierra Leone, Ethiopia, Liberia, Mauritius and Mozambique also suffered from falling remittances. In Cape Verde, remittances remained very stable in 2009 or may even have increased marginally. Significant increases are reported for Uganda from July 2008 to June 2009. According to World Bank estimates, remittances to African countries declined from almost USD 41 billion in 2008 to above USD 38 billion in 2009 (minus 6.6%).

The decline was more pronounced in North Africa than in sub-Saharan Africa. The actual decline of remittances in 2009 could, perhaps, have been even stronger than this estimate.

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Table 1.1: Workers remittances to African countries (in billion USD)

	2003	2004	2005	2006	2007	2008	2009
Africa	15.6	19.5	22.5	26.6	39.9	40.8	38.1
Sub-Saharan Africa	6.0	8.0	9.4	12.6	18.6	21.1	20.5
Norte de África	**9.6**	**11.5**	**13.1**	**13.9**	**18.3**	**19.7**	**17.6**

Source: World Bank.

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The global crisis has brought poverty reduction to a halt

The economic downturn was less pronounced in Africa than in some other emerging economies, such as those in Latin America and eastern Europe. This is commendable given the generally lower living standards in Africa. One reason the African economy has been more resilient to the global crisis is its lower integration with international markets. Although this was an advantage during the global recession, the lower international integration is also one of the reasons why in the past Africa's growth performance has lagged behind that of other emerging economies.

When comparing growth trends between countries or continents, one should also consider demographic differences. The continent of Africa has the fastest growing population in the world. In 2009 Africa's population has continued to increase by 2.3% to above 1 billion. With a growth of real GDP of only 2.5%, the increase of average living standards (as measured by GDP per capita) was brought to a near halt, and several countries suffered declining per capita GDP. Because of the sharp decline in export prices, the terms of trade deteriorated in many African countries so that their per capita national income weakened even more than per capita GDP. The terms-of-trade deterioration implies that countries have become poorer than suggested by the development of output because they have to deliver more export volumes for a given amount of import volumes[5]. Thus, in 2009 both the weaker output growth and the deterioration of the terms of trade had a significant adverse effect on income in Africa.

During the period of relatively high growth prior to the global crisis and before the surge in food prices, poverty had declined in many African countries. In several countries, owing to the persisting unemployment and highly unequal income distribution, the poor did not, however, benefit from GDP growth. Although the decline of food prices from their peak in mid-2008 brought some relief, this was offset by the economic slowdown which caused job losses, wage reductions and lower remittances from abroad. No 2009 data on poverty are yet available, but the near stagnation of average living standards in Africa and their decline in several countries suggests that poverty levels have increased (see Box 1.2). The job losses during the recession not only affected the very poor but also the urban middle class, notably in central and southern Africa. However, in countries where growth of GDP per capita was sustained despite the global recession, such as in Malawi, poverty has further declined. The government of Malawi estimates that poverty headcount has fallen from 52.4% in 2005 to 40% in 2009.

Box 1.2: Growth and poverty

While 2009 poverty data are not yet available, the near stagnation of GDP in Africa and its decline in many countries suggest that poverty rates have increased after a declining trend prior to the global crisis. The relationship between economic growth and poverty is, however, complex and controversial. While economic growth appears to be a precondition for poverty reduction, it is by no means sufficient. For governments to be able effectively to undertake pro-poor strategies, the quality of growth matters as much as its intensity.

The assessment of poverty also depends on how it is measured. A falling share of the poor in population (headcount poverty rate) does not necessarily mean that the number of poor people is falling. In fact, the headcount number may still increase together with the population. The relationship between GDP and poverty in African countries, as measured by the poverty index based on people living below USD 1 a day (% of population), is generally negative. In other words, a lower GDP per capita tends to be associated with a higher poverty rate (Figure 1.11). Also, since the second half of the 1990s poverty in Africa (again measured by this index) declined (Figure 1.12).

High growth is assumed to enhance an economy's productivity and its capacity to create jobs, while unlocking public funds for the delivery of public services and effective social safety nets. However, while growth does affect poverty, many factors are at play.

The economic literature describes a relationship that is neither simple nor straightforward. Even when growth is positive, poverty

may worsen if food and energy prices rise, which disproportionally affect the poor, as was the case in 2008. The relation may also be affected by an inverted causality, where poverty affects growth (Lopez and Servén, 2009). Initial income distributions deeply affect outcomes: where inequality is particularly high, it takes higher and more sustained growth rates to reduce poverty (Bourguignon, 2003; Ravallion, 2004; Kraay, 2005). Nevertheless, the impact of growth on poverty can be maximised if it is concentrated in sectors that employ the poor. In Africa, agricultural growth benefits the poorest more than growth in manufacturing or services (Gallup *et al.*, 1997). Institutions and policy clearly have a key role to play in broadening the positive impact of growth (North, 2005).

In the framework of the Millennium Development Goals (MDGs), it was calculated that Africa needs to grow by 7% or more to halve poverty from 1990 and 2015. However, even assuming this growth target is attained, without effective pro-poor growth strategies, even that level of growth may not be enough. Although some countries, such as Tunisia, Morocco and Ghana, have performed extremely well in capitalising on growth to reduce poverty, growth in most countries for which data are available has at best triggered a less than proportional reduction in headcount poverty[6]. This is especially the case when aggregate GDP growth is disconnected from household income evolution. In the absence of drivers of growth conducive to poverty reduction, poverty can only be lowered through effective redistributive public policies.

Poverty is both much higher and much more resistant to growth in Africa than anywhere else. The mean poverty rate in terms of headcount index for sub-Saharan Africa (SSA) remains nearly four times that of non-SSA developing countries' trends (Ravallion, 2009). Similarly, the Poverty Gap Index is more than five times higher and the Poverty Severity Index more than six times higher than in non-SSA developing countries (Fosu, 2009). Furthermore, the elasticity of poverty to growth is estimated to be significantly lower for SSA than for non-SSA developing countries. Besley and Burgess (2003) and Kalwij and Verschoor (2007) find that poverty is twice as responsive to economic growth in East Asia than in the SSA region. Similarly, Fosu (2009) finds that on average the same growth rate accompanying a 1% decrease in the USD 1 headcount poverty index in non-SSA is associated in SSA with a mere 0.39% reduction.

The global crisis of 2009 has probably increased the number of people living below national poverty lines. Ravallion (2009) estimates that the recent crisis may have increased the number of people living with less than USD 1.5 a day by 50 million in 2009 and by 39 million people more in 2010. The poorest of the poor may in fact escape the crisis, due to their reliance on subsistence agricultural activities or local retail commerce, which the overall economic environment seldom affects. Most vulnerable are those living just above the poverty line, or employed in the formal sector related to mineral commodities, manufacturing or services, or in public administration.

The sharp decrease in government revenue stemming from the crisis and fiscal stabilisation programmes may have also affected the non-income dimensions of poverty through the provision of public services. Lower public service delivery may trigger lasting effects even on the poorest, with school dropouts and poor health likely to lead to lower future earnings as adults (Development Research Group, 2008).

As the weakening of the economies in 2009 has (most likely) increased poverty in Africa, the prospect of an economic recovery in 2010 and 2011 should, in principle, be good news for the poor. However, not only is growth likely to be lower than before the crisis, but the stubbornly high levels of poverty reflect high inequality in many countries, which raises urgent questions about Africa's development pattern.

Overall, growth in Africa remains linked to commodity booms, especially hard commodities, which has brought few benefits in terms of job creation and poverty reduction. Public pro-poor policies therefore remain crucial for translating aggregate GDP growth into real increases in available income for the majority. Such real increases could include improving access to land, enhancing labour and capital markets, and promoting investment in basic social services, social protection and infrastructure. To mobilise the necessary revenues, governments need to improve the effectiveness of their tax collection systems, the subject of this year's special focus of the *Outlook* (See Part II).

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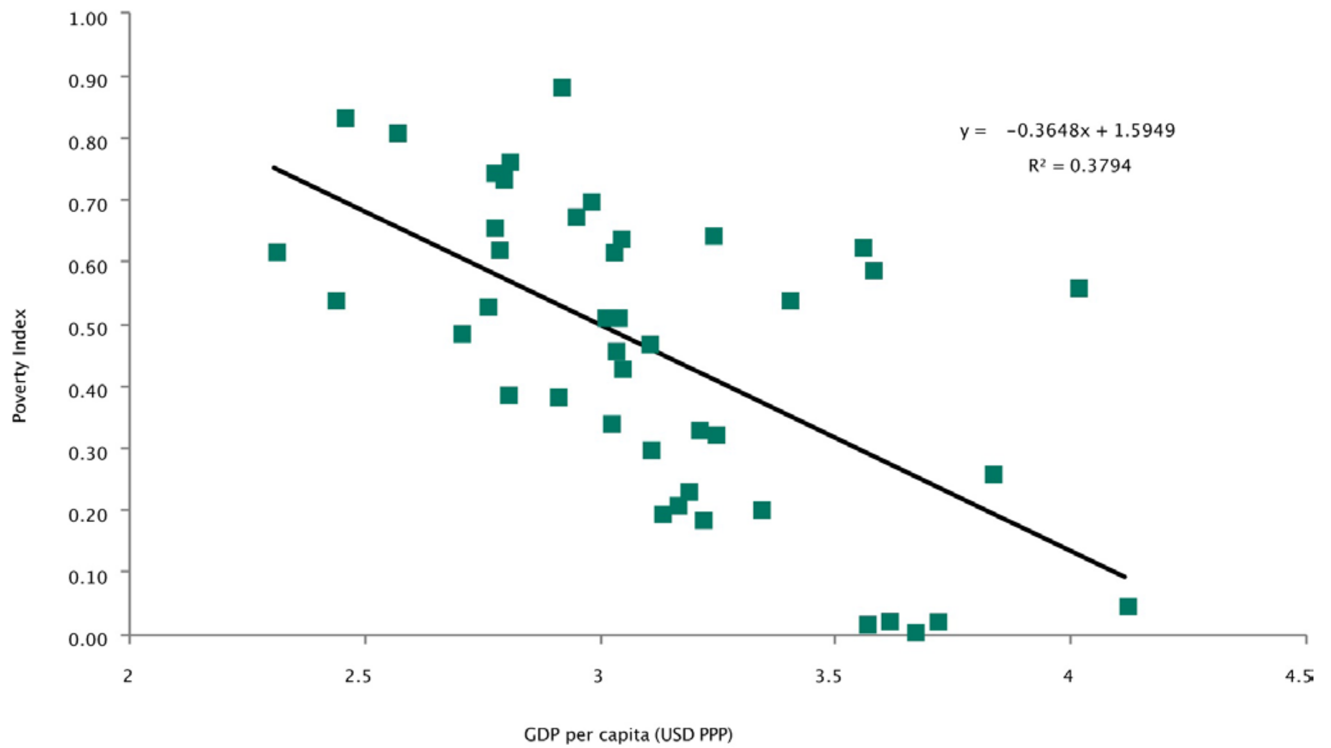
Figure 1.11 -- Poverty index by GDP PPP



Source: African Development Bank.

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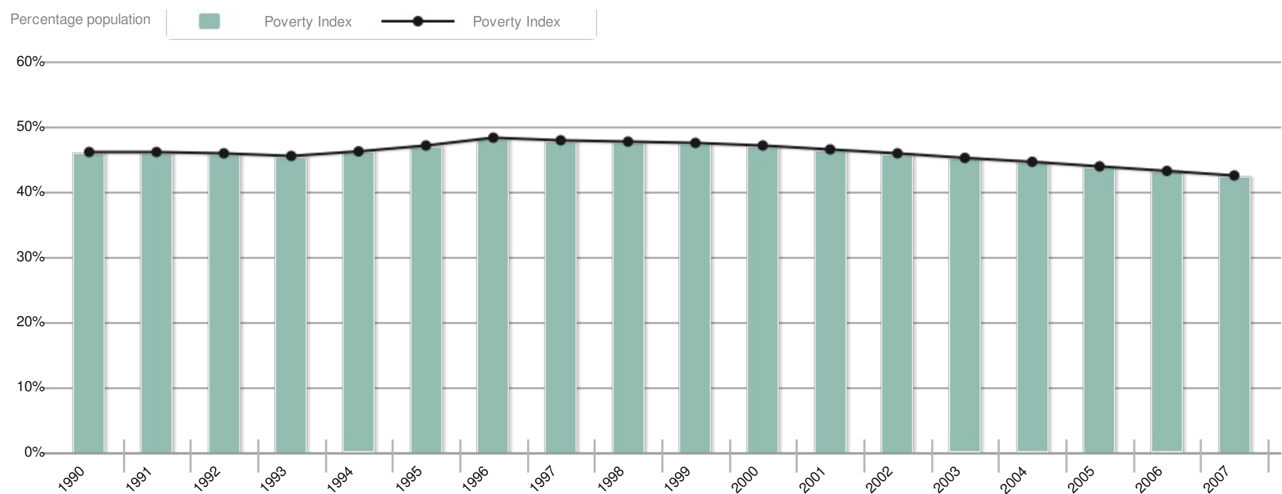
Figure 1.12: Development of poverty in Africa



Source: African Development Bank.

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The lowering of consumer price inflation has brought some relief

The decline in food and energy prices, together with the weakening of demand, has reduced inflationary pressures in most African countries. The median inflation rate declined from 10.5% in 2008 to 5.9% in 2009. Central banks have therefore been able to loosen monetary policies. In the meantime, food and energy prices are creeping up again. Towards the end of 2009, the West African Economic and Monetary Union (WAEMU)[7] had achieved on average its reference inflation target of 3%. However, in Niger inflation was (at almost 6%) well above this target. Several other African countries also missed their inflation objectives. Among the countries of this report, inflation was highest in the Democratic Republic of Congo, where it accelerated from 18% in 2008 to 44% in 2009 owing to excessive liquidity creation and the sharp fall of the exchange rate.

External positions have deteriorated all over Africa

The fall in commodity prices and export volumes led to a worsening of trade and current account balances in 2009. Despite this deterioration, foreign reserves continued to grow in many countries, although at declining rates. However, several countries, such as Angola, Nigeria, Sudan, Equatorial Guinea and Chad lost significant amounts of foreign reserves. Because in many African countries both current account balances and fiscal balances deteriorated at the same time, twin deficits emerged. However, the causal relationship went from the current account to the fiscal balance rather than vice versa as the twin-deficit hypothesis states[8]. Indeed, in many African countries, the decline in commodity prices was a major cause for both the worsening of the current account and – through lower government revenues – the worsening of the government budget. If these deteriorations remain temporary they should not raise concerns. Nevertheless, sustaining large fiscal and current account deficits would be problematic because it would lead to higher interest rates and make currencies vulnerable to changes in market perceptions.

African economies will gain strength in 2010 and 2011

In the course of 2009, the world economy has resumed positive growth, world trade has picked up and commodity prices have rebounded from their troughs. This forecast assumes that the global recovery will continue at a moderate pace in 2010 and 2011 and that prices of oil and non-oil commodities will remain at satisfactory levels. After falling by 2.5% in 2009, export volumes of African countries are expected to increase on average by 3.2% in 2010 and by 5% in 2011. However, as commodity exports to a large degree drive Africa's economic recovery, this recovery is not broad-based. Investment activity will recover only moderately, and private consumption will remain weak in many countries as employment, wages and remittances are only gradually picking up and as in some countries households remain highly indebted. Special factors will boost growth in several countries. These factors include new investment and/or new production of oil and gas in Chad and Ghana, and of uranium in Namibia; the upcoming football World Cup will support growth in South Africa. Africa's real GDP is expected to grow on average by 4.5% in 2010 and by 5.2% in 2011. While this is a clear improvement from sluggish growth in 2009, growth remains lower than in years prior to the global crisis.

Inflation is projected to slow further from an average of around 10% in 2009 to 7.7% in 2010 and to 7% in 2011 and median inflation is expected to further decline from 5.9% in 2009 to 5.4% in 2010 and 5.2% in 2011. Among the 50 African countries covered in this report, the majority will record inflation rates between around 2% and around 5% in 2010/11. In a few countries, such as Egypt, Angola and Ghana, inflation is expected to remain relatively high, between 10% and 15%. The Democratic Republic of Congo will continue to record the highest inflation (25% in 2010 and 18% in 2011, down from 44% in 2009). Because in most countries inflationary pressures are expected to remain subdued, there is no need for monetary authorities to tighten vigorously so that interest rates will remain lower than before the global crisis. Nonetheless, with the strengthening of the economies, central banks are expected to raise interest rates gradually.

The recovery of the economies will boost government revenues. This, together with the gradual phasing out of stimulus programmes, will reduce ***fiscal deficits*** from an average of 4.4% of GDP in 2009 to 3.3% of GDP in 2010 and 1.9% of GDP in 2011. In some oil-producing countries, such as Libya, the Democratic Republic of Congo and Equatorial Guinea, fiscal surpluses will increase again to between around 15% and 25% of GDP; Angola will continue to record a fiscal deficit, which will, however, decline during 2010/11. By 2011, two-fifths of the countries are likely to record deficits of only around 3% of GDP or less, or achieve surpluses. But in several countries, fiscal deficits remain high, and more fiscal consolidation is desirable to prevent current cyclical deficits from becoming structural and putting fiscal sustainability at risk. For example, in Egypt, Kenya and Burundi, fiscal deficits are expected to remain above 6% of GDP, and in Chad, Swaziland and Lesotho above 10% of GDP. In Swaziland and Lesotho, the major cause for the high deficits is the expected declines in revenue from the Southern African Customs Union (SACU).

With the recovery of the global economy, African trade and current account balances are expected to improve gradually. But external positions vary widely across the continent. Oil-exporting countries benefit from the recovery of oil prices. Some of these countries, such as Libya, Equatorial Guinea, Nigeria and Gabon, are expected to record high current account surpluses of between around 15% and 37% of GDP by 2011. In contrast, a few African countries (Seychelles, Chad, Gambia, and São Tomé and Principe) are likely to run current account deficits between around 20% and 32% of GDP. In Liberia the deficit is expected to remain above 50% of GDP.

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Economic growth remains uneven within Africa

In the three years prior to the global recession, African countries had achieved an average annual growth of around 6%. Growth was highest in eastern Africa (8.2%), followed by southern Africa (6.7%), western Africa (5.5%), north Africa (5.4%), and central Africa (4.9%). Rising oil and non-oil commodity exports boosted growth during this period. The oil-exporting countries of Angola and Equatorial Guinea had achieved the highest growth. Among the non-oil exporters, growth was highest in Ethiopia. During this period, most African countries achieved average annual growth of around 5% or higher, and GDP per capita growth of at least 2.5%. There were, however, some exceptions, with much lower growth and with stagnating or declining GDP per capita. Zimbabwe and Eritrea were the only African countries during this period with declining GDP and with sharp falls in GDP per capita. In Zimbabwe, political and economic problems continued into 2009 with rampant inflation leading to a currency crisis. As a result, the Zimbabwean dollar has effectively ceased to be used as currency and has been replaced by the US dollar and the South African rand. (Neither Zimbabwe nor Eritrea is included in this report's country analysis.)

The global crisis of 2009 affected all regions and countries in Africa but to different degrees. It had its strongest effect on the southern African region, where growth was slashed (from the preceding three years' average) by almost 8% to a negative growth of around 1%. Eastern African and north African economies proved to be the most resilient regions and – despite some deceleration of growth – continued to expand by 5.75% and 3.75% in 2009. Growth declined to 3% in western Africa and to around 2% in central Africa. In most African countries, GDP continued to grow in 2009, albeit at a lower rate. However, in 10 of this report's 50 African countries (Seychelles, Madagascar, Botswana, South Africa, Namibia, Mauritania, Gabon, Niger, Chad and Angola), GDP declined in 2009. In half of all countries, per capita GDP stagnated or fell. In contrast, several countries, notably Ethiopia, Republic of Congo and Malawi, achieved relatively high growth in 2009 despite the global recession.

Prospects are for a gradual recovery in all African regions, although the recession will leave its mark. The southern African region, which has been hardest hit in 2009, will recover more slowly than the other regions. Its average growth is expected to be almost 4% during 2010/11. In central Africa, growth will be slightly above 4% during the forecasting period; in north Africa and west Africa, average growth is expected to amount to around 5%. Eastern Africa, which has best weathered the global crisis, is likely again to achieve the highest average growth in 2010/11, with above 6%. Among individual countries, Ethiopia is likely again to lead the African growth league, followed by Angola, Uganda, the Democratic Republic of Congo and Ghana. In a few countries, however, growth is expected to remain too low to lift per capita GDP noticeably, and in Madagascar GDP per capita is likely to continue to decline as a result of the aftermath of the political crisis (Figures 1.13 and 1.14 and Table 1.1).

Risks and major policy challenges for African economies

This forecast for Africa rests on several assumptions, which may turn out to be too optimistic or too pessimistic. It has been assumed that the world economy and world trade will recover but at a moderate speed, and that prices of oil and non-oil commodities will remain close to current levels. However, there are both upside and downside risks to this forecast. On the upside, the global recovery may be stronger than expected. Indeed, several international indicators improved significantly towards the end of 2009, and confidence has continued to increase in many countries in early 2010. A stronger global growth would also boost Africa's growth. With stronger global growth, the price of oil and non-oil commodities would probably also be higher than assumed here. This would benefit African producers of oil and non-oil commodities while constraining growth in oil-importing African countries. Furthermore, a higher oil price would again make biofuel production more profitable and reduce food supply, thus contributing to higher food prices and more inflationary pressures than assumed here.

On the downside, the global recovery could also be weaker than assumed here. Uncertainties persist about the size of remaining problems in advanced countries' banking sectors and about how these will be solved. There is a risk that banks will be reluctant to extend loans to private investors, which would constrain the global recovery more than assumed here. There is also a risk from how fiscal and monetary policies manage the exit from currently highly expansionary policies into a more neutral stance as the recovery proceeds. Exiting too early could lead to double-dip recession, but exiting too late could undermine credibility and nurture inflation.

Besides these external risks, upside and downside risks also exist inside Africa. The forecasts in some African countries with large agricultural sectors depend also on weather conditions. Here, there is a risk that our technical assumption of normal conditions turns out to be too pessimistic or too optimistic. There is also a risk that in some countries social discontent and political tensions will continue or newly emerge and reduce growth.

African policy makers must be aware of these global and domestic risks. Given the many uncertainties and the generally relatively low speed of economic recovery, it is important to ensure stability and further improve framework conditions for economic and social progress. Many structural problems existed even before the global crisis. These structural problems, such as in health, education, energy and transport sectors, have reduced growth potential and led to inequalities. The weakening of the economies has made it even more pressing to address them. More progress is also needed in fighting corruption, which is pervasive in several countries.

Over the longer term, Africa also faces the tough challenge of prospective climate change. An important step was that the international community has made clear commitments to support Africa in dealing with this challenge. It is crucial that policies are successfully implemented to help alleviate the costs of climate change in Africa and world wide. This would also help to keep African economies on a sustainable growth path (see Box 1.3).

Box 1.3: Climate change challenges and economic development in Africa

Africa is expected to return to higher economic growth after the current cyclical economic downturn. However, the continent continues to face multiple challenges in sustaining high growth and improving living conditions for its growing population. Even in the absence of climate change, Africa's economic growth would still have to contend with the challenges of rapid urbanisation, high levels of poverty and conflicting geo-political influences. In addition to these, the continent now has to deal with the dual challenges of adapting to climate change with limited resources while taking a low-carbon development path without compromising economic growth and development.

Despite their minor historical role as emitters of greenhouse gases responsible for anthropogenic global warming (World Bank, 2009b), developing countries together are projected to bear from 75% to 80% of the cost of climate-change-related damages. The impact of climate change on Africa is likely to be severe due to high dependency on rain-fed agriculture, a rapidly growing population and the limited capacity to adapt. It is estimated that a 2 ^{0}C temperature rise above pre-industrial levels could result in a permanent reduction in GDP of 4% to 5% for Africa and South Asia (Stern, 2006). Climate change is likely to disproportionately affect developing countries and more so the poorest people within those countries. Strong and immediate action is therefore needed for both climate change mitigation and adaptation[9].

Meeting the cost of climate change adaptation and mitigation requires substantial financial resources that are beyond Africa's financial ability. The Copenhagen Accord pledges to mobilise new, additional and predictable funding to developing countries to the tune of USD 30 billion for the period 2010-12 to support action on mitigation, adaptation and technology transfer. Moreover, developed countries have committed to jointly raising USD 100 billion per year by 2020 to address these needs (UNFCCC, 2009). However, this accord still remains a political agreement until such a time as it will be adopted and ratified as a legal contract among nations. Whether this amount is adequate to bridge the gap remains an issue of concern, with estimates for climate change adaptation from sources including the World Bank, UNDP and Oxfam ranging between USD 9 billion and USD 109 billion per year (Agarwala and Fankhauser, 2008). A recent study proposes that even the UNFCCC estimate of USD 49 billion to USD 171 billion per year may be an underestimation by a factor of two to three (Parry *et al*., 2009). These estimates are fraught with great uncertainties and subjectivity, but what is indisputable is that substantial financial resources for climate change are needed if Africa is to remain on a sustainable economic growth trajectory. If realised, these resources could boost growth through clean energy infrastructure investment and – more importantly – alleviate the effects of climate change. This will, in turn, secure longer-term economic and social development in Africa.

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Figure 1.13: Growth of GDP (%)

2006-08

Angola
Equatorial Guinea
Ethiopia
Sudan
Rwanda
Malawi
Cape Verde
Liberia
Uganda
Mozambique
Tanzania
Egypt
Ghana
Gambia, The
Niger
São Tomé & Príncipe
Nigeria
Madagascar
Zambia
Congo, Dem. Rep.
Sierra Leone
Seychelles
Tunisia
Mauritania
Morocco
Namibia
Djibouti
Libya
Kenya
South Africa
Mali
Mauritius
Burkina Faso
Benin
Lesotho
Burundi
Botswana
Congo
Central African Rep.
Senegal
Cameroon
Guinea
Swaziland
Gabon
Togo
Algeria
Guinea-Bissau
Côte d'Ivoire
Comoros
Chad
Eritrea
Zimbabwe

-15 -10 -5 0 5 10 15

2009

Ethiopia
Congo
Malawi
Uganda
Zambia
Tanzania
Mozambique
Morocco
Sudan
Gambia, The
Djibouti
Egypt
Ghana
Rwanda
Mali
Liberia
São Tomé & Príncipe
Cape Verde
Côte d'Ivoire
Sierra Leone
Burundi
Tunisia
Burkina Faso
Nigeria
Benin
Guinea-Bissau
Mauritius
Congo, Dem. Rep.
Kenya
Togo
Algeria
Libya
Cameroon
Central African Rep.
Senegal
Comoros
Lesotho
Guinea
Equatorial Guinea
Swaziland
Angola
Chad
Niger
Gabon
Mauritania
South Africa
Namibia
Botswana
Madagascar

-10 -5 0 5 10

2010-11

Ethiopia
Angola
Uganda
Congo, Dem. Rep.
Ghana
Liberia
Congo
Malawi
Mozambique
Zambia
Tanzania
Cape Verde
Egypt
Libya
Gambia, The
Rwanda
Mali
Nigeria
São Tomé & Príncipe
Burkina Faso
Sudan
Djibouti
Mauritania
Morocco
Sierra Leone
Mauritius
Guinea
Tunisia
Côte d'Ivoire
Algeria
Niger
Cameroon
Seychelles
Kenya
Senegal
Burundi
Central African Rep.
Guinea-Bissau
Benin
Namibia
Botswana
Chad
Gabon
Togo
South Africa
Lesotho
Comoros
Equatorial Guinea
Swaziland
Madagascar

0 2 4 6 8 10

Source: African Development Bank.

StatLink http://dx.doi.org/10.1787/850122862226

Figure 1.14: Growth of per capita GDP (%)

2006-08

Angola
Equatorial Guinea
Ethiopia
Sudan
Cape Verde
Rwanda
Malawi
Seychelles
Egypt
Mozambique
Uganda
São Tomé & Príncipe
Tunisia
Ghana
Morocco
Mauritius
Tanzania
South Africa
Nigeria
Liberia
Zambia
Lesotho
Djibouti
Gambia, The
Namibia
Madagascar
Libya
Congo, Dem. Rep
Sierra Leone
Mauritania
Botswana
Mali
Kenya
Niger
Congo, Rep.
Central African Rep.
Swaziland
Burkina Faso
Benin
Burundi
Gabon
Algeria
Guinea
Cameroon
Senegal
Togo
Guinea-Bissau
Côte d'Ivoire
Comoros
Chad
Eritrea
Zimbabwe

-15 -10 -5 0 5 10 15

2009

Ethiopia
Congo
Malawi
Morocco
Uganda
Zambia
Mozambique
Djibouti
Egypt
Sudan
Tanzania
Ghana
São Tomé & Príncipe
Cape Verde
Mauritius
Gambia, The
Tunisia
Mali
Rwanda
Côte d'Ivoire
Sierra Leone
Guinea-Bissau
Algeria
Nigeria
Burundi
Lesotho
Liberia
Central African Rep.
Libya
Congo, Rep
Benin
Kenya
Cameroon
Togo
Burkina Faso
Comoros
Senegal
Swaziland
Guinea
Equatorial Guinea
South Africa
Gabon
Angola
Chad
Mauritania
Namibia
Niger
Botswana
Madagascar
Seychelles

-10 -5 0 5

2010-11

Ethiopia
Ghana
Angola
Congo, Dem. Rep
Cape Verde
Congo, Rep
Uganda
Egypt
Mauritius
Liberia
Libya
Mozambique
Seychelles
Morocco
Zambia
Malawi
Tunisia
São Tomé & Príncipe
Djibouti
Gambia, The
Tanzania
Nigeria
Sudan
Algeria
Mali
Mauritania
Rwanda
South Africa
Sierra Leone
Lesotho
Botswana
Côte d'Ivoire
Cameroon
Central African Rep.
Guinea
Namibia
Burkina Faso
Guinea-Bissau
Burundi
Gabon
Senegal
Kenya
Swaziland
Togo
Benin
Chad
Comoros
Niger
Equatorial Guinea
Madagascar

-2 0 2 4 6 8

Source: African Development Bank.

StatLink http://dx.doi.org/10.1787/850164772188

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Table 1.2: Macroeconomic developments in Africa

	March	2010	estimates		May 2009 estimates			Difference from AEO May 2009 estimates		
	2008	2009(e)	2010(p)	2011(p)	2008(e)	2009(p)	2010(p)	2008(e)	2009(p)	2010(p)
Real GDP Growth (%)										
Central Africa	4.8	1.7	4.4	4.4	4.5	2.0	3.2	0.3	-0.3	1.2
Eastern Africa	7.2	5.8	6.2	6.4	7.2	5.1	5.5	0.0	0.7	0.7
Northern Africa	5.3	3.8	4.8	5.4	5.6	3.5	4.1	-0.3	0.3	0.7
Southern Africa	5.4	-1.1	3.4	4.3	5.1	-1.0	3.6	0.2	-0.1	-0.2
Western Africa	5.5	3.0	4.4	5.5	4.8	3.3	3.4	0.8	-0.3	1.0
Africa	5.6	2.5	4.5	5.2	5.5	2.3	4.0	0.1	0.2	0.5
Memorandum items										
North Africa (including Sudan)	5.4	3.8	4.8	5.3	5.9	3.6	4.2	-0.4	0.2	0.6
Sub-Saharan Africa	5.7	1.6	4.3	5.2	5.2	1.4	3.8	0.5	0.2	0.5
Oil-exporting countries	6.0	3.1	4.9	5.5	6.3	2.5	4.1	-0.3	0.6	0.9
Oil importing countries	5.0	1.8	4.0	4.8	4.5	2.1	3.8	0.5	-0.3	0.2
Consumer Prices (Inflation in %)										
Central Africa	7.7	10.0	6.2	5.0	8.7	6.6	6.2	-0.9	3.4	-0.1
Eastern Africa	16.6	16.1	8.3	8.1	17.8	10.2	8.0	-1.2	5.9	0.3
Northern Africa	8.0	9.1	7.8	7.1	8.1	8.1	5.4	-0.1	1.0	2.5
Southern Africa	11.6	8.2	7.5	6.7	15.1	8.4	7.2	-3.5	-0.2	0.3
Western Africa	11.2	9.7	7.8	7.1	10.6	8.5	7.9	0.7	1.2	-0.2
Africa	10.6	9.9	7.7	7.0	11.6	8.4	6.7	-1.0	1.5	1.0
Memorandum items										
North Africa (including Sudan)	8.5	9.2	7.9	7.2	8.6	8.1	5.5	-0.1	1.1	2.4
Sub-Saharan Africa	12.0	10.3	7.6	6.9	13.8	8.6	7.5	-1.8	1.7	0.0
Oil-exporting countries	10.0	11.3	9.2	8.1	10.0	9.5	7.2	0.0	1.8	2.1
Oil importing countries	11.3	8.2	5.9	5.8	13.5	7.1	6.1	-2.2	1.1	-0.2
Overall Fiscal Balance. Including Grants (% GDP)										
Central Africa	10.3	3.2	6.4	3.4	11.4	2.8	3.7	-1.1	0.4	2.6
Eastern Africa	-2.6	-3.3	-3.5	-3.7	-2.3	-4.9	-5.3	-0.4	1.6	1.8
Northern Africa	3.8	-4.0	-3.2	-1.4	5.5	-5.5	-5.3	-1.7	1.5	2.1
Southern Africa	0.9	-6.7	-5.5	-3.6	3.0	-5.7	-5.9	-2.0	-0.9	0.4
Western Africa	1.5	-4.5	-3.1	-1.0	-0.9	-9.4	-10.8	2.4	4.9	7.7
Africa	2.2	-4.4	-3.3	-1.9	3.0	-5.8	-6.1	-0.8	1.4	2.7
Memorandum items										
North Africa (including Sudan)	3.3	-4.0	-3.2	-1.5	5.1	-6.0	-5.8	-1.7	2.0	2.6
Sub-Saharan Africa	1.5	-4.7	-3.4	-2.2	1.8	-5.7	-6.2	-0.2	1.0	2.8
Oil-exporting countries	5.2	-3.9	-2.1	-0.4	6.1	-8.1	-8.2	-1.0	4.3	6.1
Oil importing countries	-1.6	-5.0	-4.9	-3.8	-1.3	-2.9	-3.2	-0.3	-2.2	-1.7
External Current Account. including grants (%GDP)										
Central Africa	-0.1	-6.7	-1.2	-1.6	8.3	-4.1	-3.1	-8.4	-2.6	1.9
Eastern Africa	-8.5	-7.5	-9.1	-8.9	-6.2	-7.7	-8.4	-2.3	0.3	-0.7
Northern Africa	10.6	-0.9	4.0	5.0	11.6	1.2	0.8	-1.0	-2.1	3.2
Southern Africa	-3.5	-4.9	-4.4	-4.6	-1.9	-9.7	-10.0	-1.6	4.8	5.5
Western Africa	9.8	0.4	4.6	6.2	-0.9	-9.6	-9.2	10.7	10.0	13.8
Africa	3.8	-2.9	0.0	0.6	3.2	-5.3	-5.4	0.6	2.4	5.4
Memorandum items										
North Africa (including Sudan)	8.7	-1.7	2.9	3.8	10.3	-0.2	-0.8	-1.5	-1.5	3.7
Sub-Saharan Africa	0.6	-3.7	-2.0	-1.7	-1.2	-8.6	-8.4	1.8	4.9	6.4
Oil-exporting countries	12.0	0.1	5.5	6.5	10.5	-4.2	-4.3	1.4	4.3	9.8
Oil importing countries	-6.8	-6.3	-6.8	-6.8	-7.0	-6.7	-6.9	0.2	0.4	0.1

Note: e : estimates; p : projections. Source: African Development Bank. Statlink: http://dx.doi.org/10.1787/855475233550

Notes

[1] Countries that have met the criteria and are receiving full debt relief (post-completion point countries): Benin, Burkina Faso, Burundi, Cameroon, Central African Republic, Ethiopia, Gambia, Ghana, Madagascar, Malawi, Mali, Mauritania, Mozambique, Niger, Rwanda, São Tomé & Principe, Senegal, Sierra Leone, Tanzania, Uganda and Zambia. Countries that have reached their decision points and (some of them) are receiving interim debt relief: Chad, Republic of Congo, Democratic Republic of Congo, Côte d´Ivoire, Guinea, Guinea-Bissau, Liberia and Togo.

[2] A number of African countries (such as Burundi, Djibouti, Mali, Niger, Benin, Burkina Faso, Central African Republic, Guinea, Madagascar, Malawi and Tanzania) have received or requested IMF assistance under the Exogenous Shocks facility (ESF).

[3] The AfDB established an Emergency Liquidity Facility (ELF) of 1.5 billion US dollars (USD) and a Trade Finance Initiative (TFI) of USD 1 billion.

[4] It has been estimated that with current technologies, at oil prices above USD 50 per barrel, it is profitable to transform maize into ethanol and that above that price every percentage increase in the oil price increases the price of maize by 0.9% (World Bank, 2008).

[5] A measure that adjusts GDP by the terms of trade effect is the so-called command GDP (measuring the resources over which a country can "command"). It is derived by deflating nominal exports by import prices rather than by export prices.

[6] Considering the international poverty line of USD 2 a day.

[7] The WAEMU member countries are Benin, Burkina Faso, Côte d´Ivoire, Guinea-Bissau, Mali, Niger, Senegal and Togo.

[8] The twin-deficit hypothesis states that a higher fiscal deficit leads to lower savings (both private and public) and – if this is not accompanied by lower investment – to a higher current balance deficit.

[9] The Intergovernmental Panel on Climate Change (IPCC) defines climate change mitigation as 'An anthropogenic intervention to reduce the sources or enhance the sinks of greenhouse gases' and climate change adaptation as 'an adjustment in natural or human systems in response to actual or expected climatic stimuli or their effects, which moderates harm or exploits beneficial opportunities.'

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External Financial Flows to Africa

Foreign direct investment (FDI) can be a major source of growth. It increases activity not only of FDI-beneficiary firms but the effect can also be spread to other firms and sectors through technological spillover and increased competition, thus raising productivity for the whole economy. Many African governments have implemented investment-friendly frameworks to attract more foreign investment. Nonetheless, most foreign investment in Africa goes to extractive industries in a relatively limited group of countries. Thus, the broader development impact of FDI-backed projects is often limited. Attracting investment into diversified and higher value-added sectors remains a challenge for Africa. However, constraints on investment such as weak infrastructure and fragmented markets also adversely affect FDI flows to Africa.

Official Development Aid (ODA) to Africa appears to have been broadly sustained during the global crisis. In the years before the crisis, ODA had declined from its peak in 2005 but this peak was exceptional as it included large debt relief operations. Prospects for meeting the Group of Eight (G8) target of increasing aid to poor countries by 50 billion US dollars (USD) from 2004 to 2010 will depend on sharply accelerating growth in core development aid.

Direct investment inflows

Leading up to the financial crisis FDI inflows to Africa had been rising strongly since 2002, reaching USD 88 billion over 2008, a 27% increase on 2007 and their highest historical level. Behind the rise in FDI up to 2008 lay the surge prices for raw materials, particularly oil, which triggered a boom in commodity-related investment. However, the global crisis led to a considerable slowdown in the second half of 2008, which continued and accelerated through 2009. The crisis lowered demand for Africa's commodities, which has reduced capital investment in those sectors and countries where most foreign investment has historically been concentrated. Preliminary estimates for 2009 indicate a sharp fall in FDI to Africa of 36% (echoing an overall fall in FDI to developing economies by 34% over the same period) (Figure 2.1). As FDI is a major source of investment in Africa, such a precipitous drop affected Africa's overall investment levels much more than other developing regions.

Cross-border mergers and acquisitions (M&A) rose sharply in the first half of 2008, before the fall in commodity prices and the onset of the global financial crisis. Nevertheless, cross-border M&A reached USD 21 billion in 2008, its highest level. Preliminary figures for 2009 indicate that cross-border M&A in Africa fell by a precipitous 73%, to USD 5.7 billion. This echoes a global fall in mergers and acquisitions of 66%. M&A activity in Egypt dropped by 90% and in South Africa by 37% in 2009.

In 2008, sub-Saharan Africa received USD 63.6 billion in FDI, USD 24 billion of which was directed to north Africa. Africa's share of global FDI flows registered a significant increase to 5.2% of global FDI (up from 2.9% in 2007). As a percentage of gross fixed capital formation, FDI inflows rose to 29%. Top FDI destinations for 2008 were Nigeria (USD 20.3 billion), Angola (USD 15.5 billion), Egypt (USD 9.5 billion) and South Africa (USD 9 billion), followed by Libya, Tunisia, Algeria, Democratic Republic of Congo (DRC) and Sudan. As ever, the most attractive countries for investment tend to hold significant natural resource endowments, active privatisation programmes, liberalised FDI policies and vigorous investment promotion activities. FDI levels and prospects still vary widely by region, sector and country. In 2008 North Africa's sustained privatisation programmes and investment-friendly policies continued to attract large FDI inflows, reaching USD 24 billion, a 7% increase from 2007. FDI investments in North Africa remained the continent's most diversified. Inflows to Egypt remained substantial, though dropping by 18% in 2008. Preliminary figures for Egypt suggest a further fall of 14% to USD 8.2 billion in 2009. Morocco, in turn, is estimated to have seen its FDI drop by 57% in 2009.

In 2009 west Africa continued to benefit from the region's oil industry, for example, with new finds boosting development in Ghana and Guinea and raising Nigeria's FDI flows by 63%. Nearly 80% of total west African investment came through the oil industry, mostly reflecting industry expansion projects. central African inflows remained stable at USD 6 billion, with DRC the leading destination with USD 2.6 billion. east Africa also remained stable at USD 4 billion, and is still the lowest recipient of FDI on the continent. In southern Africa, Angola attracted USD 15.5 billion in 2008, an increase of over 50% from the previous year. South Africa, the continent's most diversified economy, also registered strong growth in inflows. Preliminary estimates for 2009, however, indicate a drop of 25%. South Africa's stock of FDI at work in the country remains the highest on the continent by far at USD 119 billion, nearly a quarter of total FDI stock in Africa (standing at USD 510.5 billion at the end of 2008).

FDI has grown into a major source of capital in the region thanks to African governments' significant efforts. Attracting FDI has required governments' commitment to improving institutional frameworks and can serve to increase competition and provide technological spillovers. As such, FDI can incentivise improved business environments in African countries. Nevertheless, while FDI inflows are important as a stable and long-term source of capital to promote industry and commerce, the majority of FDI to Africa remains targeted to extractive industries in a relatively limited group of countries. Thus, the broader developmental impact of FDI-backed projects is often limited.

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Attracting FDI into diversified and higher value-added sectors remains the ongoing challenge for Africa's economies. The primary sector consistently remains the main focus of foreign investment. Nevertheless, sectors such as banking, communications and infrastructure were dynamic up to the global crisis and will hopefully return to their prior dynamism once the effects of the crisis subside. Service-sector investment rose in North Africa but remained negligible in sub-Saharan Africa, barring financial institution buy-ins. While still restricted to certain emitting countries (notably South Africa and Nigeria), African transnational companies (TNC) are growing to become major investors, even though intra-African FDI still only accounts for a small portion of total foreign investment. (In the period 2002-04, intra-African FDI was estimated at only USD 2 billion annually on average, which represented about 13% of total inward FDI [1]). This is much lower than other developing regions (such as ASEAN, estimated at 30%). The level of FDI from Africa to small African economies may well be understated in official FDI data, as a significant proportion of such investment goes to the informal sector, which is not included in government statistics. Overall, latest estimates measured the total stock of intra-African investment at USD 73 billion in 2007 (out of a total FDI stock of USD 424 billion; that is, 17% of total FDI stock in the region).

African FDI suffers from a supplementary constraint of size: African investments tend to be smaller, and thus are less involved in large, capital-intensive sectors such as mining and oil exploitation. Traditional constraints on investment such as weak infrastructure and fragmented markets also affect African FDI. South Africa remains the single most important African source of intra-regional FDI for the continent; North Africa is also an essential source. Destinations for intra-African investment are mainly geographically close to the source country. That means mostly southern Africa, with Botswana, Madagascar, Malawi and Mozambique benefiting from their proximity to South Africa.

West African banks have also been fast expanding their operations throughout Africa. Large, pan-African financial institutions taking advantage of the region's increasingly open financial markets improve the cross-country flow of capital and investment. Ecobank, based in Togo, operated in 33 countries in Africa in 2009. The Nigerian banking sector particularly has been expanding quickly, becoming a major player in African finance and turning Nigeria into a source of outbound FDI. These African banks improve financial provision in Africa's economies and increase access to credit and savings. Pan-African financial networks also facilitate payment throughout the continent.

South Africa's developed financial sector has enabled it to collect capital from abroad (including Africa) through portfolio inflows, which it has transformed into outbound FDI [2]. Nigerian banks have operated through M&A, which have been the common mode of foreign investment in Africa by African firms. According to the latest estimates, from 2005-08, 28% of the total M&A deals made in Africa were made by African firms, accounting for 21% of total value over the period. Intra-African investment is highest in the services and manufacturing sectors, while investment from outside Africa is concentrated in the primary sector (often requiring large-scale capital- and technology-intensive investments). Only South Africa currently has the scale and capacity to engage in international mining investments.

Other African investors include Libya's Sovereign Wealth Fund, the Libyan Africa Portfolio Fund for Investment (LAP), which has over USD 5 billion in capital. LAP invests, both directly and through its subsidiaries, in a wide range of sectors in many African countries. Egypt's Orascom also has a broad portfolio of investments throughout Africa, notably in telecommunications and construction.

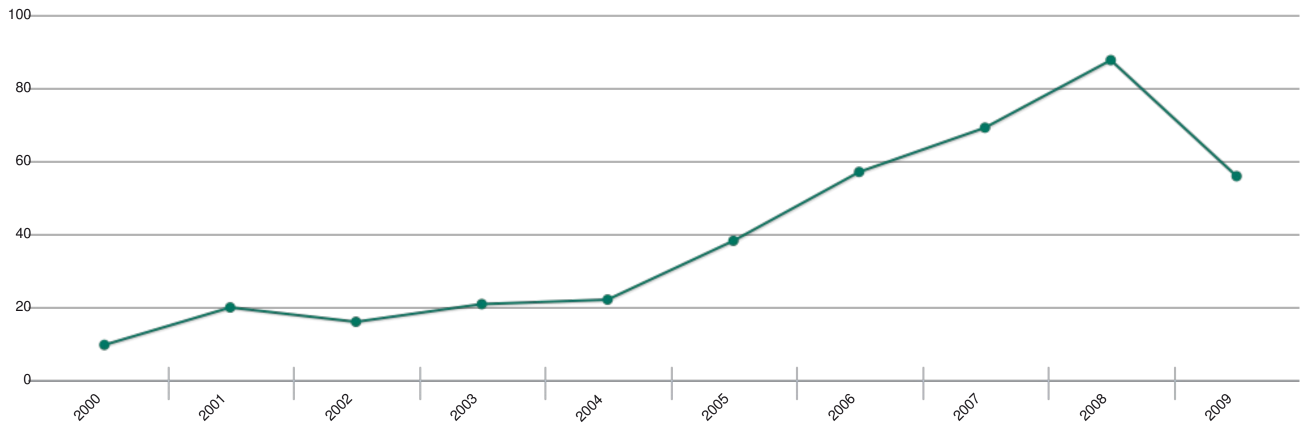
A further distinction is that non-African FDI is generally non-market seeking FDI, implying that such investments hinge on producing goods in the host country for sale abroad. Intra-African FDI is generally on a smaller scale and has a stronger focus on services & manufacturing. Most intra-African investment deals are thus in less technology-intensive consumer product sectors. Extra-African FDI, on the other hand, tends to be invested in large, capital-intensive projects.

South Africa has been a net capital exporter to Africa since 2005. In 2007 it accounted for about 70% of total intra-African flows. In fact, portfolio flows into South Africa appear to finance the country's FDI outflows into the rest of the region. South Africa's financial intermediation thus promotes African FDI.

Outward FDI flows from emerging countries have been increasing very strongly for the past decade, rising to a total stock of USD 4 trillion in 2007. A share of these FDI flows is finding its way to Africa. China, India and Asian countries now figure as important sources of capital for Africa's economies. At the end of 2007, Africa had cumulated 4% of total Chinese outward FDI (Asia accounting for 67% -- though this figure is distorted by the use of tax havens) [3]. Countries have attempted to develop Special Economic Zones (SEZs) to boost national production, with varied results. China, notably, has actively promoted the creation of five African Economic Co-operation Zones. Such zones in Zambia and Mauritius are formalised, while three others remained to be determined in early 2010. Chinese entities were also in negotiations with Egyptian authorities to create an SEZ in Egypt, near the Suez Canal. These economic zones, beyond providing employment and spillovers to domestic economies, could also allow China to benefit strongly from preferential trade agreements among Europe, the United States and many African countries.

African governments continued to show commitment to promoting investment-friendly policy environments. This is from a very low base, however. The challenges remain daunting, often going beyond regulatory policy and extending to basic infrastructures, rule of law and human resource availability. Nevertheless, greater stability and the desire to capitalise on higher commodity prices have provided serious incentives to attract foreign capital to many African countries. Of 46 African economies tracked in the World Bank *Doing Business 2010* report, 29 reformed, implementing 67 reforms. Nearly half the reforms in the region focused on making it easier to start a business or trade across borders.

Figure 2.1: FDI inflows to Africa



Note: 2009 (preliminary estimates).
Source: UNCTAD, March 2010.

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FDI outflows from Africa declined in 2008 by 12%, to USD 9 billion, driven by large divestments in South Africa's private sector. Libya accounted for the majority of outflows in 2008, accounting for 63% of Africa's total. Libya's active international investment policy aims at diversifying away from the country's strong dependency on oil wealth.

Africa's transnational corporations, particularly from South Africa but also from countries such as Angola that had been benefiting from high commodity prices, are expanding. Although African FDI outflows remained centred on extraction, African TNCs also engaged in telecommunications and retail-sector investments.

The composition of non-FDI capital flows shows persistent variations between country groupings. ODA and bank lending predominate in low-income countries (LICs), and equity flows are largely restricted to South Africa. Bond financing is making inroads into middle-income countries, even though weak demand for Angola's planned USD 9 billion bond issue has forced it to reschedule a significant share of this sum.

Africa's access to external finance is likely to remain severely constrained as long as global conditions remain uncertain. Africa will face difficulties in securing the substantial capital it requires to fund projects, create jobs, finance current account deficits and sustain growth. With global banks pulling back capital from all emerging markets, African banks, while not directly affected by the crisis and little exposed to toxic instruments, have taken a strong second-round hit. They now face much tighter credit conditions that limit the availability of trade finance and constrain their own lending.

As private sources of capital dry up, development finance institutions (DFIs), such as the IFC, will have a critical role to play. It is important to continue to develop innovations in financing to connect African investment opportunities with foreign capital. For example, Britain's CDC backs African private equity funds, which in turn identify and invest in frontier African markets (notably in services and manufacturing sectors). The AfDC's plans to triple lending for African infrastructure schemes in an effort to salvage key projects indicate the increasingly essential role multilaterals, development banks and DFIs may play should downside risks materialise fully.

The African Union (AU) has established the African Investment Bank, which is scheduled to open for business in 2011. To be based in Tripoli, Libya and wholly owned by African actors, the bank is designed to finance private sector development and development

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initiatives, notably infrastructure.

A possible positive outcome for the crisis may be that African banks develop innovative means to tap the continent's domestic savings, which remain underutilised. To replace ebbing revenue sources, Africa's growing banking sector could very well develop consumer business.

Box 2.1: The NEPAD-OECD Africa Investment Initiative

The NEPAD-Africa Investment Initiative works to improve the capacity of African countries to identify and implement concrete policy reforms that strengthen the environment for investment, growth, employment creation and poverty reduction. It is organised around three central pillars: providing a forum for investment policy makers, supporting country-led investment reviews and reforms, and engaging the private sector as a development partner. This work is based on NEPAD and the OECD's peer learning method and co-operation instruments, such as the Africa Peer Review Mechanism (APRM), the Policy Framework for Investment (PFI) and the OECD Guidelines for Multinational Enterprises.

The fourth NEPAD-OECD Africa Investment Initiative's Annual Ministerial Meeting and Expert Roundtable took place in Johannesburg, South Africa, on 11-12 November 2009. Following up on G20 and OECD calls for laying the foundations of a stronger and greener world economy, the meetings addressed ways of mobilising resources against the crisis and boosting private investment in energy infrastructure, including through carbon finance. The Initiative's focus on private sector engagement in infrastructure was strongly supported. High-level representatives from NEPAD and OECD countries issued recommendations calling for reforms in the areas of tax, financial markets and energy. The recommendations:

- Emphasised the key role that tax and financial market policies can play to channel resources into productive investment;
- Stressed the importance of striking the right balance between an attractive tax system for investment and growth and securing the necessary revenues for public services delivery;
- Highlighted that reforms aimed at broadening the tax base while also flattening the tax rate scale need to be supported;
- Encouraged reforms to deepen African financial markets;
- Underlined the need for policy coherence in the energy sector and welcomed steps taken by the Regional Economic Communities in developing powerful tools; and
- Called for the reform of the Clean Development Mechanism (CDM) at the UNFCCC Conference in Copenhagen to simplify procedures for the application and registration of projects.

The meeting gathered Ministers from Cameroon, Malawi, Senegal, Sierra Leone and Uganda. Keynote sessions were led by NEPAD Chief Executive Officer Ibrahim Mayaki and OECD Deputy Secretary-General Mario Amano. The full text of recommendations is available at www.oecd.org/daf/investment/africa.

The Ministerial meeting confirmed the NEPAD-OECD Africa Investment Initiative as a leading African forum for economic policy makers. The President of Senegal has offered to host the next Ministerial meeting of the Initiative in 2010.

In 2010, the Initiative began a major capacity-building programme for individual southern African countries, which is based on the OECD Policy Framework for Investment (the most comprehensive multilaterally-backed investment policy instrument).

A separate work stream in co-operation with the Sahel and West Africa Club (SWAC) is looking at responsible investment in agriculture, with the first country-based assessment to be carried out in Burkina Faso. Recent collaboration is also occurring with the Office of the Special Adviser on Africa (OSAA) of the UN Secretary General, including a joint report titled "Economic Diversification in Africa", and with the OECD Development Assistance Committee on the potential for aid to leverage investment. A new capacity-building training scheme for Public-Private Partnerships in Infrastructure is under joint development with the African Development Bank (AfDB) Infrastructure Project Preparation Facility (IPPF).

Official Development Assistance (ODA)

In 2008 aid volumes reached their highest historical level: USD 121.5 billion [4]. Nonetheless, reduced growth in that year and the economic contraction in 2009 have lowered the dollar value of pledges made in 2005 at the Gleneagles G8 and UN Millennium +5 summits from the projected USD 130 billion to about USD 124 billion (in constant 2004 dollars).

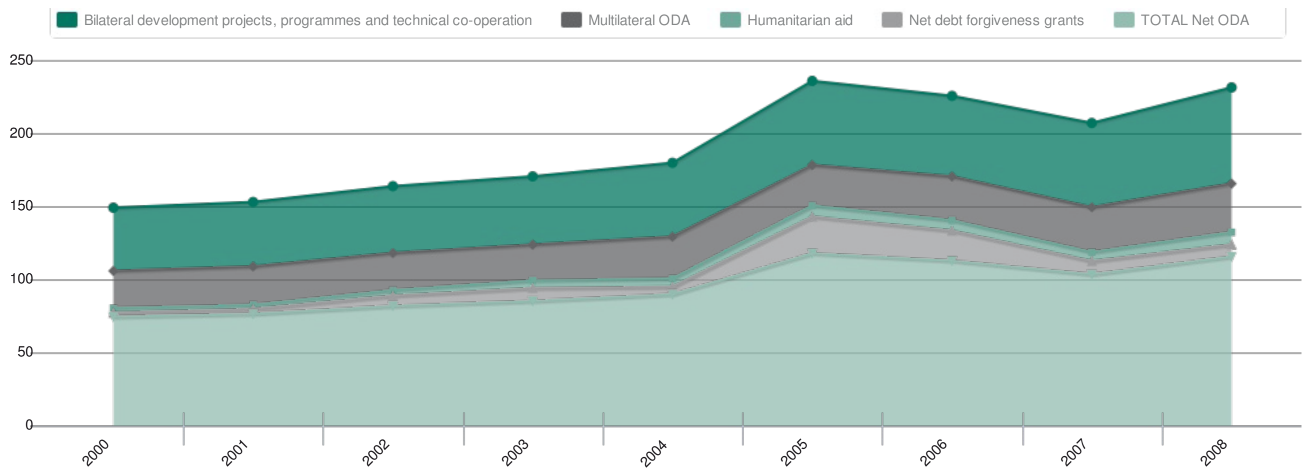
The Development Assistance Committee (DAC)'s monitoring of funding projections shows that most donors plan to continue increasing their aid. Some donors, however, have not lived up to their promises and may fall further behind their commitments as official development assistance (ODA) budgets stagnate or shrink. Based on current information, the overall expected ODA level for

2010 is estimated at USD 107 billion (expressed in 2004 dollars [5]). The shortfall in relation to the 2005 projections particularly affects Africa.

In 2008 total net ODA from members of the DAC rose by 11.7% in real terms, to USD 121.5 billion – the highest absolute level of aid ever recorded. This figure represents 0.31% of members' combined gross national income (Figure 2.2).

Between 2007 and 2008 the volume of DAC donors' (bilateral) development projects and programmes also rose substantially, by 14.1% in real terms. Indeed, bilateral development projects and programmes have been rising in recent years, indicating that donors are substantially scaling up their core aid programmes.

Figure 2.2: Components of DAC donors' NET ODA, 2000-2008



Source: OECD *Development Co-operation Report 2010.*

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The largest donors by volume in 2008 were the United States, Germany, the United Kingdom, France and Japan. Five countries exceeded the United Nations target of 0.7% of gross national income (GNI): Denmark, Luxembourg, the Netherlands, Norway and Sweden. The largest volume increases came from the United States, the United Kingdom, Spain, Germany, Japan and Canada. In addition, Australia, Belgium, Greece, New Zealand and Portugal recorded significant increases.

In 2008 net ODA by the United States was USD 26 billion, representing an increase of 16.8% in real terms. Its ODA/GNI ratio rose from 0.16% in 2007 to 0.18% in 2008. The United States' net ODA levels increased to practically all regions, particularly sub-Saharan Africa (+38.3% in real terms to USD 6.5 billion). Net ODA also increased substantially to the group of Least Developed Countries (LDCs)(+40.5% in real terms to USD 6.9 billion), and humanitarian aid also rose significantly (+42.5% in real terms to USD 4.4 billion) owing mainly to increased relief food aid.

Japan's 2008 net ODA was USD 9.4 billion, representing an increase of 8.2% in real terms over 2007. Its net ODA/GNI ratio rose from 0.17% in 2007 to 0.18% in 2008. The increase is mainly due to a rise in contributions to international financial institutions. This reverses the downward trend in Japan's ODA since 2000 (excluding peaks in 2005 and 2006 due to high levels of debt relief).

The combined net ODA of the 15 DAC members that are also EU members rose by 8.6% in real terms to USD 70.2 billion, representing 59% of all DAC ODA. As a share of GNI, net ODA from DAC-EU members rose to 0.42%. In real terms, for different reasons, net ODA rose in 14 DAC-EU countries [6]. It fell in Austria (-14%) owing to a lower level of debt relief grants provided in 2008 compared with 2007. The European Commission's net ODA rose by 6.8% in real terms to USD 13.4 billion, mainly owing to an increase in technical co-operation activities and humanitarian aid.

Net ODA from other DAC countries rose or fell between 2007 and 2008 as follows: Australia (+13.8%), reflecting an overall scaling up of its aid; Canada (+12.2%), because of an overall scaling up of its aid and increased contributions to the World Bank; New Zealand (+11.0%), reflecting an increase in bilateral ODA; Norway (-2.4%); Switzerland (+6.5%), as it increased its bilateral aid.

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In 2005 donors committed to increase their aid at the Gleneagles G8 and UN Millennium +5 summits. The pledges made at these summits, combined with other commitments, implied lifting aid from USD 80 billion in 2004 to USD 130 billion in 2010, at constant 2004 prices. While a few countries have slightly reduced their targets since 2005, the bulk of these commitments remains in force. However, reduced growth in 2008 and economic contraction in 2009 reduce the dollar value of commitments expressed as a percentage of national income. Overall, the current commitments suggest an ODA level of USD 121 billion in 2010, expressed in 2004 dollars, or an increase of USD 20 billion from the 2008 level (see Figure 2.3).

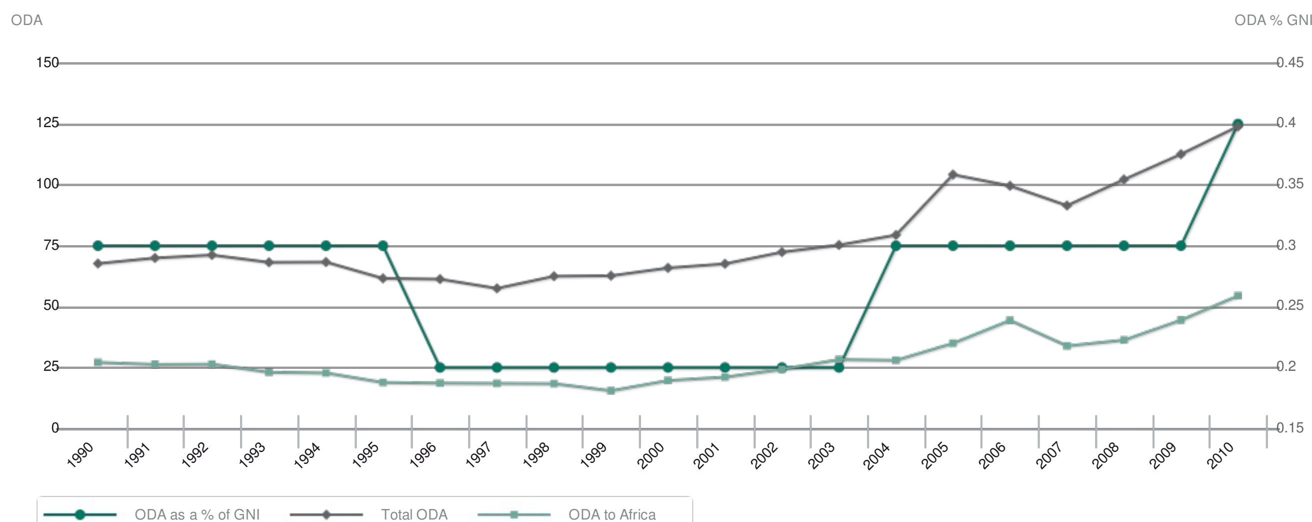
Africa can expect some further increases in aid. A new survey of donors' forward spending plans suggests an 11% increase in programmed aid between 2008 and 2010, including larger disbursements by some multilateral agencies. Debt relief may also increase slightly as the debt of the remaining HIPCs is treated in the Paris Club. However, the current outlook suggests that at least USD 10-15 billion must still be added to current forward spending plans if donors are to meet their current 2010 commitments.

The 2008 ODA data as well as forward spending plans suggest that with some further effort most donors are within reach of their 2010 targets. The countries that have already met the UN ODA target of 0.7% of GNI are expected to continue to do so. Most other DAC members are expected to meet, or nearly meet, their 2010 targets. However, there are likely to be large shortfalls in a few countries. For example, ODA in 2008 from Austria, Italy and Greece, excluding debt relief, is well under half their ODA/GNI target for 2010. Only a special crisis-related effort can ensure that the 2010 targets for aid are met, which is even more important now that the economic crisis is reducing developing countries' growth prospects and their ability to make progress towards the Millennium Development Goals (MDGs).

According to the OECD/DAC February 2010 press release [7] on expected ODA levels in 2010, aid to developing countries in 2010 will reach record levels in dollar terms, increasing by 35% since 2004. But it will still be less than the world's major aid donors promised five years ago at the Gleneagles and Millennium +5 summits. Although a majority of countries will meet their commitments, the underperformance of several large donors means there will be a significant shortfall, according to a new OECD review.

Africa, in particular, is likely to get only about USD 12 billion of the USD 25 billion increase envisaged at Gleneagles. This shortfall is due in large part to the underperformance of some European donors who give large shares of ODA to Africa.

Figure 2.3: DAC members' net ODA 1990 - 2008 and DAC Secretariat simulations of net ODA to 2009 and 2010



Source: OECD Development Co-operation Report 2010

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At the end of 2008, the OECD Secretary-General, Angel Gurría, and the Chair of the DAC, Eckhard Deutscher, launched an Aid Pledge inviting DAC members to reaffirm their aid commitments. DAC members did confirm these commitments [8] at the OECD in November. The World Bank and IMF have also launched new calls for increased aid funding because of the considerable concern among developing countries in Africa and elsewhere that the recent global financial crisis may result in reductions in aid budgets instead of the further increases that have been pledged.

Ensuring that aid acts as a counter cyclical force will require strong political priority and co-ordination at the global and country levels. Therefore, participants in the May 2009 DAC High Level Meeting discussed the effects of the financial crisis on development in 2009 and thereafter, and how to create and support initiatives to support developing countries during the crisis.

Aid has indeed played a positive counter cyclical role during some previous financial crises. After the Mexican debt crisis in 1982, commercial lending was significantly reduced for about a decade, yet ODA rose slightly during this period, playing a strong role in maintaining flows to Latin America. However, the global economic recession in the early 1990s produced large fiscal deficits in donor countries that led to deep cuts in ODA, which fell from 0.33% of gross national income in 1992 to 0.22% in 1997.

Aid cuts at this point in time would place a dangerous additional burden on developing countries already faced with restricted sources of income and increased poverty. Such cuts would perhaps undo some of the progress already made towards meeting the MDGs.

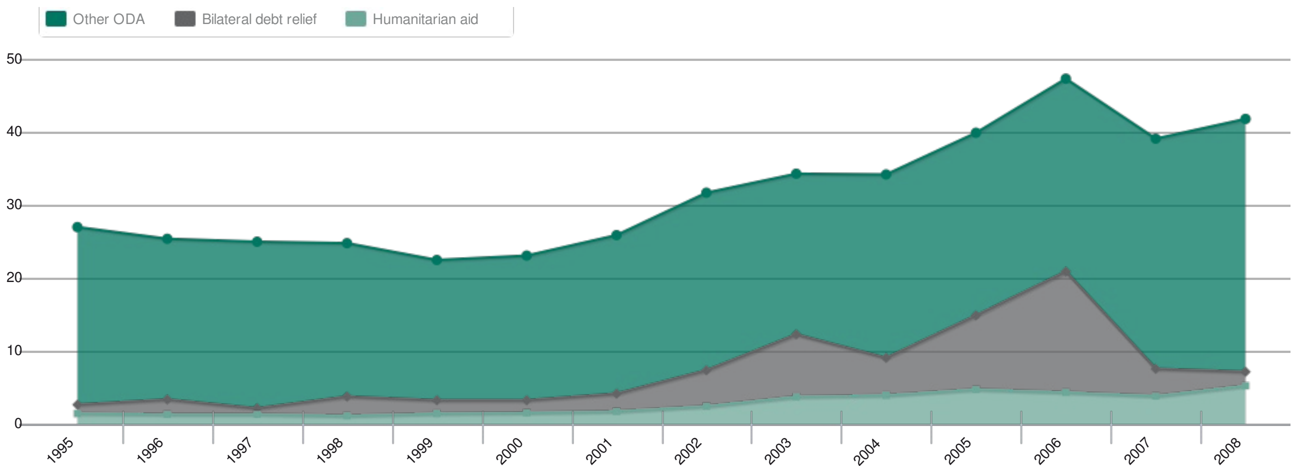
Growth of aid to Africa

Aid to Africa has risen recently, although much of it has been provided in the form of debt relief. After declining by 4.5% in real terms in 2006, net ODA from the 22 OECD DAC countries fell a further 8.4% to an estimated USD 103.7 billion in 2007. However, 2005 ODA was exceptionally high because it included large debt relief operations (over USD 19 billion to Nigeria and Iraq alone). Prospects for meeting the G8 target of increasing aid to poor countries by USD 50 billion from 2004 to 2010 will depend on sharply accelerating the growth of core development aid.

In 2008 preliminary data show that net bilateral ODA from DAC donors to Africa totalled USD 26 billion, of which USD 22.5 billion went to sub-Saharan Africa [9]. Excluding volatile debt relief grants, bilateral aid to Africa rose by 10.6% and to sub-Saharan Africa by 10% in real terms. (The increases including debt relief were 1.2% to Africa and 0.4% to sub-Saharan Africa.)

The DAC data indicate that humanitarian aid increased from USD 4 billion in 2007 to USD 5 billion in 2008. Bilateral debt relief decreased, reaching USD 2 billion in 2008, whereas it was USD 4 billion in 2007. The other ODA flows increased and reached USD 35 billion in 2008 from USD 32 billion in 2007.

Figure 2.4: Net ODA disbursements to Africa



Source: OECD Development Co-operation Report 2010

StatLink http://dx.doi.org/10.1787/850357643573

Other aid sources for Africa have expanded over time. The number of non-DAC donor countries was approximately 30 in 2008 (World Bank, 2008). These countries – including Brazil, China, India, Malaysia, Russia, Thailand, Venezuela, some oil-rich countries, and new EU countries – are providing an estimated USD 8 billion a year, with increases expected (World Bank, 2008).

A country today that receives increasing attention in Africa, in terms of aid as well as trade, is China. In fact, China gives aid to almost every single country in sub-Saharan Africa. Some argue that Chinese aid is motivated by the access to natural resources within the continent. However, there is little evidence that China gives more aid to countries with more natural resources or specifically

targets countries with worse governance (Brautigam, 2010). In addition, China is not alone in its interest in natural resources in Africa, and natural resources are not the primary motivating factor for Chinese aid: like all donors, China is motivated to give aid by a mix of political, commercial and social/ideological factors (Brautigam, 2010). The scarcity of data (IMF, 2008) on the growing Chinese presence in Africa in terms of aid, debt and direct investment flows represent a serious impediment for evaluating the real power and influence of China within Africa (for more details see Brautigam, 2010).

While many countries are making progress towards achieving the MDGs, a third of all developing countries are falling behind. This group is made up of about 50 of the world's poorest countries, and in most of them the situation is exacerbated by violent conflict and poor governance. Even though these fragile states already receive 38% of all ODA, further improvement in their conditions is fundamental if the UN MDGs are to be achieved.

Progress in making aid more effective

Managing for impact

Many DAC members are reforming their development systems so that they are managed "by and for results" – in other words, so that they are oriented towards maximising poverty reduction and the other MDGs. More donors now identify projects and programmes based on expected results and are making sure that these programmes have clear objectives so that results can be better measured. Nonetheless, embedding such systems – and shifting the focus from producing outputs to generating results in poverty reduction and other development priorities – means changing deep-rooted habits. Such change challenges all DAC members.

Measuring impact

To ensure transparency and accountability, it is fundamental to use high-quality evaluation based on solid evidence for measuring impact on development goals. To help donors improve their evaluations and increasingly work together toward shared goals, the DAC develops and makes available quality standards for evaluation.

Donors achieved encouraging commitments to international development assistance (IDA) (USD 25.1 billion for 2008-11), as well as to the concessional windows of other regional development banks and the Global Fund for AIDS, TB and Malaria (GFATM) (World Bank, 2008).

Innovative financing approaches are also raising funds. Such approaches include the International Finance Facility for Immunisation (IFFIm), which issued a USD 1 billion bond in 2006, and the solidarity tax on airline tickets, introduced in France in mid-2006 and being implemented in a number of other countries.

Developing countries, on the other hand, have made progress in strengthening development strategies and institutional frameworks for implementation. Strong performers and good candidates for scaled-up aid include Burkina Faso, Ghana, Madagascar, Mozambique, Rwanda, Tanzania and Vietnam (World Bank, 2008).

Although the aid effectiveness agenda remains unchanged, indicators to measure field progress are evolving. The Accra High Level Forum 2008 has set new priorities (DAC, 2009) to increase aid effectiveness into the Paris Declaration's principles. These priorities effectively mean:

- increasing development actors' delivery capacity;
- finding methods of including the civil society into the delivery process;
- improving transparency and accountability on both donors' and governments' parts so as to include such values;
- adapting the evaluation and monitoring criteria in accordance for the implementation of the named values.

Box 2.2: Strengthening the capacity of the national statistical systems

Since the mid-1990s, demand for statistics has grown. It is necessary to produce, implement and assess poverty reduction strategies, calculate Millennium Development Goals (MDGs) Indicators, adopt a results-based management framework, strengthen the regional integration processes and confront the challenges of globalisation. Unfortunately, in most African countries the situation of statistical systems does not make it possible to meet this growing demand. The countries must often deal with:

- Significant budgetary constraints (statistics are rarely a priority of the national budget and are usually financed by technical and financial partners);
- Limited human resources (many countries are confronted with a critical lack of statisticians at all levels to conduct regular activities);
- An unsuitable legal and regulatory framework resulting in an absence of statistical co-ordination and of dialogue between producers and users.

Each year the World Bank calculates a composite indicator of statistical capacity for each country. This indicator is based on publicly available information in most countries and evaluates three aspects of statistical capacity: statistical methodology, source data and data periodicity. The changes in this indicator over the past ten years show that there have been real improvements in the capacity of the national statistics systems. Nevertheless, they also show that improvements in the IDA countries in Africa have been slower than in the rest of the world.

In Africa as a whole, the collective awareness of the need for statistics has made it possible to make the development of statistics one of the priorities of the development agenda. In this regard, the adoption of the African Charter on Statistics by the heads of states and government of the African Union in February 2009 was a major event.

Since 1999, the OECD has hosted the PARIS21 partnership (www.paris21.org), the objective of which is to strengthen the capacity of the national statistical systems of developing countries. PARIS21 is active in the following areas:

- Support for the development, financing and implementation of national strategies for the development of statistics (NSDSs);
- The establishment of country-level statistical sub-groups of donors;
- The establishment of partnership initiatives, such as the Partner Report on Support to Statistics (PRESS), to co-ordinate donor supports to statistics;
- Assistance with the co-ordination of all actors within the national statistical system (sector line ministry statistical units, central bank, central statistical office, etc.);
- The production of statistical advocacy materials;
- The organisation of examinations by peers on the national statistical system;
- The production of documents and methodological guides;
- Participation in implementing the Accelerated Data Program (www.ihsn.org/adp), which aims to improve the use of existing data and the quality of future surveys.

PARIS21 organised a meeting of its consortium in Dakar from 16 to 18 November 2009. This event, organised in conjunction with the Senegalese government, brought together more than 400 participants from across the globe to reaffirm the importance of developing national statistical systems. The Dakar Declaration on the Development of Statistics and its five-point call to action was adopted at the events. This declaration recommends implementing NSDSs, mobilising financial and technical resources for the development of statistics, ensuring more effective co-ordination, better meeting the needs of the users, and developing a programme of research to modernise statistical tools and technologies.

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Table 2.1: Statistical capacicity indicator and status of National Stratregies for the Development of Statistics

COUNTRY	STATISTICS CAPACITY INDEX	STRATEGY FOR STATISTICS DEVELOPMENT		CENSUS	
		Status	Time Span	Status	Years
Algeria	61	Implementation	2009-10	Conducted	2008
Angola	34	Strategy expired	2002-06	Planned	2010-14
Benin	48	Implementation	2007-12	Planned	2012
Botswana	47	Strategy expired	2003/4-04/05	Planned	2011
Burkina Faso	58	Implementation	2004-09	Conducted	2006
Burundi	56	Strategy expired	2004-07	Planned	2008
Cameroon	64	Completed awaiting adoption	2009-13	Conducted	2005
Cape Verde	63	Implementation	2008-12	Planned	2010
CAR	46	Being designed		Planned	2013
Chad	49	Strategy expired	2002-07	Planned	2008
Comoros	49	Implementation	2008-12	Planned	2013
Congo Dem. Rep.	29	Being designed		Planned	2008
Congo, Rep	54	Implementation	2005-09	Conducted	2007
Côte d'Ivoire	62	Completed, awaiting adoption	2009-13	Planned	2008
Djibouti	35	Completed awaiting adoption	2008-13	Planned	2008
Egypt	83	No strategy		Conducted	2006
Equatorial Guinea	29	Implementation	2003-08	Planned	2005-14
Eritrea	29	Completed awaiting adoption	2010-2014	Planned	2009
Ethiopia	78	Completed awaiting adoption	2009/10-2013/14	Conducted	2007
Gabon	38	Being designed	2010-14	Planned	2013
Gambia, The	62	Implementation	2007-11	Planned	2013
Ghana	59	Completed awaiting adoption	2009-13	Planned	2010
Guinea	50	Completed awaiting adoption	2009-13	Planned	2009
Guinea Bissau	39	Being designed	2009-13	Conducted	2009
Kenya	54	Completed awaiting adoption	2008-13	Conducted	2009
Lesotho	60	Strategy expired	2002-05	Conducted	2006
Liberia	32	Implementation	2009-13	Conducted	2008
Libya	36	Being designed		Conducted	2006
Madagascar	61	Completed awaiting adoption	2007-12	Planned	2009
Malawi	64	Implementation	2008-12	Conducted	2008
Mali	61	Implementation	2006-10	Planned	2009
Mauritania	60	Implementation	2007-12	Planned	2010
Mauritius	74	Implementation	2007-10	Planned	2010
Mozambique	62	Implementation	2008-12	Conducted	2007
Namibia	51	Implementation	2005-09	Planned	2011
Niger	56	Implementation	2008-12	Planned	2011
Nigeria	57	Implementation	2007/8-11/12	Conducted	2006
Rwanda	66	Implementation	2007-11	Planned	2012
Sao Tome-and-Principe	55	Being designed	2009-18	Planned	2011
Senegal	68	Implementation	2008-13	Planned	2011
Seychelles	58	Being designed		Planned	2010
Sierra Leone	49	Implementation	2008-12	Planned	2014
Somalia	23	No strategy		Planned	2005-14
South Africa	78	Implementation	2005/06-09/10	Conducted	2011
Sudan	43	Strategy expired	2003-08	Conducted	2008
Swaziland	64	Implementation	2004/5-08/09	Planned	2007
Tanzania	59	Implementation	2008-18	Planned	2012
Togo	53	Completed awaiting adoption	2009-13	Planned	2009
Tunisia	71	Implementation	2007-11	Planned	2014
Uganda	61	Implementation	2007-11	Planned	2012
Zambia	59	Completed awaiting adoption"	2009-13	Planned	2010
Zimbabwe	46	Implementation	2007	Planned	2012

Sources: World Bank, Country, PARIS21, UNSD.

Annex

Top aid recipients

The figures on this page give a view of who the top aid recipients were between 2007 and 2008, by country, income group, region and sector.

Top aid recipients between 2007 and 2008

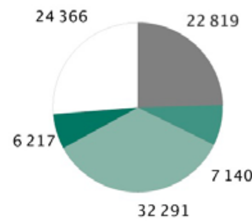
TOTAL DAC COUNTRIES

Net ODA	2007	2008	Change 2007/08
Current (USD million)	103 485	121 483	17.4%
Constant (2007, USD million)	103 485	115 632	11.7%
ODA/GNI	0.28%	0.31%	
Bilateral share	70%	71%	

Top Ten Recipients of Gross ODA (USD million)	
1 Iraq	9 462
2 Afghanistan	3 475
3 China	2 601
4 Indonesia	2 543
5 India	2 263
6 Viet Nam	1 745
7 Sudan	1 743
8 Tanzania	1 603
9 Ethiopia	1 551
10 Comores	1 396
Memo: Share of gross bilateral ODA	
Top 5 recipients	22%
Top 10 recipients	31%
Top 20 recipients	43%

Gross Bilateral ODA, 2007-08 average, unless otherwise shown

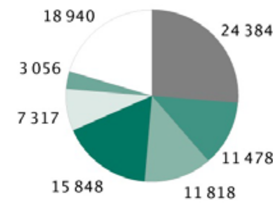
By Income Group (USD million)



Clockwise from top

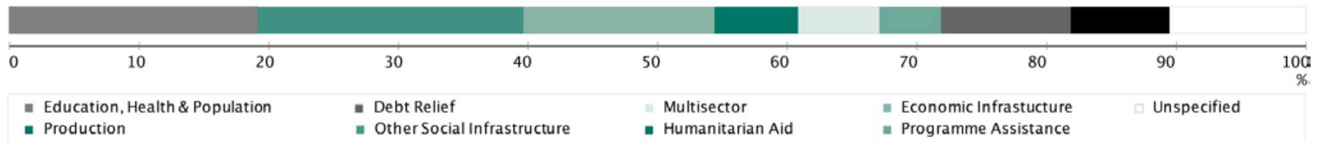
- LDCs
- Other Low-Income
- Lower Middle-Income
- Upper Middle-Income
- Unallocated

By Region (USD million)



- South of Sahara
- South & Central Asia
- Other Asia and Oceania
- Middle East and North Africa
- Latin America and Caribbean
- Europe
- Unspecified

By Sector



- Education, Health & Population
- Production
- Debt Relief
- Other Social Infrastructure
- Multisector
- Humanitarian Aid
- Economic Infrastucture
- Programme Assistance
- Unspecified

Source: OECD *Development Co-operation Report 2010.*

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Notes

[1] UNCTAD (2009), Economic Development in Africa Report, United Nations Conference on Trade and Development, Geneva.

[2] Ibid.

[3] Davies, K. (2009), "While global FDI falls, China's outward FDI doubles", Columbia FDI Perspectives, No. 5, May.

[4] Specific data are available at stats.oecd.org/qwids

[5] This is the first estimate of the outcome in 2010 of the commitments made by donors at Gleneagles and may change slightly when the 2009 ODA figures are released in April.

[6] For detailed information on these reasons,
see http://www.oecd.org/document/35/0,3343,fr_2649_34487_42458595_1_1_1_1,00.html.

[7] "Donors' mixed aid performance for 2010 sparks concern"
see http://www.oecd.org/document/20/0,3343,en_2649_34447_44617556_1_1_1_37413,00.html).

[8] The full statement can be seen at: www.oecd.org/document/2/0,3343,en_2649_201185_41601282_1_1_1_1,00.html

http://www.oecd.org/document/2/0,3343,en_2649_201185_41601282_1_1_1_1,00.html

[9] At the time the text was written, the 2010 OECD/DAC report (final) was not published yet.

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Trade Policies and Regional Integration in Africa

In recent years, before the global crisis, international trade has increased exponentially. While African countries also benefited from this increase, their share in world trade has remained low; Africa's export trade amounts to only about 3% of world exports. This poor trade performance partly relates to trade protection outside Africa against African products, but it also stems from constraints that inhibit trade within Africa. With the expectation of a generally moderate recovery of the global economy and of world trade as discussed in Chapter 1, it is even more important than before to foster African countries' trade with economies both outside and inside Africa.

A rapid conclusion of the Doha Round and resolution of the outstanding issues in the Economic Partnership Agreements (EPAs) negotiations are crucial to Africa's medium-term prospects in both regional and international trade. Indeed, among the different measures that several advanced countries adopted during 2009 to curb the effect of the financial crisis, trade protectionism has been on the rise. Protectionism increased despite repeated assurances in the context of the G20 meetings in London and later in Pittsburgh, as well as in the context of World Trade Organization (WTO) talks. Often stimulus packages were geared to favour domestic sectors, such as through export support, or to favour buying, lending, hiring or investing in local goods and services (see UNCTAD, 2009a). Such measures clearly discriminate against developing countries, including those in Africa, on two levels. First, African governments lack the resources to curb the domestic impact of the crisis with the same type of measures. Second, African firms face unfavourable treatment precisely in those markets where additional spending is being promoted. Hence, with these new measures African products could easily face discriminatory treatment in relation to similar domestic products and services in developed countries, despite the general agreements about preferential treatment they may enjoy.

A critical reason for Africa's relatively poor trade performance is the weak diversification of African trade both in terms of trade structure and destination. Most African economies depend on very few primary agricultural and mining commodities for their exports and mainly import manufactured goods from advanced countries. As the traditional markets in advanced countries are expected to grow less than markets in emerging Asian and Middle East countries as well as markets within Africa, enhancing trade relations with these more dynamic markets is key.

Several inefficiencies also constrain trade within Africa. These inefficiencies include poor transport infrastructure such as maintenance and connectivity, political instability and lack of security within and among several regions, and intra-African trade barriers. This chapter first discusses recent developments in the Doha Round. Next, it describes policies to enhance intra-African integration. Finally, the chapter examines the challenges to fostering intra-African trade, with a focus on improving infrastructure.

Developments in the Doha Round during 2009

A positive outcome in the Doha Round of international trade negotiations remains critical to Africa's efforts towards increasing its share in global trade. However, as last year's *African Economic Outlook* (AEO 2009, Box 1) highlights, the Doha Round stalemate since the Cancun Ministerial of 2003 has been attributed to the lack of consensus among WTO countries on agriculture and non-agriculture market access (NAMA). No breakthrough was achieved in 2009. The emergence of the new global governance architecture in which the G-20 plays a bigger role did not help the Doha Round, as the Geneva negotiators never translated into action the political signals from the L'Aquila and Pittsburgh summits. Indeed, the negotiations achieved no across-the-board positive development, despite the urgency for swift action introduced by the financial and economic crises. The negotiations' texts remain the ones that were circulated in December 2008, the key among them being those for agriculture and NAMA. These texts received little multilateral-level attention in 2009. Owing to limited engagement on the texts, the 7th WTO Ministerial Conference that some developing countries had hoped would also be a negotiating meeting ended up focusing on the WTO institutional reforms and the global response to the financial and economic crises.

However, as highlighted in the Economic Commission for Africa (ECA) and African Union Commission (AUC) *Economic Report on Africa 2010* released in March 2010, while no breakthrough occurred in the substantive negotiations there were process developments that have implications for Africa. Specifically, the risk of reopening the December 2008 negotiations text heightened when the United States (US) called for hypothetical schedules of the draft modalities, in order to clarify how flexibilities that many developing countries had been pushing for would be utilised. Another important process development was the scaling up of both bilateral and multilateral engagements as opposed to pursuing only the multilateral route. This change raised the risk of members' making trade-offs in the bilateral meetings, which when multilateralised might not encompass everyone's interests. This risk is particularly relevant to African countries that lack capacity to be engaged in parallel bilateral sessions on critical areas of their interest.

Another key 2009 development with respect to the Doha Round was the push for a possible resequencing of the negotiations' priorities. Whereas African countries still see the Hong Kong Ministerial Decision prioritisation that seeks to settle issues in agriculture and NAMA as the optimal route, 2009 witnessed attempts to reorder this sequence, whereby elements in different areas

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of negotiations would be chosen and resolved first. Therefore, members who felt that services negotiations were most important to them would seek progress there, without necessarily resolving the agriculture and NAMA issues. Such a reordering of priorities would have consequences for African countries that see unlocking their development potential through trade linked to positive results from the agriculture and NAMA negotiations.

Box 3.1: Selected developments in the Doha Round with significance to Africa

Banana Deal

One of the central highlights of 2009 in the context of the WTO Doha Round Negotiations and of particular significance to African countries was the submission of a new proposal on banana trade in mid-December. This proposal was submitted on behalf of the EU, United States and several Latin American banana-exporting countries. After almost two decades of trade disputes on the EU quota system for banana imports, this group of countries generated the General Agreement on Trade in Bananas (GATB), also known as the "Banana Deal", which the rest of the WTO membership is currently considering. If approved, this agreement will have important implications for African, Caribbean and Pacific (ACP) banana exporters, which under the EU-EPAs are enjoying quota- and duty-free access to European markets. Although previous attempts during the Geneva Mini-Ministerial of 2008 among the same group of countries proposing the GATB were unsuccessful, they did pave the way for the current deal. According to the results of a study commissioned by the International Centre for Sustainable Trade and Development (ICTSD), this current agreement will result in ACP exporters losing approximately 14% market share to more competitive Latin American producers such as Costa Rica and Ecuador. The Latin American countries' gain will be approximately 17%, while EU consumers will benefit from an expected 6% increase in banana imports (Anania, 2009).

EU tariffs for non-ACP countries prior to the agreement were set at EUR 176 per ton, while 775 000 tons of ACP bananas enjoyed free market-access conditions. Now, with the GATB, an initial cut of EUR 28 per tonne took effect immediately. Gradual cuts of EUR 3-7 per ton yearly are predicted between 2011 and 2017, with a view to reaching a final level of EUR 114 per tonne. Additional cuts are likely once the Doha Round finalises or by the end of 2015, whichever arrives first. Compensation for ACP countries up to EUR 200 million is also foreseen to help these countries cope with the loss in market share (ICTSD, 2009).

In the light of this agreement, African banana producers should seek to shift and diversify their production towards more value-added banana products (i.e. banana flakes and dried bananas) and/or other cash crops, to curb their gradual loss in market share in the coming years. Either alternative will require investments and the acquisition of technical expertise. Producers may also target niche markets, known for selling "organic" and fair trade produce, which have become very popular in Europe and the United States in recent years. As with value-added banana products, these markets report higher gains but also demand more stringent labelling and production standards.

C4 Cotton Agreement

Another relevant 2009 development for African countries with respect to WTO trade negotiations came in the form of an agreement reached between the "Cotton Four" or "C4" coalition (Benin, Chad, Mali and Burkina Faso) and the EU and United States. Cotton producers of the EU and the United States receive subsidies that greatly harm African cotton producers. These African producers represent around 15 million people in western and central Africa and contribute between 5-10% of their gross domestic product (GDP) and 15% of world cotton exports. Studies on the United States market point out that American cotton producers receive an annual subsidy of USD 3 billion which, if removed, would raise the price of cotton by 6-14%. Eliminating this subsidy would, in turn, allow west African producers to gain 5-12% on the value of their cotton exports (Oxfam, 2002).

Trade Facilitation

In December 2009, the Negotiating Group on Trade Facilitation reached an agreement on a draft text for negotiations during 2010. This agreement reflects all the proposals put forth by different delegations. It served as a starting point for negotiations opening in February 2010 on the content of the future trade facilitation agreement to be adopted by the WTO membership (ICTSD, 2010b). It is hoped that during these negotiations African delegations will emphasise the importance of including special and differential treatment provisions, as well as technical assistance and capacity building to meet their trade facilitation needs in the context of the agreement. Furthermore, African delegations may also link discussion to their Aid for Trade concerns, in particular with regards to trade-related infrastructure, which is one of the main impediments to African trade (Foster and Briceño-Garmendia, 2010).

Despite limited progress on the negotiations' texts, some 2009 developments are worth highlighting, given their significance to Africa's current trade. Box 3.1 explains some of the bilateral/multilateral results on the banana issue, the cotton initiative and trade facilitation. Box 3.2 describes recent developments of EPAs between the European Union (EU) and African countries.

Box 3.2: Developments of Economic Partnership Agreements (EPAs) between the EU and African countries in 2009

If events go as planned, Africa will soon be home to about 26 regional trade agreements. These include 14 regional groupings; 5 EPAs; free trade areas between Europe and the north African countries; and South Africa and Southern African Customs Union (SACU) trade agreements with Europe and Mercosur. Of the 14 regional groupings, the African Union recognises 8 as building blocks towards the African Economic Community. Yet the most challenging of the African regional trade agreements are those of the north-south nature, especially the EPAs, given the inclusion of the Least Developing Countries (LDCs) among the African subgroups. It is for this reason that the EPAs negotiations have the potential of affecting Africa's development agenda for many years to come.

Contrary to expectations, comprehensive agreements on the EPAs were not finalised in 2009. None of the five EPAs under negotiation in the region could be concluded owing to unresolved conflicts. Concerns remained that the comprehensive EPAs, if they were to follow the outlines of the interim EPAs that were initialled towards the end of 2007, would significantly affect Africa's regional integration agenda, Africa's drive for south-south co-operation and Africa's industrialisation strategy. In addition, the development agenda for some countries would likely be affected negatively because of the strong adjustments that African economies would have to undergo to fit in the new EPAs environment. The lack of congruence in the EPAs groupings with the Regional Economic Communities (RECs) memberships continues to pose challenges given the non-harmonised and uncoordinated market access offers by African sub-regions to the EU. Also, the need to deepen south-south co-operation, which might include preferential trade arrangements, remains a challenge because of the Most-Favoured Nation clause in the interim EPAs. The potential for deep liberalisation in efforts to be compatible with WTO articles governing regional trade agreements might also expose nascent African industries. The lack of agreement to match development funding to the level of economic adjustments remains a crucial question that will determine the willingness to conclude the comprehensive EPAs.

Explicitly recognising a linkage between the WTO Doha Round and the EPAs will be vital. The question whether the Doha Round should be concluded before finalising the comprehensive EPAs remains relevant. This question is especially significant because the comprehensive EPAs foresee the possibility of finalising agreements in important areas, such as services and rules, currently under negotiations in the Doha Round. Also, the fundamental questions in relation to EPAs and African regional integration must be resolved. Given the dynamism in Africa's integration agenda as evidenced by the COMESA-EAC-SADC proposed grand free trade area and the African Union's Minimum Integration Programme, the EPAs need to take account of these developments (ECA and AU, 2009).

Important regional integration measures in 2009

Despite progress, intra-African trade is still low, representing on average around 10% of total exports. Many factors contribute to the low trade performance, including the economic structure of African countries, which constrains the supply of diversified products; poor institutional policies; weak infrastructure; weak financial and capital markets; and failure to put trade protocols in place. Moreover, Africa's trade performance is extremely low compared with other trading blocs outside the continent. For example, trade within the Association of South East Asian Nations (ASEAN) accounts for about 60% of their total exports. The same is true for the countries belonging to the North American Free Trade Agreement (NAFTA) area, whose intra-regional trade accounted for 56% of total exports. It is no wonder that the economies of ASEAN and NAFTA are doing remarkably well.

Barriers to external and internal trade in Africa are numerous, despite Africa's determination to dismantle trade restrictions in order to create a common market within the framework of regional and sub-regional agreements. These barriers are mostly the consequences of the above-mentioned factors. In addition, 15 of the countries in Africa are landlocked. These countries continue to face serious challenges in having direct access to the sea. Lack of territorial access to the sea, remoteness and isolation from world markets, and high transit costs continue to impose serious constraints on the overall socio-economic progress of landlocked developing countries. The situation has pushed many landlocked developing countries to higher poverty levels.

Currently, the African Union Commission is focusing on its Minimum Integration Programme (MIP), consistent with previous AU Conferences of African Ministers in Charge of Integration (COMAI). This focus underscores the need for rationalising resources and harmonising the activities and programmes of Regional Economic Communities (RECs). The MIP is in line with a broader undertaking, namely the realisation of the African Economic Community (AEC), as envisaged in the Abuja Treaty and the Constitutive Act of the African Union.

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Furthermore, the African Union Commission, together with the United Nations Economic Commission for Africa (UNECA), the African Development Bank (AfDB) and the RECs, has also made notable progress in establishing three-pan-African financial institutions: the African Central Bank, the African Monetary Fund and the African Investment Bank. The AfDB is also supporting the institutional setup for improving macroeconomic and financial convergence on the continent. It has also focused on the preparation of a continental Programme on Infrastructure Development in Africa (PIDA), as well as on the development of an EPA template to be used as a guide in the negotiations for EPAs. This last aspect will be particularly conducive to greater coherence between the different EPAs being negotiated and other regional agreements, which are already in place (ECA and AU, 2009).

Experiences of RECs with FTAs and customs unions

From the moment of its inception, the African Economic Community (AEC) was envisioned as a gradual undertaking to be carried out in six stages. Currently, the AEC is at the third stage of the process, which requires establishment of a Free Trade Area (FTA) and customs union in each of the regional blocs by 2017. However, the current progress of the different FTAs and customs unions varies considerably in the context of the eight RECs that the African Union (AU) recognises.

In the particular case of the Community of Sahel-Saharan states (CENSAD), Economic Community of West African states (ECOWAS), Common Market of Eastern Southern Africa (COMESA), East African Community (EAC) and Southern African Development Community (SADC), the FTAs are fully in force, whereas for Arab Maghreb Union (UMA) and Intergovernmental Authority development (IGAD), the process of constituting an FTA has stalled somewhat. Some member countries have not yet joined their respective FTAs, which has important implications for intra-REC trade flows.

For the customs unions, there is more variability in terms of expected results, arguably because this type of agreement requires establishing a common external tariff (CET). A CET is more challenging than negotiating trade preferences among members. In the case of UMA, CENSAD and IGAD, progress has stalled, while ECOWAS is progressing slowly. The Economic Community of Central African States (ECCAS) and SADC are at a more preliminary stage, envisaging the creation of their respective customs unions this year. COMESA and the EAC, meanwhile, have successfully put their customs unions into force. In particular, COMESA launched its customs union in June 2009 with some delay. A CET in all COMESA countries will apply during the coming three years, and by 2025 all barriers on tariffs and movement of people, goods, services and capital will be removed.

One of last year's major developments was the decision to push forth a long-term project dealing with the creation of a FTA among three RECs, namely COMESA, EAC and SADC, spanning over 26 African countries. Efforts to harmonise the regional agenda of COMESA, EAC and SADC are planned, which signals the shared interest of greater coherence among the different RECs. This development is particularly critical for those countries that are both members of COMESA and SADC, who will face major problems once the SADC customs union becomes effective in terms of compatibility of both COMESA and SADC customs unions requirements. Finally, the EAC has launched its Common Market that will free the movement of goods and services, the movement of labour and capital, and the right of establishment from July 2010, to be followed by a Monetary Union in 2012. These changes will also require considerable co-ordination and convergence efforts within the tri-partite arrangement (ECA and AU, 2009).

During 2009 some progress has been made towards African regional integration. Nonetheless, obstacles of intra- and inter-REC trade within the regions prevail. It is therefore imperative that RECs and particularly member countries carry out the AU Decisions to strengthen regional integration through greater production and exchange flows among African countries.

Trade and infrastructure

Weak infrastructure and institutional policies of many of the countries in Africa are partly responsible for poor intra-African trade. For instance, only 29.7% of the African road network is paved. The continent's railway network is also very poor. These factors contribute to high transport costs on the continent as compared to the rest of world. For example, shipping a car from Japan to Abidjan costs USD 1 500, while shipping that same vehicle from Addis Ababa to Abidjan would cost USD 5 000.

Furthermore, the numerous roadblocks and checkpoints on African highways raise transport costs and contribute to increased delays in the delivery of goods. They also limit the free movement of commodities, persons, inputs and investments. African customs administrations are generally inefficient, contributing to barriers to trade within and outside the continent. Customs regulations require excessive documentation, which must be done manually because the process is not automated and information and communication technologies (ICTs) are absent in most of the customs offices. Furthermore, customs procedures are outdated and lack transparency, predictability and consistency. These inefficiencies result in delays that raise transaction costs. A case in point is southern Africa, where waiting for up to 24 hours to cross a border is the norm.

Additional barriers to trade include payment and insurance systems, which are also not well developed. Furthermore, foreign trade financing, export credit facilities and export insurance systems are not available in most African countries. Because monetary and financial regulations are not harmonised at the regional, sub-regional and national levels, there is no inter-convertibility of African

currencies. In terms of insurance, a gap exists between the needs of exporters and the services and products offered.

Africa's trade would not improve much with the current poor state of Africa's infrastructure. Africa needs safe, reliable, efficient, affordable and sustainable physical infrastructure to support economic activities and to provide basic social services, especially for the poor. In addition, Africa needs to develop energy infrastructure such as electricity grids and oil and gas pipelines that will facilitate cross-border energy trade, thereby enhancing security and reliability of energy supply. Trade between countries can also be strengthened with shared common water resources if shared rivers and lakes are developed into waterways for the transport of goods and people.

To address the challenges, African countries, with the assistance of the RECs and development partners, have embarked on programmes to strengthen infrastructural development on the continent. They are working to develop an integrated network of roads, railways, maritime transport, inland waterways and civil aviation. In addition, the RECs are developing and implementing harmonised laws, standards, regulations and procedures to ensure the smooth flow of goods and services and to reduce transport costs. The PIDA aims at improving Africa's infrastructure and was launched by the AfDB, AU Commission, the RECs and the New Partnership for Africa's Development (NEPAD) Secretariat. (The NEPAD Secretariat synchronises the development of the NEPAD medium- and long-term strategic framework (MLTSF) and continental infrastructure development master plans.) Under the PIDA various studies will be conducted with the goal of providing African decision makers with analytical and decision-making tools for the formulation of policy, priority infrastructure development programmes and related strategies and processes.

A major challenge confronting the development of African infrastructure is also the lack of adequate financing. Recent estimates by the World Bank indicate that annual infrastructure investment requirement in Africa is about USD 93 billion over the next decade, more than double the previous estimate by the Commission for Africa. These investments are required for the development of new electric power generation plants, cross-border transmission lines, intra-regional fibre optic network and submarine cables, all-season roads to access agricultural land, water and sanitation, and ICTs. Consequently, the financial support programmes that would target Africa's infrastructure development must be scaled up. The World Bank, EU, AfDB and other multilateral agencies need to increase their funding for the development of Africa's infrastructure as African governments lack the financial capacities. It is also necessary further to increase support for the Infrastructure Consortium for Africa (ICA) and the NEPAD Infrastructure Project Preparation Facility (NEPAD-IPPF).

To promote and address the challenges impeding the flow of goods and services within the continent, policy makers could consider the following prescriptions and strategies that would strengthen Africa's infrastructure development:

- Deepen regional capital markets for more effective mobilisation of local savings and regional financial integration.
- Improve access to long-term financing by setting up special investment instruments, such as infrastructure bonds, to harness resources for infrastructure investments.
- Strengthen public-private partnership (PPP) arrangements by involving the private sector not only in project financing and implementation, but also as stakeholder in policy formulation and enforcement of rules and regulations.
- Continue actions to improve the investment climate in African countries for increased private sector participation by setting up legal, regulatory and institutional reforms.
- Undertake aggressive promotion of Africa as an investment destination since achieving the right investment climate by itself may not necessarily result in increased inflow of investment.
- Aim for sustained economic growth and improved living standards. Governments can do this by establishing a stable economic environment for entrepreneurs. Indeed, in such stable economic environments consisting of careful inflation management and public finance stability, entrepreneurs would expect to face a steady rise in demand and stable production costs.
- Focus on simplifying customs procedures and harmonising the required information. Standardise documents in accordance with internationally accepted practices and guidelines and make them adaptable for use in computer systems. Customs administrations should cultivate a high level of professionalism and integrity and be more transparent about their procedures and more service oriented. Further, customs administrations should collaborate more with tax departments and other related government agencies.

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Progress towards the Millennium Development Goals

With five years left to the Millennium Development Goals (MDGs) end date and with the rate of progress on most of the goals sluggish, it is unlikely that they will be attained. African governments, supported by international donors, must step up efforts to accelerate progress. However, African governments must also be willing to make a difficult choice. In the context of time constraints and limited financial and human resources, they must choose between aiming to achieve all the goals by the target date or to reach a few goals that they consider most critical for their long-term development.

Goal 1: Eradicate extreme poverty and hunger

Target 1A: Reduce by half, between 1990 and 2015, the proportion of people whose income is less than USD 1 a day

Africa experienced several years of high growth that led to a reduction of the proportion of poor people, from 58% in 1990 to 50% in 2005. However, the absolute number of poor people rose from 296 million to 388 million. The continent's rapid growth during 2000-08 came to an abrupt halt in 2009, as Africa became a victim of the worldwide financial crisis. By early 2009, it became clear that for most African countries, the crisis was a serious setback. With five years left to the MDGs end date, Africa became more than ever seriously off track to achieve the poverty reduction MDG.

To prevent a development crisis, the international community needs to continue to work in partnership with African countries to mitigate the effects of the crisis, which threatens the achievements in terms of higher growth and some gains in poverty reduction over the past decade.

Target 1C: Reduce by half, between 1990 and 2015, the proportion of people who suffer from hunger

Although the absolute number of undernourished people in the region has increased on average from 172.8 million in 1990-92 to 217.2 million in 2004-06, the proportion of the African population below the minimum level of dietary energy consumption declined marginally, from 34% to 30%. These figures exclude north Africa, where less than 5% of the population is undernourished. Moreover, west Africa reported a decrease in the absolute number of undernourished people during the period.

Lack of data for the corresponding indicators makes it difficult to monitor progress at individual country levels. Out of 29 countries for which data are available, 22 made progress in reducing the prevalence of underweight children aged under five over the period 1990-99 to 2000-07, with the rate of progress varying by country. Twelve countries (Mali, Angola, Tanzania, Nigeria, Senegal, Mozambique, Ghana, Rwanda, Malawi, Egypt, Uganda and Niger) reduced prevalence of underweight children by over 5%, while the remaining ten countries (Namibia, Eritrea, Cameroon, Liberia, Côte d'Ivoire, the Central African Republic, Algeria, Kenya, Togo and Chad) reduced it by less than 5%. In seven countries the prevalence of underweight children increased over the period.

The continent maintained its progress towards meeting this target in 2007, although the number of people who suffer from hunger has actually increased due to the rising population. Ghana has already met the target in large measure because of its stable good governance, sound macroeconomic policies and increased agricultural investments. North African countries have also met the target. Nonetheless, efforts need to be scaled up to meet this target because of its interaction with the other MDGs, especially the health-related MDGs. International co-operation remains essential in this regard.

The interaction of hunger and poverty makes assessment of progress according to this target complicated. In 2010 hunger persists in many African countries, notably in Niger, Burkina Faso, Madagascar, Eritrea and Chad. The recent global food crisis and economic crisis have contributed to rendering the achievement of this target unrealisable for many African countries.

Goal 2: Achieve universal primary education

Target 2A: Between now and 2015, give children everywhere, boys and girls alike, the means to complete a full course of primary schooling

Despite absolute improvements in primary school enrolment and completion rates, the continent is likely to miss the goal of achieving universal primary school completion, although it could come close.

Of the 29 countries with data for 1991 and 2007, Morocco, Mali, Madagascar, Malawi, Mauritania, Guinea and Ethiopia scored a significant improvement of 30% to 50%. Another group of countries that successfully improved primary net enrolment by about 10% to 30% during this period includes Djibouti, Swaziland, Togo, Ghana, Niger, Senegal, Rwanda, Gambia, Burundi and Burkina Faso. However, the statistics between 2005 and 2007 show that Tunisia, Algeria, Togo, Eritrea and Malawi had actually regressed. Furthermore, Republic of Congo and Equatorial Guinea became clear outliers as they regressed by more than 27% between 1991 and 2007. Also showing a regression during this period, but by a smaller margin, were Cape Verde and South Africa.

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On the other hand, as of 2007, Mauritius, Zambia, Algeria, Tunisia, Egypt, Madagascar, and São Tomé and Principe had achieved the target or were only less than 5% from achieving it. Morocco, South Africa, Rwanda, and Uganda were within the range of 5% to 10% from the target. In addition, if progress is maintained at the same pace registered between 1991 and 2005, 13 countries are also likely to achieve this target. Countries from this category are Namibia, Malawi, Swaziland, Kenya, Cape Verde, Burundi, Mauritania, Togo, Guinea, Senegal, Ethiopia, Ghana and Gambia. In contrast, there are seven countries whose net primary enrolments were very low and far from the target by about 37% to 58%. These countries include Djibouti, Eritrea, Niger, Burkina Faso, the Central African Republic, Republic of Congo and Mali.

While the news on enrolment is heartening, progress on completion rate remains very slow. Although completion rate is not an official MDG indicator, it has nonetheless been used as a measure of the quality of the education system. The countries reporting the most progress in both primary enrolment and completion rates are countries with significant private primary education sectors. Countries which achieved the biggest improvements were Mauritania, Tunisia, Malawi, Madagascar, Morocco, Mali, and Guinea. The only countries which actually made a decline in primary completion rates over time were Mauritius and Rwanda by about 13 and 6 points, respectively. Sub-regional analysis was not possible for lack of sufficient data for all sub-regions. But from available data, we can speculate that countries in north and west Africa scored the highest between 1991 and 2007. In general, the continent has shown great improvements in primary level completion when compared with the 1991 level.

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Goal 3: Promote gender equality and empower women

Almost two-thirds of developing countries reached gender parity at the primary school level by 2005; in Africa, the MDG 3 target of achieving gender parity in primary education can be met by 2015. However, MDG 3 also calls for gender parity in secondary and tertiary education, gender equality in employment, and increased political representation of women. Towards the latter goals, Africa's progress has been slower and more uneven.

In primary and secondary education, the west African countries of Gambia, Guinea, Mauritania and Senegal lead the pack as countries that have shown most improvement in achieving gender parity. Data from 2007 show that countries that have achieved or nearly achieved gender parity in primary school, with indicators close to 1, are Zambia (0.97), Seychelles (0.99), and São Tomé and Principe (1). Rwanda, Malawi, Gambia and Mauritania have achieved a gender parity level above one in primary education, indicating that more girls than boys are enrolled in primary schools. Overall, if the current trends continue, most African countries will achieve gender parity in primary education by the target date.

In secondary education, South Africa, Namibia, São Tomé and Principe, and Cape Verde have a gender parity level above 1. With most countries not yet having achieved a gender parity index of 0.90 by 2007, and many still struggling to reach a gender parity index of 0.50, if the current trends continue, it is highly unlikely that African countries will reach this target by 2015.

Considering tertiary education, many African countries continue to fail to report on gender parity, with only nine countries providing data for 1991 and 2007 (Ethiopia, Burkina Faso, Burundi, Tanzania, Malawi, Ghana, Madagascar, Morocco and Tunisia). All of these countries have reduced gender disparity, with Tunisia (0.85) having reduced disparity the most, followed by Morocco (0.31) and Tanzania (0.29). Data for 2007 show that Cape Verde (1.21), Algeria (1.4) and Tunisia (1.51) have actually surpassed parity. In these countries, women are much more likely than men to access tertiary-level education.

In 2009, the overall trend of an upward increase of the proportion of women in African national parliaments remains strongly visible as in the last reporting year of 2008. Countries such as Rwanda, Angola and Mozambique lead the continent on this indicator. In fact, Rwanda, which has consistently taken the lead over the past couple of years, increased the share of women in its parliament by 7.8% between 2008 and 2009. Angola, which held elections in September 2008, improved women's representation in its national parliament by 22.8 percentage points from its previous election held in September 1992, and between 1990 and 2009 Mozambique's share of women in parliament increased by 19.1 percentage points.

Goal 4: Reduce mortality of children under five

Overall, if the current trend continues the continent as a whole is unlikely to meet the goal of reducing under-five mortality by the target date. In particular, poverty and malnutrition, HIV/AIDS, low immunisation coverage, high neo-natal deaths, and malaria still factor into the stagnation and reversal in the previous gains made in under-five mortality rates in some countries.

Algeria, Cape Verde, Egypt, Libya, Mauritius, Morocco, Seychelles and Tunisia are on track to achieve the target of reducing under-

five mortality by two-thirds. Countries such as Angola, Benin, Comoros, Eritrea, Ethiopia, Guinea, Liberia, Madagascar, Malawi, Mali, Niger, Rwanda, Somalia and Togo saw under-five mortality rates drop rapidly (by 50% or more) from very high initial values. However, the rate of progress is insufficient to reach the target. On the other hand, in six countries – namely Cameroon (6.5%), the Central African Republic (0.6%), Chad (4%), Republic of Congo (20.2%), Kenya (24.7%) and Zambia (4.3%) – the under-five mortality rate increased between 1990 and 2008.

All sub-regions except central Africa have made progress in reducing under-five mortality. North Africa has made the most progress by reducing this mortality rate by 42% between 1990 and 2007, followed by east Africa (26%), southern Africa (24%) and west Africa (20%). The period 1995-2007 indicates that improvements in under-five mortality have stagnated in central Africa, and the under-five mortality rate has increased by 5% between 1990 and 2007. West Africa and central Africa registered the highest under-five morality rates in 2007.

Goal 5: Improve maternal health

Target 5A: Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio

The wellbeing of mothers and that of their children is inextricably linked. When mothers are poor, uneducated and unable to access health care, the risks to themselves and their children multiply. The Save the Children organisation estimates a woman's lifetime risk of dying due to maternal causes in Africa to be 1 in 26, compared with 1 in 120 in Asia and 1 in 290 in Latin America. This proportion is alarming, especially if we consider conditions in developed countries, where only 1 pregnant woman out of 3 700 incurs that risk.

Most maternal deaths can be prevented if birth is attended by skilled health personnel. Data from the World Health Statistics (WHS) show significant improvements in much of Africa. Of 52 African countries, 7 report a proportion of births attended by a skilled health professional of 90% and above. Ethiopia is the only country that falls below the 10% mark, with only 6% of all births attended by a skilled professional. Nineteen countries have a birth-attended-by-a-health-professional rate below 50%, of which 12 countries fall behind the World Health Organization (WHO) regional average rate of 46%. Forty countries rank above this average.

Looking at adolescent birth rates, 29 countries report numbers that are below the WHO's regional average of 117 births per 1 000 of girls aged 15 to 19, while 21 countries report a rate that is higher than the average[1]. Three countries have failed to report data on this indicator. Three north African countries report the lowest adolescent fertility rates on the continent. These are Algeria, Libya (both with 4 births per 1 000 girls aged 15 to 19) and Tunisia (6/1000), followed by Morocco, Djibouti and Egypt. These numbers demonstrate that north Africa is well ahead of the rest of the continent in reducing adolescent fertility rates.

Antenatal care coverage across Africa has seen steady improvement. Seventeen African countries report a rate above 90% for at least one visit, and only four countries – Niger (46%), Chad (39%), Ethiopia (28%) and Somalia (26%) – report a rate below 50%. Three countries have failed to report data on this indicator. In addition, 10 countries have a rate that is higher than the WHO regional average of 73%, while 40 countries fall below this average.

Goal 6: Combat HIV/Aids, malaria and other diseases

Target 6A: Have halted by 2015 and begun to reverse the spread of HIV/AIDS

The picture is still gloomy in Africa based on new data from the Joint United Nations Programme on HIV/AIDS (UNAIDS). In 2008 sub-Saharan Africa accounted for 67% of HIV infections worldwide, 68% of new HIV infections among adults and 91% of new HIV infections among children. The region also accounted for 72% of the world's AIDS-related deaths in 2008. Over time, there have been some encouraging gains, but progress must be accelerated if the MDG targets are to be met. The prevalence rate in sub-Saharan Africa in 2008, where most HIV patients live, had dropped to around 5% and confirms a trend of declining rates since 2005 (UNAIDS, 2009).

Some improvements were made in the countries most heavily affected by the epidemic. Botswana, with an adult HIV prevalence of 24%, saw some evidence of a decline in prevalence in urban areas. Lesotho's epidemic also appears to have stabilised, with an adult HIV prevalence of 23.2% in 2008. In eastern Africa, declines in HIV prevalence reported in Uganda in the past decade appear to have reached a plateau. In Burundi, official statistics show that for the 15- to 24-years-old population between 2002 and 2008, HIV prevalence declined in urban areas from 4% to 3.8%, and in semi-urban areas from 6.6% to 4%. At the same time, HIV prevalence slightly increased in rural areas, from 2.2% to 2.9%. According to a 2007 household survey in Kenya, the decline reported since 2003 was reversed with HIV prevalence from 6.7% to 7.4%. West and central Africa are still much less affected than southern Africa. While adult HIV prevalence is below 1% in three west African countries (Cape Verde, Niger and Senegal), nearly 1 in 25 adults (3.9%) in Côte d'Ivoire and 1.9% of the general population in Ghana are living with HIV (UNAIDS, 2008).

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The mortality rates have not increased and seem to be stable, partly because of an increase in access to antiretroviral therapy (ART) for HIV patients. Even better is that the number of newly infected individuals has dropped to 1.9 million in 2008. The number of adults and children newly infected with HIV has been reduced by 17.4% between 2001 and 2008. The prevention programmes, combined with treatment therapy, are positively affecting current trends; however, the number of people living with HIV continues to be high. This is a strain on health systems. Nonetheless, the number of people living with HIV stays high in part owing to the paradox of success: increased access to treatment is reducing HIV/AIDS mortality and increasing the number of people living with AIDS.

Goal 7: Ensure environmental sustainability

Managing climate change and variability presents significant challenges to African countries not only in terms of achieving their MDGs by 2015, but also in terms of sustaining development and the environment in the longer term. Africa is the lowest emitter of carbon dioxide. Further, carbon dioxide emissions decreased in Africa over the period 1990-2006, except for Seychelles and Algeria. Libya and Equatorial Guinea lead the region in terms of emissions because of gas flaring in oil fields. The World Bank (2009) estimates that adaptation measures would cost about USD 18.1 billion per year for Africa, excluding north Africa. The adaptation cost for the health sector is calculated at USD 4 billion to USD 12 billion and represents possible setbacks in malnutrition and increases in vector-borne diseases from 2010-30.

Related to access to safe drinking water, many countries are experiencing water stress which is likely to be exacerbated by climate change. As water use for irrigation and other agricultural purposes continues to increase, countries will need to introduce more efficient water management systems. The urban-rural divide in access to improved water sources continues to be a policy challenge. Nonetheless, the proportion of rural households with improved access to drinking water sources increased from 54% to 65% from 1990-2006. In north Africa, piped water availability improved from 34% to 63%.

Goal 8: Develop a global partnership for development

With five years left to the MDGs end date and with the rate of progress on most of the goals sluggish, it is unlikely that they will be attained. The African Development Bank estimates that the continent would need about USD 50 billion per year of additional financing to reach the GDP growth rates necessary to achieve MDG Goal 1 of halving poverty by 2015. Although financial needs to achieve several goals are substantial, they must be met. Africa cannot be left alone or viewed as the last priority. Of course, greater financial assistance and other support will be challenging to mobilise in times of economic stress in donor countries. But the returns to helping Africa achieve the MDGs are equally very high, given the progress demonstrated by African countries over the past years.

Table 4.1: Progress towards Millennium Development Goals

		Goal 1	Goal 2	Goal 3	Goal 4	Goal 5	Goal 6	Goal 7	
		Eradicate extreme poverty and hunger	Achieve universal primary education	Promote gender equality and empower women	Reduce child mortality	Improve maternal health	Combat diseases	Ensure environmental sustainability	
Targets		Reduce by half population, between 1990 and 2015, the proportion of whose income is less than $ 1 a day	Ensure that all children can complete primary school	Eliminate gender disparity in all levels of education	Reduce by 2/3 under- 5 mortality	Reduce maternal mortality by 3/4	Combat HIV/AIDS, malaria and other diseases	Halve the % of people without access to safe water	Goals for which a country is classified as “early achiever” and “on tarck” out of 7 goals
Indicator		Proportion of Population living Below $1 (PPP) a day	Net primary enrolment ratio (%)	Girls to boys ratio (primary school level)	under five Mortality (per 1 000)	Maternal Mortality (per 100 000)	HIV Prevalence Rate (%)	Population with access to a sustainable water source (%)	
HDI Rank (2007)/182 countries	Countries								
104	Algeria	early achiever	early achiever	on track	early achiever	regressing	regressing	regressing	4 of 7
143	Angola	off track-slow	off track-slow	regressing	off track-slow	regressing	off track-slow	off track-slow	0 of 7
161	Benin	on track	early achiever	on track	off track-slow	early achiever	on track	off track-slow	5 of 7
125	Botswana	off track-slow	regressing	early achiever	on track	regressing	off track-slow	early achiever	3 of 7
177	Burkina Faso	off track-slow	off track-slow	on track	off track-slow	off track-slow	early achiever	on track	3 of 7
174	Burundi	off track-slow	early achiever	on track	off track-slow	regressing	early achiever	off track-slow	3 of 7
153	Cameroon	early achiever	…	regressing	off track-slow	regressing	regressing	off track-slow	1 of 7
121	Cape Verde	early achiever	regressing	off track-slow	early achiever	off track-slow	off track-slow	early achiever	3 of 7
179	Cent. Afr. Rep.	off track-slow	off track-slow	off track-slow	regressing	regressing	off track-slow	off track-slow	0 of 7
175	Chad	regressing	off track-slow	off track-slow	off track-slow	regressing	regressing	off track-slow	0 of 7
139	Comoros	off track-slow	early achiever	early achiever	early achiever	off track-slow	off track-slow	regressing	3 of 7
136	Congo	on track	early achiever	off track-slow	off track-slow	off track-slow	on track	off track-slow	3 of 7
176	Congo, RDC	off track-slow	regressing	off track-slow	regressing	regressing	off track-slow	off track-slow	0 of 7
163	Cote d'Ivoire	regressing	off track-slow	off track-slow	off track-slow	regressing	early achiever	off track-slow	1 of 7
155	Djibouti	regressing	off track-slow	on track	on track	regressing	early achiever	early achiever	4 of 7
123	Egypt	early achiever	off track-slow	on track	early achiever	off track-slow	regressing	early achiever	4 of 7
118	Eq. Guinea	off track-slow	regressing	early achiever	off track-slow	off track-slow	regressing	off track-slow	1 of 7
165	Eritrea	regressing	off track-slow	regressing	early achiever	early achiever	early achiever	off track-slow	3 of 7
171	Ethiopia	early achiever	early achiever	on track	on track	early achiever	early achiever	off track-slow	6 of 7
103	Gabon	early achiever	off track-slow	early achiever	early achiever	regressing	regressing	early achiever	4 of 7
168	Gambia	early achiever	off track-slow	early achiever	early achiever	off track-slow	early achiever	off track-slow	4 of 7
152	Ghana	early achiever	off track-slow	early achiever	off track-slow	off track-slow	off track-slow	on track	3 of 7
170	Guinea	on track	on track	early achiever	on track	regressing	off track-slow	off track-slow	4 of 7
173	Guinea-Bissau	regressing	off track-slow	off track-slow	off track-slow	regressing	off track-slow	off track-slow	0 of 7
147	Kenya	early achiever	on track	early achiever	off track-slow	off track-slow	on track	off track-slow	4 of 7
156	Lesotho	early achiever	regressing	early achiever	off track-slow	regressing	regressing	on track	3 of 7
169	Liberia	regressing	early achiever	on track	early achiever	regressing	on track	off track-slow	4 of 7
55	Libya	early achiever	early achiever	early achiever	on track	early achiever	regressing	early achiever	6 of 7
145	Madagascar	off track-slow	early achiever	early achiever	on track	regressing	off track-slow	off track-slow	3 of 7
160	Malawi	off track-slow	early achiever	early achiever	early achiever	regressing	off track-slow	on track	4 of 7
178	Mali	early achiever	early achiever	on track	off track-slow	regressing	off track-slow	off track-slow	3 of 7

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Indicator		Proportion of Population living Below $1 (PPP) a day	Net primary enrolment ratio (%)	Girls to boys ratio (primary school level)	under five Mortality (per 1 000)	Maternal Mortality (per 100 000)	HIV Prevalence Rate (%)	Population with access to a sustainable water source (%)	
HDI Rank (2007)/182 countries	Countries								
154	Mauritania	early achiever	on track	early achiever	off track-slow	regressing	regressing	off track-slow	3 of 7
81	Mauritius	on track	regressing	early achiever	off track-slow	early achiever	regressing	early achiever	4 of 7
130	Morocco	early achiever	early achiever	early achiever	early achiever	off track-slow	early achiever	off track-slow	5 of 7
172	Mozambique	off track-slow	on track	off track-slow	on track	early achiever	regressing	off track-slow	3 of 7
128	Namibia	regressing	on track	early achiever	early achiever	regressing	regressing	early achiever	4 of 7
182	Niger	regressing	off track-slow	off track-slow	off track-slow	off track-slow	on track	off track-slow	1 of 7
158	Nigeria	regressing	off track-slow	off track-slow	regressing	off track-slow	off track-slow	regressing	0 of 7
167	Rwanda	regressing	early achiever	early achiever	on track	off track-slow	early achiever	off track-slow	4 of 7
131	Sao Tome & Principe	regressing	early achiever	early achiever	off track-slow	regressing	…	on track	3 of 7
166	Senegal	early achiever	off track-slow	early achiever	off track-slow	regressing	on track	off track-slow	3 of 7
57	Seychelles	…	early achiever	early achiever	…	…	…	off track-slow	2 of 7
180	Sierra Leone	off track-slow	…	early achiever	early achiever	regressing	on track	off track-slow	3 of 7
…	Somalia	…	…	off track-slow	off track-slow	off track-slow	regressing	regressing	0 of 7
129	South Africa	off track-slow	early achiever	early achiever	off track-slow	regressing	regressing	on track	3 of 7
150	Sudan	…	regressing	off track-slow	off track-slow	off track-slow	regressing	off track-slow	0 of 7
142	Swaziland	on track	regressing	regressing	off track-slow	off track-slow	regressing	off track-slow	1 of 7
151	Tanzania	regressing	early achiever	early achiever	off track-slow	regressing	off track-slow	off track-slow	2 of 7
159	Togo	regressing	off track-slow	on track	on track	off track-slow	early achiever	off track-slow	3 of 7
98	Tunisia	early achiever	early achiever	early achiever	early achiever	on track	regressing	early achiever	6 of 7
157	Uganda	on track	early achiever	early achiever	on track	off track-slow	on track	off track-slow	5 of 7
164	Zambia	regressing	early achiever	early achiever	off track-slow	regressing	off track-slow	off track-slow	2 of 7
…	Zimbabwe	regressing	early achiever	early achiever	off track-slow	regressing	off track-slow	off track-slow	2 of 7
	Early Achiever	**16**	**21**	**27**	**13**	**6**	**10**	**9**	
	On-track	**6**	**5**	**10**	**10**	**1**	**8**	**6**	
	Off track-slow	**13**	**16**	**12**	**26**	**18**	**16**	**34**	
	Regressing	**15**	**8**	**4**	**3**	**27**	**17**	**4**	
	Satisactory Performance Ratio	**44.0%**	**52.0%**	**69.8%**	**44.2%**	**13.5%**	**35.3%**	**28.3%**	

Source: African Development Bank

StatLink http://dx.doi.org/10.1787/855541223540

Notes

[1] These countries are Niger (199), Chad (193), Mali (190), Mozambique (185), Malawi (178), Guinea-Bissau (170), Angola (165), Uganda (159), Madagascar (154), Guinea (153), Zambia (146), Cameroon (141), Tanzania (139), Liberia (137), the Central African Republic (133), Congo (132), Burkina Faso (131), Equatorial Guinea (128), Nigeria (126), DRC (124) and Somalia (123).

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Political and Economic Governance

Political governance

Long-term political stabilisation in Africa regained momentum in 2009, following some disturbance in 2008. Several countries successfully undertook fair democratic elections, and government accountability increased. While setbacks are still common, improvements in checks-and-balances mechanisms bode well for future institutional consolidation on the continent.

To strengthen this process, however, and move firmly towards social progress, civil society must continue to develop and increase its capacity to become more involved in the political process. On the government side, institutional capacity needs to be strengthened and reforms pushed forward, in particular in the judiciary and security realms. Credible and independent courts are still rare in Africa but are key to guarantee the rule of law and protect citizens from any kind of abuse, including abuse of political power. This progress requires a cultural shift in the relations between the population and the government and also increased resources. Africa still suffers from human and financial deficits in its governance institutions, which create a disconnect between legal formal provisions/stipulations and implementation and execution. The improvement of access, quality and affordability of basic public services is also necessary to increase institutional effectiveness and accountability.

In 2008 the sharp increase in the prices of food and other basic consumption goods triggered social tensions and strong reactions from several governments. These events raised fears that the economic weakening in 2009 would further undermine the continent's social stability. Those fears did not prove true. Indeed, contrary to initial expectations, with a few exceptions, the global crisis did not lead to a significant increase in civil tensions. One possible reason is that African economies weathered the global crisis better than some observers feared. Lower food and energy prices also relieved the burden on households, including for the vocal urban middle class that had instigated a number of protests one year earlier. Several governments also put measures in place to sustain internal demand, thus further limiting social tensions. Nonetheless, rising unemployment exacerbated social discontent in several countries, notably in those which heavily depend on mining, a particularly affected sector. Concerns remain for the future, as fiscal stimulus measures have to be phased out to restore economic sustainability while at the same time unemployment may remain high or increase.

Overall for 2009, both tensions and hardening indicators decreased. High-intensity conflicts and rebellions generally calmed down, with some important exceptions. When confronted with peaks in tensions, many governments struck a better balance between hardening their military stance and launching/strengthening dialogue with rebellion movements. By and large, governments reacted more strongly and more responsively than in the past, which may contribute to reducing tensions over the longer term. The notable cases of co-operation among governments in the Great Lakes region provide significant steps towards reinforcing regional stability.

The following sections take stock of the conflicts and political troubles affecting Africa's growth potential and living conditions. This stocktaking is based on the African Economic Outlook original indicators on civil tensions and hardening of the regime, as well as on analysis by independent institutions such as the Heidelberg Institute and Transparency International.

Conflicts and civil tensions

After an increase by 7.5% in 2008 [1] the indicator of Civil Tensions declined in most African countries in 2009, decreasing by 12%, if we consider only the countries in the original sample [2]. Although episodes of instability increased marginally in almost half of the 51 countries included in the sample for 2009 [3] (versus 18 in 2008), the intensity of the average increase moderated significantly. The bulk of troubles concentrated in a very few countries, namely Sudan, Democratic Republic of Congo (DRC) and Madagascar. While Sudan and DRC are considered traditionally unstable countries, bogged down in severe long-term civil strife, Madagascar experienced a serious political crisis, culminating in an unconstitutional change of leadership.

With the return to the downward trend in instability, hopes are raised that the (often violent) troubles experienced in 2008 will remain an exception, brought about by rises in food and oil prices. While demonstrations remained widespread in 2009, they did not generate a similar violence. Public demonstrations of dissent appeared more and more as evidence of a deepening of democracy and a strengthening of civil society, rather than as signs of violence and deep crises. In Senegal and Cameroon several demonstrations occurred for salary claims and to protest frequent energy shortages; in Côte d'Ivoire social claims intensified in the public administration and for election-related issues; in Algeria sporadic demonstrations occurred against unsolved social issues; in Burkina Faso demonstrations related to salary, working conditions, and to claim further investigation on a journalist killed in obscure circumstances in 1998 (the "Zongo" affair). Started in 2006, demonstrations in South Africa continued through 2009 and increased in frequency. Protesters, mostly from poor areas, demonstrated against the lack of progress in lifting living conditions for the majority. However, these events did not reach the level of violence experienced in 2008.

Several stabilisation processes continued during 2009, as witnessed in Rwanda, Angola and Mozambique, where general elections were organised. After a civil conflict of almost 30 years ending in 2002, Angola today is remarkably stable and, despite some demonstrations, civil tensions remain limited. Liberia, whose civil war ended in 2003, still struggles with widespread violence. However, positive signs are increasing, and the government has renewed its commitment to reconciliation.

Rebellions and terrorist attacks intensified in some cases. Several governments reacted to escalating violence on their territories with a two-pronged approach, hardening their response while at the same time opening negotiations. These more pragmatic approaches are a welcome development.

The transnational terrorist network Al-Qaeda and its affiliated groups, motivated by religious fundamentalism, committed numerous attacks of varying scale, particularly in Algeria and Mauritania. A recent development was the spread of such attacks to Mali and Niger. These two countries experienced an increase in civil tensions also owing to the intensification of troubles linked to the Touareg rebellion. In Senegal, tensions resumed in the Casamance region, five years after the signing of the General Peace Agreement.

In 2009 a number of countries began to feel the positive effects of negotiations. A climate of dialogue that bodes well for future stabilisation is emerging. Although the situation remains fragile, the tensions and violence reduced significantly in Nigeria, after the government proclaimed in August 2009 a general amnesty for MEND rebels. Since then, 15 000 rebels have surrendered their weapons and led MEND to declare a ceasefire at the end of October 2009. Since 2006 MEND has succeeded in severely disrupting Nigeria's oil production through frequent attacks to pipelines and kidnapping foreign workers. The actions of MEND are motivated by the very poor living conditions in Delta Niger, a region rich in oil but with relatively few benefits for the population.

In the Great Lakes region, the DRC and Rwanda took a strong collaborative action to roll back a Hutu rebellion that has been spreading instability and violence in the north-east of DRC since 1994, and the Congolese rebel group CNDP *(Congrès national pour la défense du peuple)*. This joint action brought the capture of Laurent Nkunda, the Tutsi-Congolese leader of CNDP rebels. Also, Uganda, DRC, Sudan and the Central African Republic agreed to collaborate to fight against the Lord's Resistance Army (LRA), engaged in an armed rebellion against the Ugandan government since 1987. The conflict, one of the longest-running in Africa, has spread to the surrounding countries from northern Uganda, and has often specifically targeted the civilian population with acts of extreme violence. While these joint actions have temporarily triggered an increase in instability in these countries, they have successfully weakened the LRA and should thus be considered in a context of broader stabilisation.

In Chad overall civil tensions decreased in 2009. These problems had peaked in 2008 when frictions between the government and rebels turned to open warfare. Several agreements were signed in 2009 between Chad and neighbouring Sudan and contribute to lower tension, although the situation remains fragile, and sporadic fights continue between rebels and the government.

Despite the overall positive developments in Africa, tensions remain high in a number of countries. Among the traditionally unstable countries, Sudan continues to face frequent fights between army and rebels in the south and in the Darfur regions. In February 2010, a new peace agreement was signed between the government and the south-Sudan rebel movement JEM (Justice and Equality Movement), but fights resumed soon after. South Sudan remains affected by LRA operations from Uganda, while rebels from Chad operate at the western border. In 2009 tribal conflicts increased markedly, resulting in thousands of civilian deaths. Beyond Sudan, tribal and/or religious clashes intensified in the DRC, Algeria (in the Ghardaïa region), Kenya, Niger, the Central African Republic and Nigeria. In Nigeria, clashes between Muslims and Christians continued in 2010, causing the death of almost 1 000 civilians in only a few days at the beginning of the year.

In Uganda instability increased sharply. This change was due partly to the intensification of the front against LRA rebels in the north, but it was also caused by violent ethnic clashes. In September 2009, inter-communitarian clashes occurred, also involving the regular army. In Kampala, violent demonstrations erupted after the police prevented the visit of the *Kabaka* (king) Ronald Muwenda Mutebi II, who is critical of Banyala political influence. The riots resulted in violent clashes between civilians and the police.

Some post-conflict countries still struggle with instability, in a context of weak legal and judicial systems and widespread human rights abuses. Burundi and Sierra Leone, which recently emerged from violent civil conflicts, continued to experience instability during the year. Instability is in particular due to the easy availability of weapons coupled with the frequent use of violence to solve private disagreements – legacies of the recent conflicts that damaged the countries' social fabric.

The organisation and holding of elections caused instability in Togo, Equatorial Guinea, Gabon and the Republic of Congo. In the Republic of Congo, memories of the past conflict pushed several thousand people to leave Brazzaville, following violent post-electoral demonstrations. In Gabon, several deaths were recorded following post-electoral riots and demonstrations.

A more worrisome development is the continuing occurrence of *coups d'état* in 2009. After unconstitutional changes of power in 2008 in Mauritania and Republic of Guinea, 2009 saw Madagascar and Guinea-Bissau follow suit. In Madagascar, the political crisis

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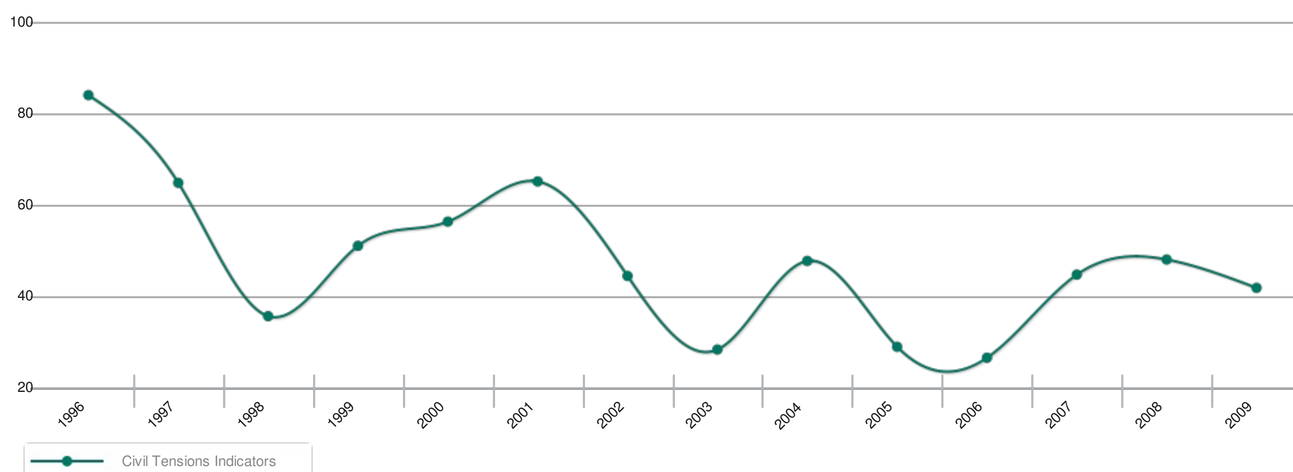
was generated by a power struggle between former president, Ravalomanana and the former mayor of Antananarivo, Andry Rajoelina. Violent confrontations erupted in the capital city, the crisis ending with Rajoelina ensconced as new president, supported by the army. In Guinea-Bissau, former President Joao Bernardo Vieira and the Chief of Staff of the army were both killed, following a series of attempted coups at the beginning of the year. Instability, traditionally high in Guinea-Bissau, has recently been exacerbated by the presence of drug-traffickers from Latin America. Weak state capacity offers fertile grounds for criminal networks to settle and sow further instability. Although stability was restored in Guinea-Bissau with the holding of elections, Madagascar remains unstable and, at the time of writing, the political crisis continues. Attempted coups have also occurred in Togo and Equatorial Guinea.

In early 2010, the army overthrew Niger's President Tandja, following several demonstrations and strikes caused by Tandja's attempt to prolong his mandate through a contested constitutional revision.

Figure 5.1: Civil tensions indicators



Sources: Authors' calculations based on *Marchés Tropicaux et Méditerranéens* .

StatLink http://dx.doi.org/10.1787/850370244807

Political stance

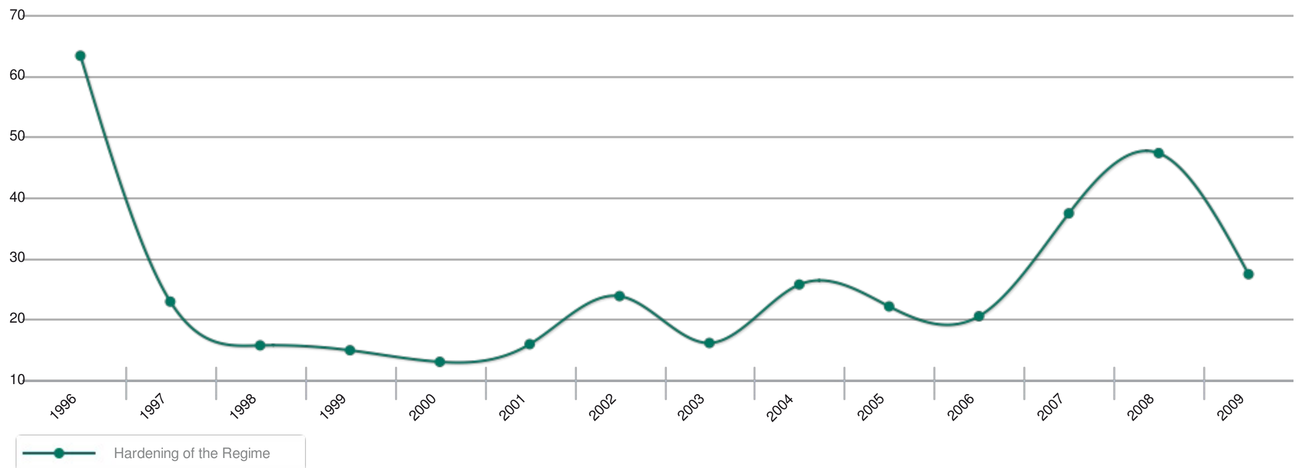
After the strong tightening of 2008 in reaction to rising instability, the political stance in Africa relaxed visibly in 2009. Among the countries included in the 2008 sample, the same number experienced a hardening of the regime (22). However, the average of the indicator decreased by over 25%, and the peaks of hardening experienced in 2008 disappeared, with the higher number recorded being 4.1, for Niger, against 9.9 in 2008, for Zimbabwe. While high levels of hardening were recorded in five countries in 2008 (Zimbabwe, Chad, Kenya, Mauritania and DRC), the number fell to only one in 2009, with only Niger recording a high score on this indicator. This evolution reflects that many governments facing an intensification of rebel attacks struck an effective balance between hardening their military stance and launching/strengthening dialogue with rebellion movements.

Examples of governments' mixed responses are widespread. In particular, Niger and Mali pushed forward their dialogue with the Touareg rebellion. This is a positive evolution, especially for Niger, which until 2008 had denied the rebel group's existence. In Nigeria, the government stance hardened in response to a rise in MEND attacks, which the police and army were incapable of holding back. To reduce kidnappings, a new law was passed in May 2009 threatening kidnappers with life-long jail sentences. This measure did not stall the movement and attacks increased further. As a result the government reviewed its position, opened negotiations and offered amnesty to insurgents (though negotiations were temporarily suspended following the hospitalisation of President Umaru Yar'Adua). In Chad, almost all political parties signed an agreement in August 2009 to hold elections in 2010. This, together with the peace agreement signed with the three main rebel groups in July 2009, reduced tensions in that country.

Political crises were also successfully resolved in Kenya and Mauritania, two countries that experienced severe tensions in 2008. In Kenya, post-electoral violence in January 2008 caused hundreds of casualties and fuelled a severe political crisis. But 2009 was marked by a progressive return to a more stable political situation, following the successful mediation of Kofi Annan and the formation of a coalition government in 2008. In Mauritania, instability in 2008 was generated by a by the army, which overthrew the country's first democratically elected president. After a turbulent pre-electoral period, free elections held in July 2009 re-

established constitutional order. After a 2008 characterised by high tensions and severe repression, the situation in Zimbabwe also calmed down. The formation of a coalition government ended the violent repression the government had carried out one year earlier. That repression had contributed to worsening the effect of a severe economic and humanitarian crisis which continues.

Figure 5.2: Hardening of the regime



Sources: Authors' calculations based on *Marchés Tropicaux et Méditerranéens* .

StatLink http://dx.doi.org/10.1787/850374883184

In Mauritania the military junta upheld its commitments and organised free elections, allowing for a peaceful transition and the restoring of constitutional order. The government also pushed forward the social reconciliation process following the violent repression of the early 1990s. In March 2009, Mauritania launched a compensation plan for affected families, while several civil servants previously excluded from the public service were reintegrated in October.

A number of governments also recorded a marginal hardening of their position due to actions taken against crime that generated instability and social tensions. This is the case of Algeria and Morocco, which dismantled several terrorist drug trafficking and illegal migration networks (in particular against the Al-Qaeda Maghreb that lately had increased the frequency of attacks and kidnappings). Tanzania for the first time took a stronger stance against ritual murders, in particular against Albinos, which were intensifying.

However, despite these positive developments, cases of hardening of the regime increased in some cases, in the form of attacks against opposition parties, attacks against civil liberties (demonstrations, press freedom, public debates) and attempts to overthrow constitutional order. Such regime hardening occurred in a few countries, in particular those which experienced or attempted coups.

In Niger the situation deteriorated significantly in the last part of 2009, when President Tandja organised a referendum to amend the constitution to allow him to stay in power beyond the end of his mandate, despite the Constitutional Court's prohibition. Demonstrations and strikes occurred before and after the referendum. Several civilians died during the clashes between protesters and the police. Militants, several journalists and members of opposition parties were arrested. During the entire period, censorship and debate/demonstration bans multiplied. The crisis ended with the army's coup d'état.

The situation in Republic of Guinea deteriorated significantly following the coup d'état of 2008, when Captain Dadis Camara, head of the military junta, declared his possible participation in forthcoming elections. Demonstrations and protests were violently repressed. In September 2009, 150 civilians died during a protest rally in a stadium of Conakry. Both nationally and internationally the army's violent reaction was condemned. Following these events, Dadis Camara was subject to an attempted murder. He was expatriated to Morocco and then to Burkina Faso. During this period, human rights organisations denounced episodes of rights violations. Abuse and human rights violations committed by regular troops are also common in countries such as the DRC and the Central African Republic, where the army is often out of control.

In Madagascar, the months before and after the coup d'état were characterised by violent repression of demonstrations, with dozens of casualties, measures against civil liberties and incarceration of opponents, both by the former president and his replacement. At the time of writing, the resolution of the crisis is still uncertain. While protests continue, Andry Rajoelina, the new

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president, in December 2009 unilaterally cancelled an agreement signed by all political parties and nominated a new prime minister.

Some hardening was recorded in countries organising elections, in particular in Gabon, the Republic of Congo and Comoros, but also in Equatorial Guinea and, to a much lesser extent, in Namibia and Malawi.

Africa has undergone some positive evolution in terms of freedom of press and the media, such as in Zimbabwe, Libya and Sierra Leone. Reporters without Borders named Mali the champion of press freedom in Africa in 2009. Generally speaking, however, the situation of the press on the continent remains problematic. Only seven countries are considered free by Freedom House. Acts against the open circulation of information are widespread in a number of countries, including those that underwent severe hardening related to political crisis or elections, but not only [4] in those countries.

For the first time in years, the Political Freedom Index (PFI) from Freedom House for 2009 shows more improvements than setbacks in sub-Saharan Africa, confirming the analysis and indicator trends used here. Twelve countries saw an improvement of either political or civil rights, against only five that experienced a worsening. The PFI is based on measures of several components of political freedom. These measures include free and fair elections; honest vote counting; the extent to which citizens are free to organise in different political parties or groupings; whether there is a significant vote for the opposition and a realistic possibility of coming to power through elections; self-determination and freedom from any kind of domination; reasonable self-determination for cultural, ethnic, religious and other minority groups; and the extent to which political power is decentralised.

Table 5.1: Freedom in Africa in 2009, countries' sub-scores

Country	Political Rights	Civil Liberties	Freedom Status	2008
Algeria	6	5	Not Free	=
Angola	6	5	Not Free	=
Benin	2	2	Free	Improved
Botswana	3 (worse 1pt)	2	Free	Improved
Burkina Faso	5	3	Partly Free	=
Burundi	4	5	Partly Free	Improved
Cameroon	6	6	Not Free	=
Cape Verde	1	1	Free	=
Central African Republic	5	5	Partly Free	Improved
Chad	7	6	Not Free	=
Comoros	3 (impr 1pt)	4	Partly Free	=
Congo (Brazzaville)	6	5	Not Free	Worsened
Congo (Kinshasa)	6 (worse 1pt)	6	Not Free	=
Côte d'Ivoire	6 (impr 1pt)	5	Not Free	=
Djibouti	5	5	Partly Free	Improved
Egypt	6	5	Not Free	Worsened
Equatorial Guinea	7	7 (worse 1 pt)	Not Free	=
Eritrea	7	7 (worse 1 pt)	Not Free	=
Ethiopia	5	5	Partly Free	Improved
Gabon	6	5 (worse 1pt)	Not Free	Worsened
Ghana	1	2	Free	=
Guinea	7 (worse 1 pt)	6 (worse 1 pt)	Not Free	=
Guinea-Bissau	4	4	Partly Free	=
Kenya	4	4 (worse 1pt)	Partly Free	=
Lesotho	3 (worse 1pt)	3	Partly Free	Worsened
Liberia	3	4	Partly Free	Improved
Libya	7	7	Not Free	=
Madagascar	6 (worse 2pt)	4 (worse 1pt)	Partly Free	=
Malawi	3(impr 1pt)	4	Partly Free	=
Mali	2	3	Free	=
Mauritania	6 (worse 2pt)	5 (worse 1pt)	Not Free	Worsened
Mauritius	1	2	Free	=
Morocco	5	4	Partly Free	Improved
Mozambique	4 (worse 1pt)	3	Partly Free	=
Namibia	2	2	Free	=
Niger	5 (worse 2pt)	4	Partly Free	Improved
Nigeria	5 (worse 1pt)	4	Partly Free	=
Rwanda	6	5	Not Free	=
Sao Tome & Principe	2	2	Free	=
Senegal	3 (worse 1pt)	3	Partly Free	=
Seychelles	3	3	Partly Free	=
Sierra Leone	3	3	Partly Free	=
Somalia	7	7	Not Free	=South Africa
Sudan	7	7	Not Free	=
Swaziland	7	5	Not Free	=
Tanzania	4	3	Partly Free	=
The Gambia	5	5 (worse 1pt)	Partly Free	Improved
Togo	5	4 (impr 1pt)	Partly Free	Improved
Tunisia	7	5	Not Free	=
Uganda	5	4	Partly Free	=
Zambia	3	4	Partly Free	Improved
Zimbabwe	6 (impr 1pt)	6	Not Free	=

Note: In parentheses: The evolution of the index from 2008. "impr": improvement; "worse": worsening; "=": no change. The lower the index, the higher the degree of freedom. Source: Political Freedom Index, Freedom House.

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Peace and security

According to the Heidelberg Institute (2009), Africa (including north Africa) still ranked second in the Conflict Barometer classification in 2008, with 98 conflicts[5], after Asia and Oceania with 113[6]. Although according to this analysis the number of conflicts increased, their intensity decreased, confirming our analysis. Eight new crises erupted in 2009, including the one between Angola and the Democratic Republic of Congo (DRC) over oil-rich Cabinda, unprecedented ethnic clashes in the DRC, and the explosion of a crisis in Gabon between government and opposition following the presidential election. Other crises concerned Madagascar, Mali, Niger (two) and Somalia. Among the identified conflicts, only nine are classified as highly violent[7], down from 12 in 2008. Only one conflict is an open war (Somalia), down from three in 2008. Nonetheless, Africa ranks first for the number of *coups d'état*, being the scene of four *coups* or attempted *coups*, out of a worldwide total of nine [8].

Among the improvements, the barometer enumerates the case of Kenya. After the post-electoral violence that caused the death of 1 500 people, a power-sharing deal, though fragile, successfully halted violence. The second de-escalation occurred in Comoros, where the crisis of last year became a latent conflict after the military intervention of African Union (AU) troops had forced the secessionist Anjouan President Mohamed Said Bacar into exile. However, on the negative side, and according to the barometer definition, one latent conflict escalated to crisis in Ethiopia (between the pastoralist community of Oromo and Somali), and one manifest conflict escalated to severe crisis in Nigeria (between the Boko Haram sect and the Nigerian government).

Africa is characterised by two areas of inter-related highly violent conflicts, often transcending national borders: one goes from Nigeria over Chad, Sudan and the Horn of Africa; while the second is in the Great Lakes region, with DRC, Uganda and the Central African Republic (CAR). In the first area, the barometer confirms that terrorist acts rose in 2009, as the AEO civil tensions indicator highlights. At continental level, the most widespread reason for conflict remains the control over resources (33 cases), while national power ranks second, with 26 cases.

A large number of peace agreements were concluded in Africa in 2009. In Chad a treaty was signed between the rebel coalition National Movement and the government. In Burundi, the last remaining rebel faction and the government signed a treaty. In the CAR the treaty was signed between two rebel groups and the government, foreseeing the formation of a consensus government to rule until the scheduled presidential elections in 2010 and an amnesty law covering violations committed during the conflict. In Mali and Niger, treaties were signed between the Touareg rebellion and the respective governments, in the DRC between the Mayi-Mayi militias and the government, as well as between the Tutsi rebel group formerly led by Laurent Nkunda and the government.

As in previous years, Africa is still the region of the world with the largest number of UN peace-keeping missions, no major change having occurred in 2009. Current missions include UNAMID in the Sudanese Darfur region; UNMIS in Sudan; UNOCI in Côte d'Ivoire; UNMIL in Liberia; MONUC in the DRC; MINHURSO in Western Sahara and Morocco; and the peace building mission BINUB in Burundi. UNOGBIS, the peace-keeping mission in Guinea Bissau, was transformed into an integrated peace-building office. This transformation followed the dramatic events of March 2009 and the window of opportunity created by the re-establishment of political stability following the presidential elections. MINURCAT, in the Central African Republic and Chad, took over the tasks from EUFOR mission, from the European Security and Defence Policy (ESDP).

In 2009 the AU extended its mandate for its mission in Somalia (AMISOM) for another three months. Besides this mission, the AU is still active in Darfur, with the hybrid UN-AU mission (UNAMID) also supported by the North Atlantic Treaty Organization (NATO). Established in 2008, UNAMID is the only example of collaboration between the UN and regional and multilateral organisations on the continent. Although this did not take shape as a mission, the AU took a strong position against Guinea, suspending its membership and imposing sanctions and an arms embargo after the army seized power following the death of former President Lansana Conté. The Economic Community of West African States (ECOWAS) took the same measures, while the EU imposed sanctions and an arms embargo. ECOWAS suspended Niger from its membership and also imposed an arms embargo.

The success and effective implementation of the African Peace and Security Architecture (APSA) will help determine peace and stability on the continent in the coming years. APSA consists of diverse mechanisms for conflict prevention, management and resolution, as well as post-conflict reconstruction and development.

The progress and success in the efforts towards the establishment of APSA, launched in Durban in 2002, have been mixed. The past years have witnessed the implementation of the Continental Early Warning System (CEWS); the establishment of the regional brigades, which are the foundations for the African Standby Force (ASF); and the establishment and engagement in various peace and security issues of the Panel of the Wise (POW).

The Military Staff Committee (MSC) and the Peace Fund also came into being. The MSC is mandated to advise and assist the Peace and Security Council (PSC) on military and security issues to ensure that policies and actions in the fields of conflict prevention, management and resolution are consistent with sub-regional mechanisms. The role of the MSC also extends to supporting efforts in

early warning, conflict prevention, peacemaking, peacekeeping and post-conflict peace building.

The major challenge of the MSC to perform its functions properly and ensure its support for the PSC is the inadequate representation of member states of the PSC in the MSC. Understaffing has been also a major constraint. The last MSC annual meeting at the level of the Chiefs of Defence Staff took place in May 2009 in Addis Ababa and focused on the ASF.

Electoral processes

In 2009, 14 countries held elections: 10 presidents were elected, 8 parliaments were re-formed and the population expressed its opinion in 2 referendums.

The process has been positive in many cases. Elections put an end to the institutional crisis generated by the *coups d'état* that occurred in Mauritania in 2008 and in Guinea-Bissau in 2009. In Guinea-Bissau, in particular, the constitutional order was quickly re-established and elections were organised ahead of the date initially set for polling, resulting in the victory of Malam Bacai Sanha.

In other countries, the electoral process went on peacefully and was positively judged by observers. This is the case in Botswana and Namibia. In South Africa, legislative elections were considered fair and transparent and the process went smoothly, sealing the deepening of democracy.

However, in some other countries, tensions or irregularities were recorded. Opposition parties often face difficulties in accessing public space for campaign and debate in preparation for elections, which results in biased democratic competition. In Malawi, although no tensions were recorded during the electoral process, The Commonwealth and the European Union witnessed "imperfections". In contrast, tensions marked the electoral campaign in Equatorial Guinea, where Teodoro Obiang Nguema, in power since 1979, was re-elected with 95.37% of votes.

Elections were marked by severe tensions in both Gabon and the Republic of Congo. In Gabon, violent demonstrations marked the post-election period. Ali Bongo Ondimba has succeeded his father Omar Bongo Ondimba, who died in June 2009. In the Republic of Congo the election, won by Denis Sassou Nguesso with 78.61% of votes, was followed by a period of hardening and tensions.

In Niger the willingness of President Tandja to organise a referendum to allow him to change the constitution and remain in power triggered a severe institutional crisis. The referendum was marked by a record abstention rate and was not recognised as valid, either internally or externally.

For 2010, elections are expected in 16 countries, including Côte d'Ivoire, where elections have been postponed several times since 2005, and Guinea. Guinea hopes to solve the crisis generated by the *coup d'état* in 2008, after the death of President Lansana Conté, who had ruled the country without interruption since 1984.

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Table 5.2: Elections in Africa, 2009-10

	2009	2010
Algeria	Presidential (9 Apr)	
Angola		
Benin		
Botswana	Parliamentary (16 Oct)	
Burkina Faso		Presidential (21 Nov)
Burundi		Parliamentary and Presidential (Jun and Jul)
Cameroon		
Cape Verde		
Central African Rep.		Parliamentary and Presidential (Apr and May)
Chad		Parliamentary (Nov)
Comoros	Referendum (17 May) / Parliamentary (20 Dec)	
Congo	Presidential (12 Jul)	
Congo Dem. Rep.		
Côte d'Ivoire		Parliamentary (no date) and Presidential (May)
Djibouti		
Egypt		Parliamentary (May)
Ethiopia		Parliamentary (23 May)
Equatorial Guinea	Presidential (29 Nov)	
Gabon	Presidential (30 Aug)	
Gambia		
Ghana		
Guinea		Parliamentary (16 Mar) and Presidential (27 Jun)
Guinea-Bissau	Presidential (28 Jun and 26 Jul)	
Kenya		
Lesotho		
Liberia		
Madagascar		Parliamentary (May) and Presidential (Oct)
Malawi	Parliamentary and Presidential (19 May)	
Mali		
Mauritania	Presidential (18 Jul)	
Mauritius		Parliamentary (Jul)
Morocco		
Mozambique	Presidential and Parliamentary (28 Oct)	
Namibia	Presidential and Parliamentary (27 Nov)	
Niger	Referendum (4 Aug) and Parliamentary (20 Oct)	
Nigeria		
Rwanda		Presidential (9 Aug)
São Tomé and Principe		Parliamentary (Apr)
Senegal		
Seychelles		
Sierra Leone		
South Africa	Parliamentary (22 Apr)	
Sudan		Parliamentary and Presidential (11 Apr)
		Referendum (Jul)
Swaziland		
Tanzania		Parliamentary and Presidential (Oct)
Togo		Presidential (4 Mar)
Tunisia	Presidential and Parliamentary (25 Oct)	
Uganda		
Zambia		
Zimbabwe		Presidential and Parliamentary (Mar)

Sources: www.electionguide.org & africanelections.tripod.com.

Corruption

Despite the efforts recorded in some countries and the rising domestic and international attention, corruption remains a serious problem in Africa. The ongoing corruption reflects poor improvements in local accountability.

According to 2009 Transparency International's Corruption Perception Index (CPI), 31 out of 47 African countries scored less than 3 (out of 10), indicating that corruption is rampant. Additionally, 13 countries scored between 3 and 5, where corruption is perceived as a serious challenge by country experts and businesspeople. As in 2008, only Botswana, Mauritius and Cape Verde scored more than 5. The situation in South Africa continues to deteriorate: while in 2007 South Africa numbered among the best performers on the continent, in 2009 its score declined to 4.7, from 4.9 one year earlier.

Setbacks were more numerous than improvements, with 22 countries ranking lower in 2009, against only 19 going up. Countries that score 3.0 or above and are perceived as relatively less corrupt still face enormous challenges in the fight against corruption, exacerbated by poor enforcement of anti-corruption laws. In these countries, high-profile anti-corruption cases and scandals continue to be frequently reported and risk undermining political stability as well as the governments' capacity to provide effective basic services. According to the CPI, perceptible worsening occurred in Senegal and Madagascar, shifting from 3.4 to 3, and in Algeria, Gabon, Mali, Benin and Tanzania, all shifting from above 3 to 2.6-2.9.

As in the past, the CPI results clearly indicate that corruption is particularly challenging in fragile states, exacerbating political instability. Somalia, once again, features at the bottom of the ranking with a score of 1.0 as continued conflict and corruption trap the country in political and economic collapse, preventing structural reforms. Others scoring at the bottom of the rank, with 2.0 or less, include Angola, the DRC, Guinea, Chad and Sudan, all resource-rich countries. Despite their huge wealth and potential for generating domestic resources in terms of government revenue, these countries seem trapped into a severe lack of economic diversification, poor growth, rising poverty and inequality. In Angola the economic situation looks better thanks to the post-conflict catching–up dynamic, but wealth still remains a privilege of the elite.

On 31 October 2003 at the United Nations Headquarters in New York, the General Assembly of the United Nations adopted the United Nations Convention against corruption. The convention entered into force on 14 December 2005, after the required 30 countries ratified it. Forty-four African countries signed the convention, and 31 ratified it (as of October 2009). Additionally, three new countries, Gabon, The Gambia and Togo, ratified the African Union Convention on Preventing and Fighting Corruption, bringing the total number of ratifications to 46 since 2003.

In 2009, the African Union seems to have taken the issue of corruption more seriously, after a study conducted by the Commission of the AU revealed that costs of corruption amount to up to 10% of Africa's resources-generated wealth. Besides affecting the public administration, often involved at its highest levels, corruption increasingly takes the form of drug trafficking and money laundering. Against this background, the organisation decided to create a Special Commission to Fight against Corruption in January 2010, whose role will be to help African countries to acquire anti-corruption legislation.

In parallel, after the boom of 2008, the African Peer Review Mechanism (APRM) progressed further in 2009. Created in 2002 in the framework of NEPAD, the APRM aims at fostering political stability, economic growth, sustainable development and regional integration through the adoption of policies, rules and best practices. As of March 2010, 30 countries were involved in the process, 1 more than in 2008. After the record of 4 countries in 2008, 3 new countries were peer reviewed in 2009 (Mozambique, Mali and Lesotho), bringing the total number to 12 countries. Ethiopia and Mauritius are expected to be peer reviewed in June 2010 at the APRM Forum. Three countries, Ghana, Rwanda and Algeria, are ready for the second cycle after the peer review, the first two being pioneer countries of the entire process. Other activities foreseen for 2010 are advance missions to Angola, Togo, Djibouti, Sao Tome and Principe, Cape Verde and the Republic of Congo; support missions to Cameroon, Malawi, Sierra Leone, Gabon and Egypt; follow-up mission to Senegal; and country review missions to Tanzania and Zambia.

Launched in 2002 with the aim to foster transparency and good governance in managing natural resources, the Extractive Industry Transparency Initiative (EITI) is progressing in Africa, with 19 out of 30 members being on the continent. In 2009, four new countries became candidates, including Burkina Faso, Mozambique, Tanzania and Zambia, while Guinea asked to be suspended, owing to its delicate political situation. Ethiopia declared its intention to join the initiative. To achieve EITI compliant status a country must complete an EITI validation. This provides an independent assessment of the progress achieved and identifies what measures are needed to strengthen the EITI process. In 2009, six African countries published an EITI report, including the Central African Republic (1st report), Liberia (2nd report), Mali (1st report), Niger (1st report), Nigeria (2nd report) and Republic of Congo (1st report), bringing to 11 the total number of countries having published a report. Of the 22 countries facing a validation deadline in March 2010, only one African country, Liberia, met the deadline and is now EITI compliant, while Gabon was close to completing the process.

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Table 5.3: Corruption perception indexes (CPIs) for African countries, 2008 and 2009

Country	Global Rank 2008	CPI 2008	Global Rank 2009	CPI 2009
Botswana	36	5.8	37	5.6
Mauritius	41	5.5	42	5.4
Cape Verde	47	5.1	46	5.1
South Africa	54	4.9	55	4.7
Seychelles	55	4.8	54	4.8
Namibia	61	4.5	56	4.5
Tunisia	62	4.4	65	4.2
Ghana	67	3.9	69	3.9
Swaziland	72	3.6	79	3.6
Morocco	80	3.5	89	3.3
Burkina Faso	80	3.5	79	3.6
Senegal	85	3.4	99	3
Madagascar	85	3.4	99	3
Lesotho	92	3.2	89	3.3
Algeria	92	3.2	111	2.8
Gabon	96	3.1	106	2.9
Mali	96	3.1	111	2.8
Benin	96	3.1	106	2.9
Tanzania	102	3	126	2.6
Rwanda	102	3	89	3.3
Djibouti	102	3	111	2.8
Egypt	115	2.8	111	2.8
Malawi	115	2.8	89	3.3
Zambia	115	2.8	99	3
Mauritania	115	2.8	130	2.5
Niger	115	2.8	106	2.9
Togo	121	2.7	111	2.8
Nigeria	121	2.7	130	2.5
Sao Tomé and Principe	121	2.7	111	2.8
Eritrea	126	2.6	126	2.6
Mozambique	126	2.6	130	2.5
Uganda	126	2.6	130	2.5
Ethiopia	126	2.6	120	2.7
Libya	126	2.6	130	2.5
Comoros	134	2.5	143	2.3
Liberia	138	2.4	97	3.1
Cameroon	141	2.3	146	2.2
Kenya	147	2.1	146	2.2
Côte d'Ivoire	151	2	154	2.1
Central African Rep.	151	2	158	2
Burundi	158	1.9	168	1.8
Gambia	158	1.9	106	2.9
Guinea Bissau	158	1.9	162	1.9
Angola	158	1.9	162	1.9
Sierra Leone	158	1.9	146	2.2
Congo, Rep	158	1.9	162	1.9
Zimbabwe	166	1.8	146	2.2
Equatorial Guinea	171	1.7	168	1.8
Congo, Dem Rep	171	1.7	162	1.9
Guinea	173	1.6	168	1.8
Sudan	173	1.6	176	1.5
Chad	173	1.6	175	1.6
Somalia	180	1	180	1.1

Source: Transparency International.

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According to the chairman of EITI, the initiative, although moving slowly, is starting to show positive effects in several countries. In Nigeria, the process has shed light on a complex labyrinth of opaque payments and transfers, and it has shown the way to a more open and effective management of the sector. Several recommendations are now being taken up in the country's Petroleum Industry Bill. In post-conflict countries such as Liberia and the Democratic Republic of Congo, the EITI is part of a wider peace and reconciliation process. The citizens of Equatorial Guinea have for the first time access to information on state revenues from their oil industries. In volatile states such as Niger, Mauritania and Madagascar, the EITI creates a democratic space for citizens to contribute to their country's development. However, the informative content of some of the reports produced could be enhanced and civil society further and more deeply involved.

Economic governance

Africa continued to register marked improvement in its regulatory environment in 2009. Several countries have introduced new laws or have reformed existing laws, which makes it easier to do business. According to The World Bank report 2010, 67 regulatory reforms were registered in 29 of the 49 sub-Saharan African countries. The report further noted that for the first time an African country – Rwanda – has ranked as the world's top reformer. Mauritius also continued to perform well with a ranking of 17 of the 183 countries for the overall ease of doing business.

Rwanda has made major reforms in 7 of the 10 business regulation indicators monitored by . The country put a new law in place that provides flexibility to employers. Rwanda has also made significant improvement in its financial market by introducing a new secured transactions act and insolvency act to make secured lending more flexible, allowing a broad range of assets to be used as collateral. It has also made business start-up easier by eliminating a notarisation requirement; introducing standardised memorandums of association; enabling online publication; consolidating name checking, registration fee payment, tax registration, and company registration procedures; and shortening the time required to process completed applications.

Sierra Leone and Liberia are also doing well in adopting reforms. Both countries are rebuilding economies that were ravaged by war and violence for much of the 1980s and 1990s. Sierra Leone has successfully introduced reforms, which include a new company act that offers provisions for improved administration. This act encourages ailing businesses first to try to reorganise instead of going straight to liquidation. In addition, the government of Sierra Leone has made special efforts to improve tax collection by upgrading its human capacity and equipments of the tax authority. It has also introduced a consolidated income tax act and a new value added tax that replaces four sales taxes. Sierra Leone also now provides investor protections through a new company law that enhances director liability and improves disclosure requirements.

Table 5.4: Top reformers of Africa in 2009

Country	Major areas of reform	Progress in global rankings on ease of doing business between DB2009 and DB2010	Remarks
Rwanda	Starting a business -Employing workers -Registering property -Getting credit -Protecting investors -Trading across borders -Closing a business	139 to 67	Rwanda was ranked world's best reformer
Burkina Faso	Starting a business -Dealing with construction permits -Registering property -Trading across borders -Enforcing contracts	148 to 147	
Senegal	Trading across borders	149 to 157	
Sierra Leone	Starting a business -Getting credit -Protecting investors -Paying taxes -Closing a business	156 to 148	
Liberia	Starting a business -Dealing with construction permits -Trading across borders	157 to 149	
Botswana	Starting a business -Enforcing contracts	38 to 45	

Source: *Doing Business* survey 2009.

Several countries have made significant improvements in easing procedures to start a business. Liberia has expedited doing business by establishing a one-stop shop that brings together various ministries and agencies and by streamlining the inspection process. Reforms in Ethiopia included company registry and the streamlining of procedures to start a business. Zimbabwe lowered the cost of transferring a property by 15% of the property value. Ghana simplified business start-up by further streamlining registration procedures through the creation of a customer service desk at the one-stop shop. Uganda sped up trading times through better customs processes, improved co-operation at the borders and owing to increased operating hours at the Port of Mombasa in Kenya, which is the main gate for its external trade. Togo made business start-up easier by setting up a one-stop shop that eliminated six procedures and lowered costs by almost a fifth. Mozambique simplified business start-up by eliminating requirements for minimum capital and bank deposits. In Africa, administrative improvements in customs have helped reduce the time required to clear traded goods.

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Table 5.5: African Index of Economic Freedom for 2003-2010

World rank	Country	2010 Score	2009 Score	2008 Score	2007 Score	2006 Score	2005 Score	2004 Score	2003 Score
18	Mauritius	76.3	74.3	72.6	69.4	67.4	67.2	64.3	64.4
34	Botswana	70.3	69.7	68.2	68.1	68.8	69.3	69.9	68.6
61	South Africa	62.8	63.8	63.4	63.5	63.7	62.9	66.3	67.1
63	Uganda	62.2	63.6	63.8	63.1	63.9	62.9	64.1	60.1
71	Namibia	62.2	62.4	61.4	63.5	60.7	61.4	62.4	67.3
73	Madagascar	63.2	62.2	62.4	61.1	61	63.1	60.9	62.8
77	Cape Verde	61.8	61.3	57.9	56.5	58.6	57.8	58.1	56.1
85	Burkina Faso	59.4	59.5	55.7	55.1	55.8	56.5	58	58.9
90	Kenya	57.5	58.7	59.3	59.6	59.7	57.9	57.7	58.6
93	Tanzania	58.3	58.3	56.5	56.8	58.5	56.3	60.1	56.9
96	Ghana	60.2	58	57	57.6	55.6	56.5	59.1	58.2
97	Egypt	59	58	58.5	54.4	53.2	55.8	55.5	55.3
98	Tunisia	58.9	58	60.1	60.3	57.5	55.4	58.4	58.1
101	Morocco	59.2	57.7	55.6	56.4	51.5	52.2	56.7	57.8
107	Algeria	56.9	56.6	56.2	55.4	55.7	53.2	58.1	57.7
108	Zambia	58	56.6	56.2	56.2	56.8	55	54.9	55.3
110	Senegal	54.6	56.3	58.3	58.1	56.2	57.9	58.9	58.1
112	Gambia, The	55.1	55.8	56.9	57.7	57.3	56.5	55.3	56.3
113	Mozambique	56	55.7	55.4	54.7	51.9	54.6	57.2	58.6
114	Mali	55.6	55.6	55.6	54.7	54.1	57.3	56.6	58.6
115	Benin	55.4	55.4	55.2	55.1	54	52.3	54.6	54.9
117	Nigeria	56.8	55.1	55.1	55.6	48.7	48.4	49.2	49.5
118	Gabon	55.4	55	54.2	54.8	56.1	54.8	57.1	58.7
119	Côte d'Ivoire	54.1	55	53.9	54.9	56.2	56.6	57.8	56.7
124	Rwanda	59.1	54.2	54.2	52.4	52.8	51.7	53.3	47.8
127	Mauritania	52	53.9	55.2	53.6	55.7	59.4	61.8	59
128	Niger	52.9	53.8	52.9	53.2	52.5	54.1	54.6	54.2
129	Malawi	54.1	53.7	52.7	52.9	55.4	53.6	53.6	53.2
135	Ethiopia	51.2	53	52.5	53.6	50.9	51.1	54.5	48.8
136	Cameroon	52.3	53	54.3	55.6	54.6	53	52.3	52.7
140	Djibouti	51	51.4	51.2	52.4	53.2	55.2	55.6	55.7
142	Equat.Guinea	48.6	51.3	51.6	53.2	51.5	53.3	53.3	53.1
144	Guinea	51.8	51	52.8	54.5	52.8	57.4	56.1	54.6
151	Lesotho	48.1	49.7	52.2	53.2	54.7	53.9	50.3	52
153	Burundi	47.5	48.8	46.2	46.9	48.7	-	-	-
154	Togo	47.1	48.7	48.9	49.7	47.3	48.2	47	46.8
156	Cent. Afr. Rep.	48.4	48.3	48.6	50.6	54.2	56.5	57.5	60
158	Sierra Leone	47.9	47.8	48.3	47	45.2	44.8	43.6	42.2
159	Seychelles	47.9	47.8	-	-	-	-	-	-
161	Chad	47.5	47.5	47.8	50.1	50	52.1	53.1	52.6
162	Angola	48.4	47	46.9	44.7	43.5	-	-	-
165	Guinea Bissau	43.6	45.4	44.4	46.1	46.5	46	42.6	43.1
166	Congo. Rep.	43.2	45.4	45.4	44.4	43.8	46.2	45.9	47.7
171	Libya	40.2	43.5	38.7	37	33.2	32.8	31.5	34.6
178	Zimbabwe	21.4	22.7	29.4	32	33.5	35.2	34.4	36.7
-	Swaziland	57.4	59.1	58.4	60.1	61.4	59.4	58.6	59.6
-	Sudan	-	-	-	-	-	-	-	-
Sub-Saharan Africa		54.1	55.6	54.4	54.8	54.5	55.3	55.4	55.3
North Africa		54.8	54.3	54	52.9	51.2	51.4	53.7	53.7

Source: The Heritage Foundation, 2010.

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The most significant changes took place in the use of information technology to simplify and make processes more efficient. In this regard, Burkina Faso took a major step forward by allowing publication to be done directly on the website of the one-stop shop. This step reduced the registration cost and streamlined tax registration. The creation of a one-stop shop for commercial trade documents

has expedited trade across borders. For example, Sudan has expedited trade with improved customs clearance and the electronic connection of ten customs offices –enabling traders to file declarations remotely – and the addition of two scanners at Port Sudan. Cape Verde also improved access to credit information by introducing online access for information providers and retrievers. At the same time, the government raised the minimum threshold for loans included in the database from 1 000 Cape Verde escudos (CVE) to CVE 5 000 for individuals.

Several African countries continue to revise their labour codes. Mauritius and Rwanda made employing workers easier with more flexible redundancy procedures, removing the requirement for authorisation to dismiss one or a group of workers and lowering dismissal costs.

Countries are also revising and reforming business taxes, which have been a major barrier to trade and investment. Cameroon, for example, eliminated the licence tax for new businesses for their first two years. Cape Verde brought down corporate income tax rate from 30% to 25%. Sudan reduced the corporate income tax rate by an average of 15% and the capital gains tax by 5%. It abolished the tax on labour. Togo cut the corporate income tax rate from 37% to 30%.

However, despite all the positive reforms that are taking place on the continent, most African countries have not shown significant improvements in their 2010 ease of doing business rankings. In fact, some slipped down from their 2008/09 rankings, indicating that other world regions are adopting reforms much faster and making their economies more attractive for investment.

Notes

[1] For more details on 2008, see *African Economic Outlook* 2009 edition.

[2] Algeria, Botswana, Burkina Faso, Cameroon, Chad, Côte d'Ivoire, Egypt, Equatorial Guinea, Ethiopia, Gabon, Ghana, Kenya, Mali, Mauritius, Morocco, Mozambique, Namibia, Nigeria, Senegal, South Africa, Tanzania, Tunisia, Uganda, Zambia, Zimbabwe.

[3] See Statistical Annex for country-by-country figures.

[4] Cases were recorded in Morocco, Tunisia, Zambia, Burkina Faso, The Gambia, Senegal, Mauritania and Chad.

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

[6] For the full list, please see the 2009 *Conflict Barometer* at http://www.hiik.de/en/konfliktbarometer/index.html

[7] Chad, DRC, Ethiopia (in the Ogaden), in Nigeria (both Boko Haram and MEND), Somalia, Sudan (both Darfur and new ethnic clashes), Uganda (LRA).

[8] *Coups*: Madagascar, Guinea-Bissau. Attempted *coups*: Togo, Equatorial Guinea. Plotted *coups*: Ethiopia, Eritrea.

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