African Economic Outlook

2009

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AFRICAN DEVELOPMENT BANK
DEVELOPMENT CENTRE OF THE ORGANISATION
FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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PERSPECTIVES ÉCONOMIQUES EN AFRIQUE

THE AFRICAN DEVELOPMENT BANK GROUP

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 2008, the African Development Bank Group cumulatively approved 3 276 loans and grants for commitments of close to UA 44.7 billion (approximately USD 61.80 billion). The commitments were made to 52 regional member countries and institutions to support development projects and programmes in agriculture, transport, public utilities, industry, education and health services. Since the mid-1980s, a significant share of commitments has also gone to promoting economic reform and adjustment programmes that help to accelerate socio-economic development. About 43.5 per cent 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 cooperation 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 recognizes 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 marginalization of Africa in the globalization 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

Nine years ago, when the *African Economic Outlook* project began, the world was in the midst of what seemed to be a robust growth path. There were bumps, of course, but the general trend was upwards and the interruptions were relatively localised and short-lived. In 2009, however, the picture is very different: the financial crisis has spread throughout the world economy, which is now caught in the deepest and most widespread recession for more than 50 years.

Africa has not been spared. The continent is severely affected by plummeting levels of FDI and remittances, falling commodity prices and depressed export demand from OECD countries. The risk of reversals in recent development progress is looming, which in turn poses serious threats to the hard-won gains in political and social stability. A growth cycle of several years has just been interrupted.

The promising news is that shifting trade patterns, prudent macroeconomic reforms, debt relief, the use of new information and communication technologies – the special focus of this edition of the *Outlook* – and improvements in the business environment suggest that African economies are better positioned to deal with the crisis than in the past. 2010, however, will be crucial for understanding the medium-term macroeconomic prospects for the continent, and for Sub-Saharan Africa in particular.

To strengthen the foundations of growth and development, Africa should continue to pursue structural reforms, investment in infrastructure, poverty reduction; and to foster regional integration. The drop in external financial flows due to the crisis calls for an expeditious response with targeted initiatives, such as accelerating fiscal reforms to increase government revenue, and scaling up resources to finance public programmes, including trade finance. A key challenge will be to find the right balance between these efforts and the preservation of macroeconomic fundamentals. In support of this endeavour, OECD countries and Africa's other development partners must stand by their pledges – more and better aid, and an open trading system.

The *African Economic Outlook* has become a vital source of detailed analysis of African economies; it helps to provide evidence-based policy advice on key development challenges on the continent. We recommend it to policy makers and decision makers in all fields, both within and outside the African continent.

We salute the partnership of the European Commission and its unwavering faith in this project from its inception. Its financial support has been a critical factor for the success of the AEO.

Above all, we reaffirm our own commitment to sound and objective research and analysis, promoting peer learning and good governance, all goals to which the *African Economic Outlook* makes an essential and invaluable contribution.

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Angel Gurría,
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African Economic Outlook

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- Congo, Republic
- Côte d'Ivoire
- Djibouti
- Egypt
- Equatorial Guinea
- Ethiopia
- Gabon
- Gambia (The)
- Ghana
- Guinea
- Kenya
- Lesotho
- Liberia
- Libya
- Madagascar
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- Uganda
- Zambia

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Preface

This eighth edition of the African Economic Outlook reflects an important advance over previous editions, bringing us within striking distance of covering the entire continent. This has been made possible by an expanded partnership. In addition to continuing a particularly fruitful collaboration among the African Development Bank, the OECD Development Centre and the United Nations Economic Commission for Africa (UNECA), we have expanded the number of independent African research institutions involved in preparing country studies and participating in the dissemination of the AEO. And within the Bank, the country economists of the Operations Departments have played a greater role than ever before. Thus, this year's edition sees a further increase in the coverage of the continent to 47 countries, up from 35 in 2008, covering 97 per cent of Africa's population and 99 per cent of its economic output.

Unfortunately, the international environment facing Africa has turned decisively negative. GDP in the OECD countries is expected to contract by 4.3 per cent in 2009 and to be virtually flat in 2010. Growth in emerging economies is also expected to slow dramatically. In turn, world trade is expected to contract by 13.1 per cent in 2009 – the first decline in world trade in 60 years. The global economic recession in which the world now finds itself has led us to slash forecasts of growth in Africa for 2009 to 2.8 per cent, less than half of last year's level. And even this may turn out to be optimistic as projections for OECD and major emerging market countries have continued to be marked down even while this volume was going to press. This somewhat overshadows the good news that growth in Africa was estimated to have been 5.7 per cent in 2008, the fifth consecutive year with growth above 5 per cent.

The slower growth which is now forecast for Africa is accompanied by deteriorating fiscal balances and current account balances, and countries with large projected deficits may find them difficult to finance. At the same time, the contraction of bank lending may make it difficult even for credit-worthy governments to finance them. Thus, enhanced support by the international financial institutions will be essential. The USD 1.5 billion Emergency Liquidity Facility, the Framework of Accelerated Resource Transfer to ADF Countries, and the USD 1 billion Trade Finance Facility announced by the AfDB in March, and the enlargement of resources for the IMF agreed in April will be especially important if these projected deficits are to be fully financed.

Moreover, most of the countries in Africa are grappling with inflation that surged to double-digit levels in 2008, considerably limiting the room for manoeuvre of central banks that would find it problematic to monetise a significant portion of fiscal deficits, especially in the 28 countries with inflation above 10 per cent in 2008.

As has been true in the past, there are marked differences between the oil-exporters and the others. The collapse in oil prices means that the public finances of the former group will come under pressure in 2009 and 2010, including those that had accumulated large reserves during the period of high oil prices. Those must take care to safeguard planned investment in infrastructure and human resource development and to diversify the sources of economic growth.

Net oil-importing countries face a different set of challenges. GDP growth in many of them is expected to fall sharply in 2009 and 2010. Meanwhile, inflation has been rising, mainly due to a more complete pass-through to consumers of international oil price increases combined with the persistence of high international prices of grains and vegetable oils. Most of them must either contain or finance expanding current account deficits which have been heavily impacted by the same factors.

Some countries continue to face the challenge of conflict and instability. In the first quarter of the year, three governments (Madagascar, Guinea and Guinea Bissau) were removed using undemocratic means. However, there have been positive moves by international organisations, including the African Union and the African

Development Bank, to help bring an end to conflict. One encouraging development was in the Democratic Republic of Congo (DRC) where a peace agreement was recently signed between the government and the main rebel group in eastern Congo. In Zimbabwe, the opposition party holds the portfolio of prime minister and is now in charge of several ministries. However, conflict resolution will also require the goodwill of African leaders in government and in opposition. The continent's political leaders must continue to show determination to end armed conflict and political instability. This is arguably Africa's greatest challenge.

However, this edition of the AEO sheds light on the ability of Africa to confront the crisis. Over the past years, improved macroeconomic management, debt relief, better governance and greater integration into the world economy have made Africa more resilient to international economic shocks. Moreover, intensified trade with emerging powers such as China, India and Brazil makes Africa less dependent on OECD markets. Growing Sino-African economic relations, in particular, have forged strong linkages and have recast Africa as a global trading partner.

Despite better prospects for tackling the crisis, Africa faces the daunting task of mitigating the negative effects of the downturn on its populations, particularly the most vulnerable. A key challenge is to secure adequate resources for private and public investment as well as trade financing. African countries are doing their level best to minimise the impact of the crisis, but they lack adequate resources and policy space to sustain the various initiatives undertaken at national and sub-regional level. In this context, the fight against protectionism – particularly on the part of OECD countries – and donor country commitments to maintain or increase Official Development Assistance (ODA) are essential for the continent. It will not be enough to scale up ODA, however. Donor countries must also improve the effectiveness of their aid. Now, more than ever, ODA should act as a countercyclical tool in Africa, especially for highly aid dependent countries.

This edition of the AEO provides an analysis of network infrastructure by surveying the Information and Communication Technology (ICT) infrastructure sector and its contribution to innovation in Africa. Sub-Saharan African countries on average have the lowest internet penetration rate in the world. North African countries are relatively better-off than their Sub-Saharan counterparts. However, even in North Africa the penetration rate for broadband internet is low. International backbone infrastructure to connect Africa to the rest of the world is being built and will soon be operational. However, governments will need to play a more active role in attracting inland backbone investment and in regulating prices in order to increase usage in Africa,

Despite the low penetration rates, innovative applications of ICT, especially in telecommunications, have been proliferating: e-banking, e-payments, e-agriculture, e-trade, e-government, e-education, and capacity building programmes for developing ICT skills and, more generically, for driving innovation. Innovative business models have also been gradually expanding the customer base to include significant numbers of low-income households. Innovation, however, requires better public policies

Government's role as a regulator will be particularly important in realizing the promise of ICT and the innovative applications it makes possible. The regulatory framework must be streamlined to encourage private investment in the sector and promote competition for increased efficiency and access. The report identifies many examples of good practice in this respect and it is our hope that they will become more widespread in future.

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Executive Summary

The *African Economic Outlook 2008/09* comprises an Overview Chapter (synthesising the results of the country analyses), a chapter on the *AEO* special topic, *Innovation and Information and Communication Technologies in Africa,* a separate chapter on each of the 47 countries covered in the report[1], and a Statistical Annex. The Overview situates its analysis of the short term prospects of Africa's economies in a global context, which this year is dominated by the global financial crisis and widespread recession.

African Economic Outlook 2009: an Overview

The international environment facing Africa has turned decisively negative. GDP in the OECD countries is expected to contract by 4.3 per cent in 2009 and to be virtually flat in 2010. Growth in emerging economies is also expected to slow dramatically. In turn world trade is expected to contract by 13.1 per cent in 2009 – the first decline in world trade in 60 years. In 2010, growth in world trade is expected to exhibit positive growth of 1.5 per cent as recovery in economic activity gets underway in the countries of the OECD. A factor depressing trade beyond the impact of slowing demand has been the sharp contraction in trade credit in OECD countries, along with the freezing of bank lending in general. This situation is not expected to be alleviated much by the modest progress made in regional trade liberalisation, whether between African countries and the EU or among themselves. Most commodity prices have fallen back to their 2005 or 2006 levels, many of them registering declines of 40 per cent or more. As a result, prices of exports have fallen by more than prices of imports, inflicting a significant negative terms of trade shock on most countries. For many countries, the persistence of high prices for internationally trade of food continues to contribute to a food crisis situation, especially for the urban poor.

Official development assistance (ODA) to Africa, which was driven largely by debt relief and emergency assistance, fell by 18 per cent in real terms in 2007, mostly due to the end of exceptional debt relief operations, and, while growth was positive in 2008, ODA may well grow more slowly in 2009 and 2010. According to donor nations' pledges, aid levels are expected to increase further during the next two years and Africa is likely to benefit more than other regions. However, ballooning fiscal deficits and dwindling political support for greater aid levels in major donor countries could trigger a downward revision of aid levels. Moreover, less of it is likely to be in the form of debt relief or humanitarian assistance. Thus, the rate of increase is likely to slow, making it highly unlikely that the Gleneagles commitments to double aid to Africa by 2010 will be met. New estimates consider that the shortfall of Gleneagles aid commitments already amounts to USD 20 to 25 billion, a figure that will probably increase with reduced political support for aid policies.

Flows of foreign direct investment appear to have decreased by about 10 per cent in 2008. For 2009, they are likely to contract further as investment in extractive export industries is being postponed in many countries. Portfolio investment has also been affected by the global financial crisis, becoming negative in net terms and causing many countries to draw upon their international reserves.

1. Available on a CD-ROM for certain editions of this report. The 47 countries examined in this eighth edition of the *African Economic Outlook* account for some 97 per cent of Africa's population and 99 per cent of its economic output. The countries are classified by sub-region: in North Africa: Algeria, Egypt, Libya, Mauritania, Morocco, Sudan and Tunisia; in West Africa: Benin, Burkina Faso, Cape Verde, Côte d'Ivoire, the Gambia, Ghana, Guinea, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone, and Togo; in Central Africa: Cameroon, Chad, Central African Republic, the Republic of Congo, the Democratic Republic of Congo, Equatorial Guinea, and Gabon; in East Africa: Burundi, Djibouti, Ethiopia, Kenya, Rwanda, Seychelles, Tanzania and Uganda; In Southern Africa: Angola, Botswana, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland and Zambia.

Not surprisingly, the outlook for Africa has been adversely affected by the global recession. Economic growth in Africa is expected to be only 2.8 per cent in 2009, less than half of the 5.7 per cent estimated for 2008. It is then expected to rebound partially to 4.5 per cent 2010. Growth in oil-exporting countries, which continued to outpace that of oil importers by a substantial margin in 2008 (2 percentage points), is slowing as well and is expected to be 2.4 per cent in 2009 compared to 3.3 per cent for the net oil importers. Moreover, some countries continue to face particularly serious problems – including the humanitarian catastrophe in the Darfur region of Sudan, the economic collapse in Zimbabwe, conflicts and political unrest in Guinea, Guinea Bissau, Equatorial Guinea, Madagascar and Somalia, which are likely to further impede economic progress. The hard-won macroeconomic stability achieved recently in African countries was also affected by food price inflation in the first three quarters of 2008 and could be challenged further by the worsening of economic conditions. A slowdown of investment in oil and mineral production is also expected to be a drag on growth in 2009 and 2010.

Inflation has become a problem in many countries. It increased in net oil-importing countries (excluding Zimbabwe), to double-digit levels of 13.5 per cent in 2008, up from 7.9 per cent in 2007, mainly due to increasing oil, fertiliser and food prices. But it also increased in oil exporters, reaching 10 per cent in 2008 compared to 7.2 per cent in 2007, reflecting not only higher import prices but also supply constraints in the face of strong growth of domestic demand.

The windfall gains from commodity prices strengthened public finances for both oil exporting and net oil importers through 2007. However, for net oil importers as a group, the overall budget deficit deteriorated in 2008, to 1.8 per cent, and is projected to increase to 2.7 per cent in 2009. On the other hand, the public finances of oil exporters were supported by revenues from the high oil prices that prevailed through most of 2008. However, as a result of their subsequent collapse, they are expected to exhibit an overall deficit of 7.5 per cent in 2009.

Current account balances deteriorated in many countries in 2008, especially among net oil importers, whose aggregate deficit increased to 7.1 per cent of GDP, up sharply from 5.4 per cent in 2007. Many of them were adversely affected by higher import bills despite some improvement in the prices of agricultural export products, cocoa, coffee, and cotton in particular. As a result, many of them are facing severe pressure on the level of international reserves. Their deficits are expected to remain high in 2009 and 2010. Oil exporters continued to register a large current account surplus in 2008 but, as a group, the surplus is expected to give way to a deficit of 3.5 per cent in 2009. The emergency USD 1.5 billion "bailout facility" announced by the African Development Bank (AfDB) in March and the enlargement of resources for the International Monetary Fund (IMF) agreed on 2 April at the G20 in London will be especially important if these projected deficits are to be fully financed.

With public finances coming under pressure in 2009 and 2010, net oil exporters must take care to safeguard planned investment in infrastructure and human resource development to continue to diversify the sources of economic growth. Diversification is all the more important with the collapse of the boom in commodity prices. Most of them are in the fortunate position of having accumulated large reserves during the period of high oil prices.

Net oil-importing countries face a different set of challenges. GDP growth in many of them is expected to fall sharply in 2009 and 2010. Meanwhile, inflation has been rising, mainly due to a more complete pass-through to consumers of international oil price increases combined with increases in the international prices of grains and vegetable oils. Containing inflation to single-digit levels may preclude monetising their global budget deficits, and this may well further dampen growth. Moreover, the GDP growth forecasts in this edition of the *AEO* are associated with increasing current-account deficits that result from a weakening in demand for their exports, reflected in part by weakening non-oil commodity prices – only partially offset by declines in the prices of imported food and oil (assumed to be USD 50 per barrel in 2009 and USD 55 in 2010). Thus, another assumption underpinning the forecasts is that the additional funds required to finance the deficits will be forthcoming, despite the difficulties of raising finance on international capital markets at present.

Another major uncertainty is the extent and severity of the current recession in the OECD and slowdown in other major emerging countries. The importance of taking policy measures to bolster demand worldwide has somewhat over-shadowed concerns over a possible disorderly unwinding of the large current account imbalances in the global economy. In fact, the slowdown itself, and the collapse of oil prices have been contributing to their gradual unwinding.

The assessment of progress on the Millennium Development Goals (MDGs) in this year's *AEO* – based on an updated methodology - confirms the diagnosis of last year's *AEO*; on recent trends, only a handful are likely to meet the income poverty target of halving the share of the population living on less than one dollar a day by 2015.

The need to promote good governance is as important as ever. The AU/NEPAD African Peer Review Mechanism has begun to provide a candid assessment of African countries and, thus, to foster progress in governance. Algeria, Benin, Burkina Faso, Ghana, Kenya, Nigeria, Rwanda, South Africa and Uganda have already been reviewed, while Egypt, Gabon, Lesotho, Mauritius and Mozambique will launch reviews in 2009. The *Outlook* notes that progress towards democracy has stalled recently. Conflicts in some countries have started to subside, but they have flared up in others. Despite progress in macroeconomic management and the regulatory environment, more needs to be done to ensure an environment conducive to private-sector development especially in further reducing corruption. However, the deterioration of the economic environment could jeopardize some of the advances made in Africa toward greater democracy and better governance.

Innovation and Information and Communication Technologies (ICT) in Africa

Following the special focus on energy supply and poverty on 2004, transport infrastructure in 2006 and access to drinking water and sanitation in 2007, Chapter 2 of this edition of the *AEO* continues the analysis of network infrastructure by surveying the Information and Communication Technology (ICT) infrastructure sector and its related applications within the overall context of development in Africa.

Africa has the lowest internet penetration rate in the world. In Sub-Saharan African countries, for internet users the penetration rate is below 7; for broadband subscribers the penetration rate is below 1. North African countries are relatively better-off than their Sub-Saharan neighbours (and, indeed other developing regions) with an internet penetration rate of 40.4 per cent. However, even in North Africa the penetration rate for broadband subscribers is only 2 per cent. International backbone infrastructure to connect Africa to the world is being built and will soon be operational. Governments should play a more active role in attracting inland backbone investment and in regulating prices in order to reach more users and increase usage in Africa, since improved international connectivity will not be sufficient by itself.

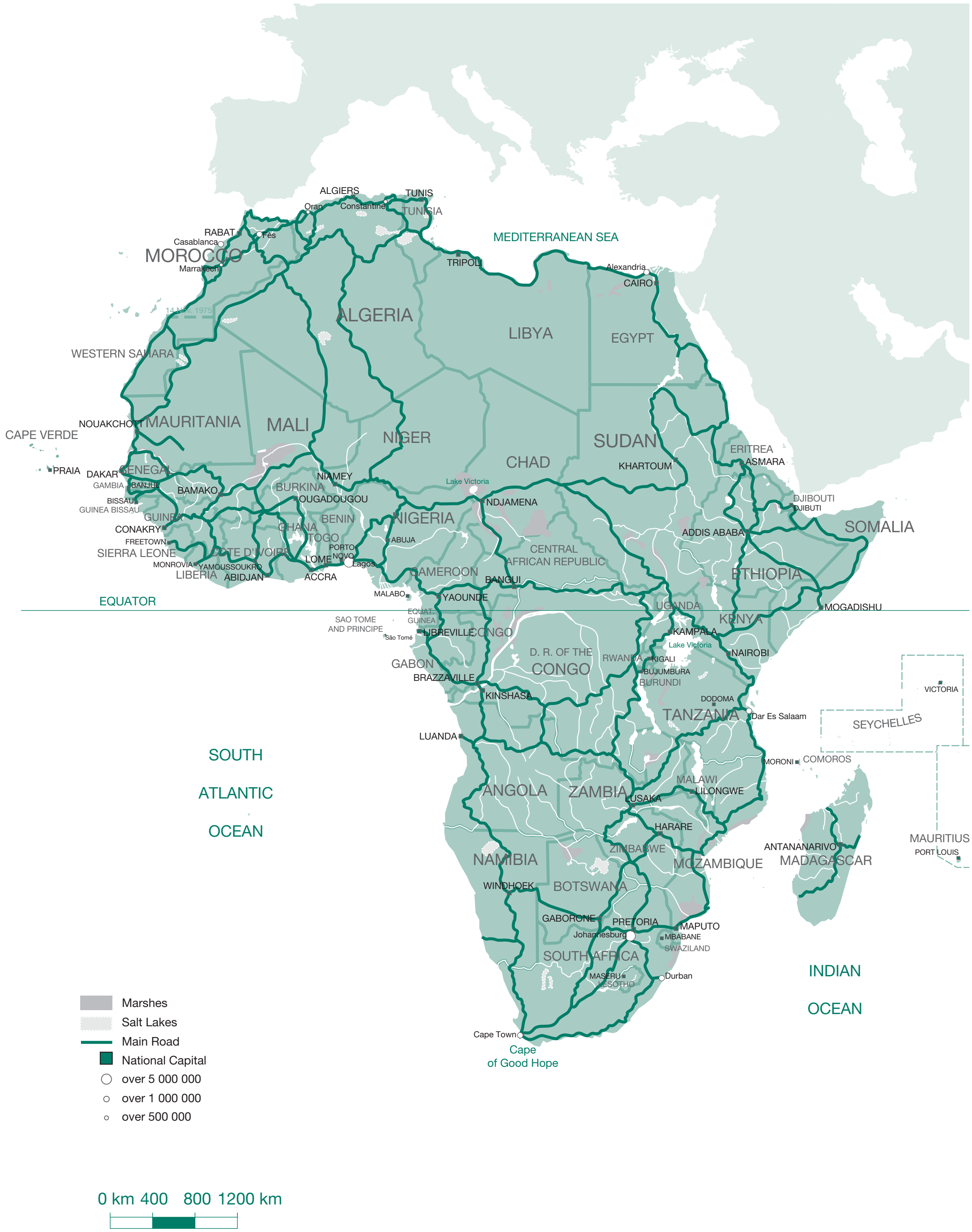
Despite the low penetration rates, innovative applications of ICT have been proliferating: e-banking, e-payments, e-agriculture, e-trade, e-government, e-education, capacity building programmes for developing ICT skills and, more generically, for driving innovation. Innovative business models have also been gradually expanding the customer base to include significant numbers of low-income households.

Providing appropriate regulation is the most important function of government in the ICT sector since most of the investment required can be mobilised by the private sector. In spite of the financial crisis, telecommunications in Africa remains an attractive business. Governments should be more ambitious in their liberalisation strategies. Regulatory systems have been slowly evolving towards international good practice, but there is considerable need for further improvement.

Governments and regulators should do more to attract private capital to the fixed-line segment. Governments should privatise the remaining state-owned fixed-line incumbents since private investors can bring the technological know-how necessary to upgrade their networks, and more regulators should adopt convergent licensing regimes and symmetric regulation of termination charges to create favourable conditions for fixed-line investments.

Part One

Overview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MBABANE
SWAZILAND
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Overview

This Overview chapter begins with a section on the international environment facing African countries including prospects for growth in the world economy, international and regional trade, exchange rates, commodity prices, official development assistance, and foreign direct investment. This prepares the way for a section discussing the macroeconomic performance of African countries including prospects for GDP growth, inflation, fiscal balances, and current account balances; detail is provided on five sub-regions and on net oil exporters compared to net oil importers. This is followed by sections on progress in achieving the millennium development goals, governance and political issues, and economic governance.

International Environment

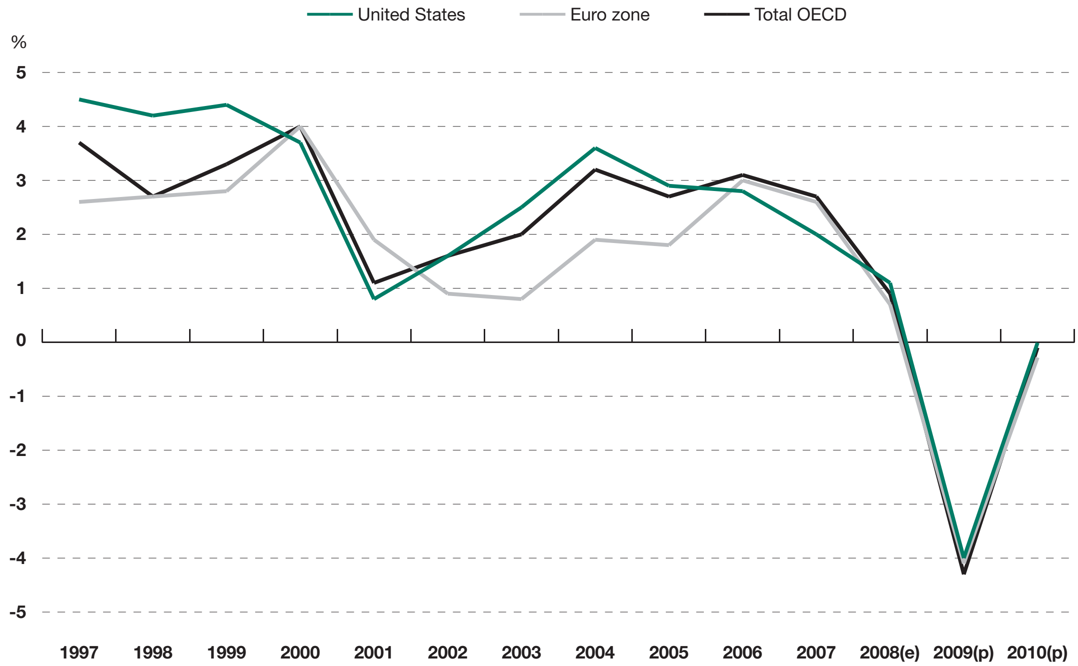
Growth in the World Economy

World GDP grew at 2.2 per cent in 2008, down from 3.8 per cent in 2007, with growth in OECD countries substantially slower than growth elsewhere. GDP growth in OECD countries slowed to 0.9 per cent in 2008, down from 2.7 per cent in 2007.The slowdown began earlier and was more pronounced in the United States than elsewhere due to the fallout from the sub-prime housing loan crisis. By and large, the OECD countries weathered relatively well a series of shocks in the form of financial market turmoil, declines in housing markets, and higher fuel and food prices in the first half of 2008, but the situation deteriorated rapidly towards the end of the year, rapidly spread to the rest of the world and has now taken on the proportions of a global recession. In December, prospects were for GDP in the OECD area to fall by 0.4 per cent in 2009 and for growth to be a weak 1.4 per cent in 2010, but they have worsened since then. At end March, the OECD revised its forecast for OECD growth in 2009 to -4.3 per cent and for growth to be near zero in 2010.

In the United States, household consumption began to fall during the second half of 2008, with a particularly sharp decline in spending on durables; fixed investment has been falling as well. Continued declines in real disposable income, and in housing prices are indicators of future weakness in demand that is likely to persist throughout at least the first half of 2009. Moreover, the sub-prime market crisis has turned into a fully fledged financial crisis that severely affected the US financial sector. Large US financial institutions had to be rescued by the US authorities and credit to the US economy was drastically curtailed. Since late 2008, the effects of the financial crisis have impacted the real economy and have exacerbated the economic slowdown. The contribution to GDP growth of net exports increased in 2008, due largely to contraction of US absorption and a fall in imports. Economic growth in the Euro zone declined in each of the final three quarters of 2008, and GDP contracted in the fourth quarter. Private consumption growth has been anaemic and business investment fell, reflecting greater uncertainty and tighter lending conditions. At the end of 2008, the financial crisis that originated in the United States reached several European countries and pushed governments to bail out major financial institutions. Demand from emerging market economies weakened, reducing the contribution of net exports to growth. In Japan economic activity contracted in the second quarter and again in the fourth quarter. As export growth slowed, reflecting the slowdown in global demand, knock-on effects reduced business investment. Unlike the situation in the United States and the Euro zone, however, residential investment has continued to pick up, as the sector recovered from the effects of regulatory changes introduced in 2007.

In the United States and the Euro zone a significant output gap emerged in the course of 2008 thus reducing inflationary pressure which had been building in 2007. The stance of monetary policy has remained extremely accommodating in response to the turmoil in financial markets in 2007, but became especially expansive in

Figure 1 - **Growth in OECD Countries**



Source: OECD (2008), OECD *Interim Economic Outlook*, 31 March 2009.

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the United States and then in Europe in the course of 2008 as the financial turmoil worsened and aggregate demand began to fall. Monetary policy is expected to revert towards neutral once growth momentum is restored in the second half of 2009. Despite the increase in fuel and food prices during the first half of 2008, core inflation had remained stable at about 2 per cent. Inflation as measured by the GDP deflator registered a somewhat higher rate of 2.6 per cent in 2008, up from 2.4 per cent in 2007, and the OECD-wide private consumption deflator registered a somewhat higher 3.3 per cent in 2008. Prospects in 2009 and 2010 are for the OECD-wide private consumption deflator to fall well below 2 per cent in both years.

Outside the OECD area growth also slowed but remained strong, even in Asia, with China exhibiting GDP growth of 9.5 per cent, down from 11.4 per cent in 2007, and India around 7 per cent. Brazil and Russia also registered strong GDP growth in 2008, 5.3 per cent and 6.5 per cent, respectively. In all four countries growth is expected to slow further in 2009 and then regain momentum in 2010, reflecting an expected moderate recovery in world demand for their exports.

International and Regional Trade

World trade grew at 2.5 per cent in 2008, down from 7 per cent in 2007, and was forecast by the OECD at end March 2009 to contract by 3.1 per cent in 2009 – the first decline in world trade in 60 years. In 2010, growth in world trade is expected to exhibit positive growth of 3.2 per cent as recovery in economic activity gets underway in the countries of the OECD. These figures are subject to considerable downside risk, however. A factor depressing trade beyond the impact of slowing demand has been the sharp contraction in trade credit in OECD countries, along with the freezing of bank lending in general. Progress in the Doha round of trade negotiations has stalled, but efforts to revive them may, at the very least, keep protectionist sentiment – which has been strengthening along with the deepening of the global recession – at bay (See Box 1 for implications for Africa).

The slower growth in the OECD and several large emerging economies in 2008 was reflected in the demand for African exports, which exhibited real growth of 7.9 per cent in 2007, but was estimated at only about 5 per cent in 2008. Nonetheless, the value of exports was sustained by the high prices for oil and many other primary commodities that persisted for most of 2008. Growth in import demand in OECD countries and in Asia is expected to slow dramatically in 2009 and to remain weak in 2010. Export growth is expected to receive an off-setting boost from the Economic Partnership Agreement (EPA) between African countries and the EU, interim agreements' having been signed by most countries. However, little progress in these negotiations was registered in 2008 (See Box 2).

Trends in Intra-African trade

Merchandise exports grew by 17.5 per cent in 2007 to reach USD 424.14 billion in 2007 compared to USD 360.9 billion in 2006. Intra-African merchandise trade was only 9.5 per cent of the total. Manufactured products accounted for 42.5 per cent of intra-Africa trade, fuels and mining products 35.4 per cent and agricultural products 17.1 per cent. North America and EU remained the major trading partners of Africa in 2007 with a cumulative share of exports of over 61 per cent. Asia is

Box 1 - **Developments in the Doha Round: Food for Thought for African Countries**

A history of missed deadlines: The Doha Round of trade negotiations is now in its 9th year. The main areas under negotiation include but are not limited to: agriculture (including cotton); non-agricultural market access (NAMA); services; TRIPS; WTO rules; special and differential treatment; trade facilitation; and LDCs; among others. The negotiations were supposed to have been concluded by 1 January 2005. Modalities for agriculture and NAMA were to have been agreed by March 2003. This deadline was missed. Efforts to agree on the modalities in Cancún in September 2003 also failed. Even the framework agreement reached in July 2004 was not enough to facilitate an agreement in full modalities in July 2005. The suspension of the negotiations in July 2006, did not elicit sufficient momentum and commitment that could contribute to an agreement on modalities in agriculture and NAMA, as this has remained elusive since the talks' resumption in February 2007. The expectation to have agreement on the modalities by end of April 2008 was not realised and negotiations collapsed in July 2008 and have not advanced much since then.

Why has there been no agreement? As the chronology of events above indicates, agriculture and NAMA have been the main issues. This is not to say that the other areas of negotiations are unimportant. Under the single-undertaking principle of the negotiations, all the areas have to be agreed before the Round can be concluded. The suspension in July 2006 was because of disagreements in the market access and domestic support pillars of the agriculture negotiations on the one hand, and the tariff reduction levels for industrial goods on the other. While the differences in this triangle appeared to have narrowed, the collapse in July 2008 is still attributed to agriculture and NAMA. But this time, it was the question of how developing countries could use the special safeguard mechanism to protect their agriculture sector against import surges that could not be agreed upon.

What have been the interests of African countries? Like other developing countries, African states had great expectations in the Doha Round. The Round's ambitious agenda in agriculture promised to unlock the continent's potential to expand agricultural exports. In addition to improved market access in agriculture, NAMA and services, African countries have been interested in other developmental issues such as fairer trade through elimination of export subsidies and substantial reduction in trade distorting domestic support, developmental flexibilities to safeguard domestic industries and livelihoods of the poor, non-reciprocal preferences, special and differential treatment, duty-free quota free market access for LDCs and aid for trade.

Modest development package out of Doha so far: The results of the Doha Round from a development point of view are modest at best. It includes the amendment of TRIPS to facilitate access to essential medicines; extension of TRIPS transition period for LDCs for seven-and-a-half years; duty-free quota free market access for LDCs; aid for trade; and enhanced integrated framework. Even if duty-free, quota-free market access for LDCs is achieved, failure to have meaningful and simplified rules of origin implies that its benefits may not be fully reaped.

Moving forward, the realities that Africa should face: It is now generally agreed that the challenge in the Doha Round is no longer technical, but political, meaning that the draft modalities will be the basis for the political decisions. Africa should be ready for a much more scaled-down Doha outcome, compared to the original mandate. For instance, in agriculture, the market access and domestic support elements may not be as ambitious as originally hoped for. In NAMA, the flexibilities provided both for countries to apply the formula and those expected to increase their binding coverage are more limited, compared to what the African countries had indicated would be pro-development, in the context of maintaining current policy space. In the case of rules, particularly with respect to regional trading arrangements, the countries will most likely be dealing with more constrained flexibilities through more stringent disciplines. Moreover, even among the champions of the importance of trade for development, protectionist measures have been enacted to protect jobs. All these circumstances will aggravate the current economic crisis and could threaten the modest development package currently on the table reached in the negotiations.

Source: UNECA.

Box 2 - **Economic Partnership Agreements (EPAs) between EU and African Countries**

The Economic Partnership Agreement (EPA) negotiations between the European Union and the African, Caribbean and Pacific countries (ACP) began in Brussels on 27 September 2002. Their objective is to contribute to the development of a trade regime that promotes sustainable development and the integration of ACP countries into the global economy through a framework for reciprocity, differentiation, regional integration, and co-ordination of trade and aid.

EPAs were initiated to find a means compatible with WTO rules of prolonging preferential treatments extended to ACP countries under the Cotonou Agreement of June 2000. This new agreement was also meant to promote development by covering issues like services, investment and standards and increasing co-operation on trade issues.

However, it was clear by late 2007 that EPA negotiations in Africa would not conclude on time. Faced with the legal expiry of the Cotonou trade regime and the WTO waiver that covered it, the EU and ACP therefore decided to conclude “interim agreements” that would comply with WTO rules but only cover trade in goods. Due to the tight deadline, several interim agreements were subsequently initialled with individual countries rather than full ACP regions, although the ultimate aim remains to conclude full regional EPAs.

By January 2009[1], only one region, the Forum of the Caribbean ACP States (CARIFORUM), had managed to conclude a comprehensive EPA with the EU as initially envisaged. A large number of ACP countries, including 18 African states, and 2 countries in the Pacific had concluded interim agreements with the EU: Cameroon (Central Africa), Botswana, Lesotho, Swaziland, Mozambique and Namibia (SADC region), Côte d'Ivoire and Ghana (West Africa), Kenya, Uganda, Tanzania, Rwanda and Burundi (East Africa), Comoros, Madagascar, Mauritius, Seychelles and Zambia (ESA region). None of the ACP countries had formally signed a full agreement with the EU. EPA negotiations are still continuing with African and Pacific regional groupings.

All interim agreements have a similar structure, albeit with provisions for differences due to particular interests and integration plans. Some African regions like the South African Development Community (SADC) opted for a more comprehensive agreement. However, in West Africa, Ghana and Côte d'Ivoire preferred more limited agreements so as not to jeopardise the wider regional integration process and risk prejudicing future EPA negotiations.

Despite these developments, a comprehensive review of the EPA negotiations indicated that prior to the 31 December 2007 deadline there had been only limited progress in following the agreed roadmap for negotiations and that significant differences persisted in issues such as product coverage, transition periods, rules of origin, sensitive products and preference erosion in areas such as market access and agriculture. Differences also remained over the scope of development provisions, additionality of resources, and the legally binding nature of EU commitments.

The possible impact of the EPAs on Africa's trade and regional integration and socio-economic development is a contentious issue slowing the pace of negotiations. The EC and ACP negotiators have in most cases not been able to agree on the cornerstones of the new trading arrangement, notably, on the development issues and regionalism[2].

The next revision of the Cotonou Partnership Agreement (CPA), to be negotiated in 2009 and adopted in 2010, will provide a useful opportunity to actualise Title II of the CPA on Economic and Trade Co-operation, and in particular Chapter 2 on new trading arrangements. New issues that could be addressed in a revised CPA include the relationship between EPAs and the CPA.

Source: OECD Development Centre, 2009.

also becoming an increasingly important trading partner for African countries. African exports to Asia grew by nearly 50 per cent in 2005-07, but these exports remain concentrated in fuels and mining products that accounted for 78 per cent of total exports during this period. The low-level of intra-Africa trade illustrates weak continental integration, highlighting the urgency with which the continent should deal with the bottlenecks, both in terms of policy and investments especially in common infrastructure.

1. European Union (2009), *Fact sheet on the interim Economic Partnership Agreements: An Overview Of The Interim Agreements*, Brussels.

2. See ODI-ECDPM 2008, *The new EPAs: comparative analysis of their content and the challenges for 2008.*

Important regional integration measures in 2008

African countries are increasingly realising the advantages of regional co-operation and integration as a strategy to achieve economic growth and collectively to play a more important role in the global economy. Through this process, the continent can pool its capacities, endowments and energies together to transform itself, and thereby help uplift the lives of millions of people. To this end, African countries and governments, through the regional economic communities (RECs)[3] and the African Union (AU), are pursuing an agenda of continental integration along a road map of establishing Free Trade Areas, Customs Union and Common Markets.

Africa's RECs' integration process has focused more on market integration through the design and implementation of various partial trade liberalisation schemes. Full market integration however remains to be fully achieved in African sub-regions and intra-community trade remains impeded by inadequate production of goods and deficient capacities in transport, communications and energy.

RECs experiences with FTAs and Customs Unions

The experience so far shows that progress in the elimination of intra-REC tariffs has been mixed. *Regional Integration in Africa* (ARIA I), a joint publication of the ECA and the AU Commission, indicates that, as part of its Free Trade Arrangements, ECOWAS members began eliminating tariffs on unprocessed goods and traditional handicrafts in 1981 and adopted a scheme for eliminating duties on industrial goods during the 1990s. While trade liberalisation has not been fully implemented in all countries, ECOWAS was still expected to become a customs union by the end of 2008, this deadline has been pushed into 2009.

COMESA members began cutting tariffs in 1994, and by 2000 all tariffs were to have been eliminated. Nine countries out of the 19 members satisfied this requirement by October 2000, when the free trade area was declared in accordance with the terms of the trade protocol. Some of the countries have fully liberalised intra-regional trade; others have done so only partially. Burundi and Rwanda have already cut tariffs by 80 per cent and 90 per cent. Ethiopia has cut tariffs by just 10 per cent, while Seychelles and Swaziland have not cut any. Swaziland has been granted a special derogation, however. COMESA was expected to become a customs union at the end of 2008, but this deadline has slipped somewhat.

EAC members are currently implementing tariff reductions, with cuts of 90 per cent by Kenya and 80 per cent by Tanzania and Uganda. Rwanda and Burundi, which joined EAC in 2007, are expected to eliminate all forms of tariffs in conformity with the trade protocols of the community. Co-ordination and harmonisation of trade policies and programmes in the EAC are to be accomplished in tandem, and so much faster than would have been expected under a free trade area. The community is currently a customs union and negotiations are still under way to transform the community into a common market.

In 2008 SADC became a free trade area. However, the tariff reduction programme for the members of the community reflects the varying capacities of the economies concerned to face competition from other countries in the community. Mauritius agreed to allow 65 per cent of goods imports from South Africa to enter its economy duty free in 2000. But Tanzania could offer only 9 per cent that year, and the removal of its tariffs will be staggered—with 88 per cent lifted by 2008 and 100 per cent by 2012. Unlike more formal free trade areas, countries were able to choose which products to reduce duties on as long as the overall goal was attained. South Africa in particular and members

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

of the Southern African Customs Union (SACU) in general are required to reduce tariffs on intra-SADC trade faster than other members.

UMA had trade liberalisation high on its agenda when the organisation was established in February 1989. In 1991 UMA countries signed a protocol under which goods originating in and traded among member states were to benefit from the elimination of tariffs and non-tariff barriers. Tariff elimination has yet to be fully implemented. Members trade more through bilateral arrangements than through the UMA trade protocol.

Challenges

Despite African countries' determination to dismantle trade restrictions in order to create a common market within the framework of regional and sub-regional agreements, barriers to intra-community trade development are numerous. These barriers are mostly the consequences of the economic structure of the countries; their institutional policies and weak infrastructures; their weak financial and capital markets; and their failure to implement trade protocols. The economic structures of African countries, which are broadly similar, include low-capacity manufacturing sectors, lack of diversified production, and their production and marketing policies lack co-ordination and harmonisation. The weak infrastructure and institutional policies of many of the countries are partly responsible for poor intra-African trade. Furthermore, the numerous roadblocks and checkpoints on African highways contribute immensely to increasing the delays in the delivery of goods and to raising transport costs.

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 ICTs are absent in most of the custom offices. Furthermore, customs procedures are outdated and lack transparency, predictability and consistency. These inefficiencies result in delays in which tend to raise transaction costs. In addition to the barriers to intra-African trade, payment and insurance systems are also not well developed. Foreign trade financing, export credit facilities and export insurance systems are also not available in most African countries. There is no inter-convertibility of African currencies because monetary and financial regulations are not harmonised at the regional, sub-regional and national levels. There is a gap between the needs of exporters and the insurance services and products offered.

Proposed COMESA-EAC-SADC Free Trade Area

In October 2008 the three RECs in Eastern and Southern Africa, COMESA, EAC and the SADC agreed to form a free trade area. Should it be achieved such an FTA would deepen intra-African trade by involving 26 countries (almost half of the continent), with a combined population of 527 million people and a combined GDP of USD 624 billion.

One of the main challenges facing the partners is overlapping membership. Of the 26 countries, 17 (almost two-thirds) are either already in a customs union or negotiating another customs union, or are negotiating two separate customs unions. Hence the agreement to initiate an FTA to minimise and eventually eliminate the contradictions brought about by overlapping membership.

The priority areas for policy harmonisation and co-ordination amongst EAC, COMESA and SADC under the FTA include, among others, a common tariff regime, standard rules of origin, simplified customs procedures and documentation, harmonisation of product standards, identification, removal and monitoring of non-tariff barriers, establishment of one-stop border posts, as well as safeguard measures and dispute settlement mechanism.

Exchange Rates

The size of global imbalances has decreased somewhat with the US current account deficit falling from a peak of 6.5 per cent of GDP in 2006 to 5.5 per cent in 2007, and to 4.9 per cent in 2008. In part, the improvement reflects the heightened competitiveness of US exports *vis-à-vis* the Euro zone and Japan as the

Box 3 - Macroeconomic convergence among members of the RECs

Following the framework of the European Monetary Union, the RECs have established targets for selected key macroeconomic variables that must be met by member states. A sizeable number of the RECs are doing their best to achieve these targets while some are struggling with it. Most of the RECs are yet to achieve their monetary and financial integration objectives.

Progress on monetary co-operation arrangements in Africa

In recent years, some RECs have produced blueprints for the establishment of monetary unions. For example ECOWAS is working hard to have a common currency. It hopes to start with a common currency zone for Nigeria, Ghana, Gambia, Guinea and Sierra Leone, which would be merged with the UEMOA franc zone at a later date to create an ECOWAS currency. SADC, COMESA and EAC all have plans of establishing common currencies.

The primary and secondary convergence criteria established by the RECs include agreed targets for macroeconomic variables such as budgetary balance, inflation and public debt. Although the principles are the same, there are some variations in the criteria from REC to REC.

A report from the ECA and the AU Commission, *Assessing Regional Integration in Africa: Towards Monetary and Financial Integration* (UNECA-AU 2008), shows that, although there are some successes, African countries are experiencing enormous difficulties in achieving the desired macroeconomic convergence criteria set by the regional economic communities to which they belong. That is, whereas, some members states, particularly those that belong to monetary unions (WAEMU and WAMU) have done well in maintaining relatively low, single-digit inflation, most countries are posting double-digit inflation and consequently struggling to achieve their targets. Most of the countries have failed to achieve the fiscal targets. Some of the reasons for the weak performance include, among others, negative external shocks, large budget deficits, lack of reliable statistics and poor growth performance.

The Way Forward

- The success of regional integration hinges critically on member countries' pursuing convergent macroeconomic policies. Misalignments of key macroeconomic variables could hamper the regional integration process. It is therefore imperative that the process of strengthening regional integration includes guidelines for the convergence of the macroeconomic and trade policies of the entire regional space so as to strengthen the overall regional integration agenda. In fact, WAEMU and WAMU already have strict convergence criteria for several key indicators, including: (i) fiscal receipts, budget balance, public debt, trade and current account balances, all as percentages of GDP; (ii) inflation; and (iii) public sector wages and public investment financed from domestic resources, both as a percentage of fiscal receipts

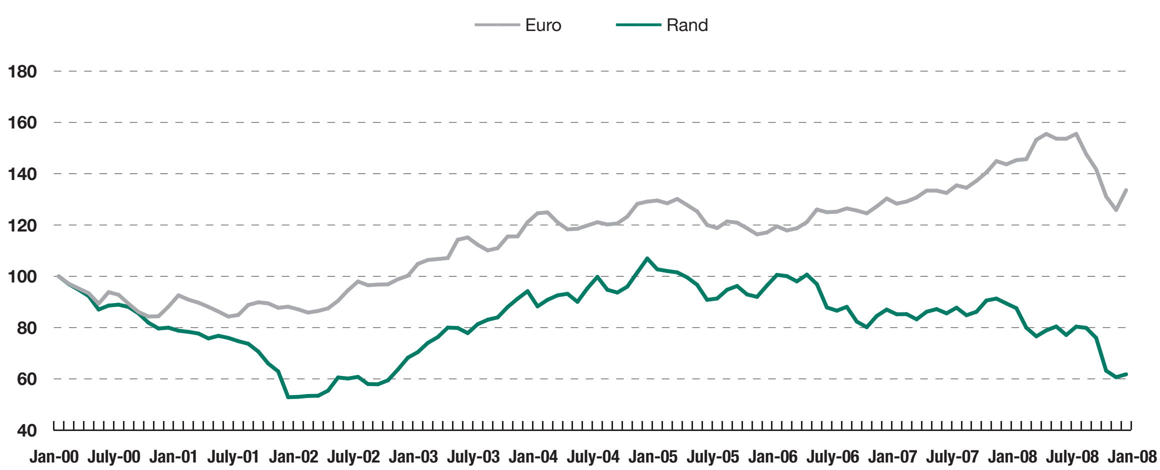
- However, for the co-ordination of macroeconomic policies in the RECs to succeed African countries should have a clear sense of their own development objectives and strategies and be fully committed to the pursuit of these goals. Member states of the AU should muster the political will to mainstream regional monetary and macroeconomic objectives into their national development strategies.

Source: UNECA and African Union (2008), *Assessing Regional Integration in Africa III,* Addis Ababa.

dollar weakened between 2002 and 2004, and, after stabilising during 2005, weakened further in 2006 and 2007. Thus, in January 2008, one EUR purchased 55 per cent more USD than in January 2001. However, in the course of 2008 (especially at the end of the year with the spread of the crisis to the Euro zone and Japan) the USD strengthened against the EUR and nearly all other currencies, reflecting its status as a reserve currency and the attractiveness of the highly liquid market for US Treasury bonds during times of uncertainty. Even if the fundamentals driving the current account suggest a substantial depreciation of the USD, its predominance as an international reserve currency limits the chances for a substantial fall of the USD *vis-á-vis* other major currencies (e.g. EUR, GBP or JPY) in the near future.

The unwinding of global imbalances in late 2008 has also affected "carry trade" currencies such as the Japanese Yen (JPY) which have depreciated substantially against the dollar since late 2008. The counterparts to the sizeable current account deficit of the United States continue to be principally in East Asia and in oil-exporting economies. Surpluses in these areas are projected to fall over the next two years. Exchange-rate adjustments have so far been orderly and expectations are that this situation will continue. In the present circumstances, however, any boost to global demand is highly welcomed, and concerns about global imbalances are not likely to rise to the top of the policy agenda until recovery in the global economy is firmly underway.

Figure 2 - **USD per EUR and per Rand** (base 100 in January 2000)



Source: www.x-rates.com.

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Raw Material Prices

Commodity prices continued to exhibit considerable strength throughout 2008 even as the world economic expansion continued, possibly magnified by speculative buying which may have pushed prices for many commodities above levels justified by the fundamentals. However, the increases were much greater for oil and metals than for most tropical beverages. A sharp rise in food prices occurred in 2007 and continued in 2008, driven by increases in the prices of fats and oils (102 per cent over two years), and grains (88 per cent). The increased use of bio fuels has played an important role in driving up grain prices. In 2006, bio fuels accounted for between 5 and 10 per cent of the global production of bio fuel feed-stocks, such as maize in the United States, sugar cane in Brazil, and vegetable oils, mainly rape seed, in the European Union.

The sustained rise in commodity prices improved the export earnings of most African countries in 2008. However, increases in fuel and food prices have hurt most oil importers. Countries that have benefited the most have generally been exporters of petroleum and minerals. For many other countries, gains from higher-priced commodities have been roughly equivalent to losses from higher priced fuel and food.

Oil

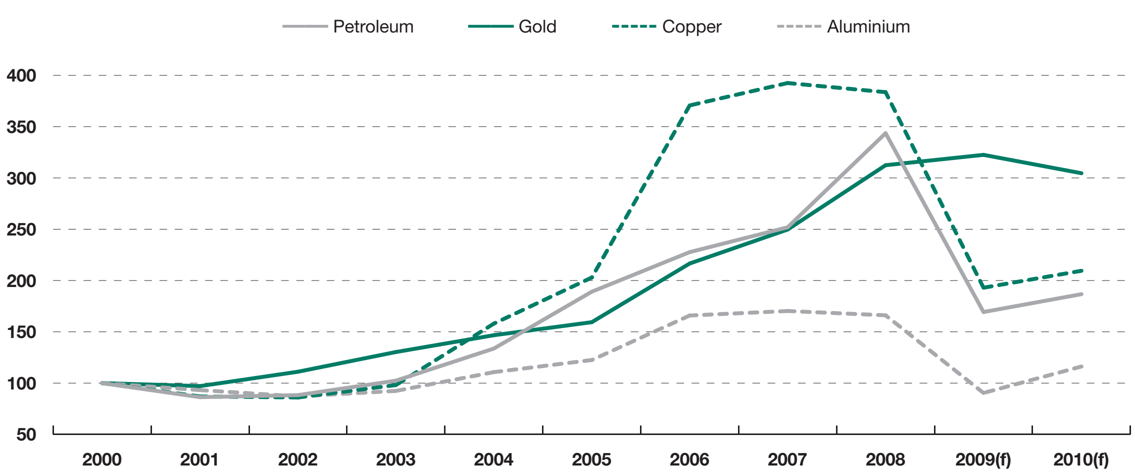
Crude oil prices continued to trend upward through mid 2008 and to exhibit high volatility, with the monthly average (Brent) peaking at USD 147 per barrel in July. They then declined sharply, with the average monthly price falling to USD/barrel 41.6, but the average for 2008 was USD/barrel 97.6, 34 per cent higher than the average price in 2007. This followed an increase to USD/72.7 in 2007 from USD/barrel 65.4 in 2006. The assumption of this report (fixed in mid-February) is that the price will average USD/barrel 50 in 2009 and 55 in 2010, an assumption slightly lower than the average of USD 60 per barrel used as a technical assumption in the *OECD Economic Outlook 84* published in December 2008. These lower oil prices are expected to contribute marginally to mitigating the severity of the global recession on oil-importing countries.

Metals

Metal prices reached a peak in the second quarter of 2008 when they were 271 per cent higher than average prices in 2000, in large part because of high demand by emerging Asian economies, especially China. For the year as a whole, prices were only 3.7 per cent higher than in 2007. Moreover, the average price in December was 37 per cent lower than the average price for the year as a whole as metal prices declined sharply along with the global slowdown. The average price in 2009 is expected to be about 50 per cent lower than in 2008, but to recover by more than 10 per cent in 2010.

The price of gold has escalated since mid-2001, sustained by liquid financial markets, low interest rates, the greater demand from booming emerging markets in Asia, and – since late 2008 – the heightened uncertainty in equity markets and the global economy. The price of gold peaked in the first quarter of 2008, but the average price in December of USD 816 per troy ounce (toz) was still 17 per cent higher than the average price in 2007. It is expected to remain high in 2009 (gold has appreciated more than 15 per cent from December 2008-February 2009) and 2010 as investors are reluctant to move strongly into equities and are preferring gold as a safe haven. Another factor influencing gold prices was a decline in output by an estimated 14 per cent in South Africa, the largest producer of gold in the world, contributing to a drop in global mine production of 3.6 per cent. The

Figure 3 - **Prices of Oil and Metals** (base 100 in January 2000)



Source: World Bank and OECD.

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shortfalls in South Africa were due to power supply constraints, an industry-wide skills shortage and an upgrading of mine safety procedures. The higher prices have benefited South Africa and other African gold producers, such as Ghana and Mali, and mitigated to some extent the fall in production in South Africa. However, the price increases did not match those of fuel imports.

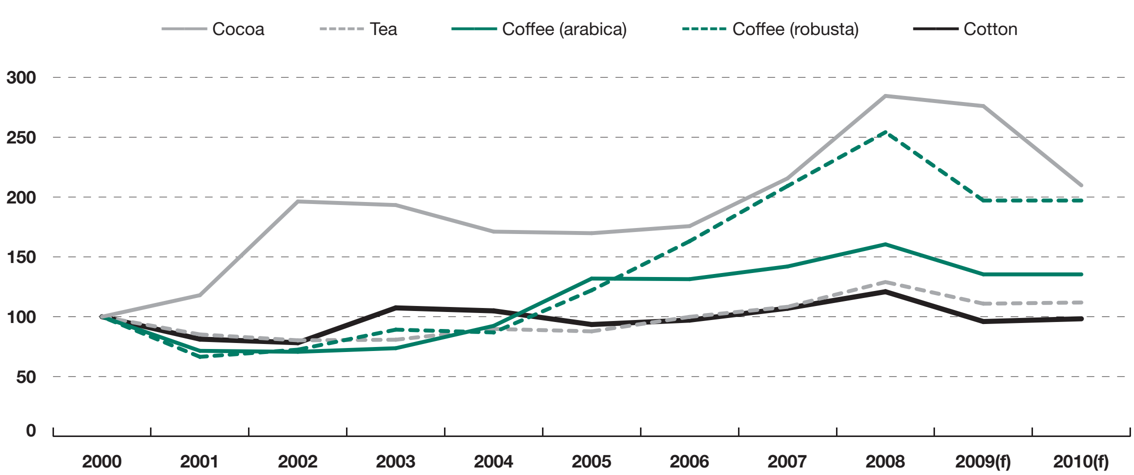
Prices of other metals which had risen substantially in 2006 and 2007, had reached a peak by the second quarter of 2008. Copper prices fell by 2 per cent in 2008 with the softening of the global economy. The average price for December was 56 per cent lower than the average for the year as a whole, and copper prices are expected to remain soft in 2009 and 2010. Prices of aluminium have increased at a slower rhythm than other metals, but in 2006 the increase was substantial (35 per cent) on the strength of demand from China. However, they increased by only about 3 per cent in 2007 and fell by a similar amount in 2008. In December 2008 the average price was 42 per cent lower than the average for the year as a whole, and they are expected to remain depressed until the world economy begins to recover. Zambia (for copper) and Mozambique, Ghana, Cameroon and Guinea benefited the most from the increases in metal prices through 2008.

Agricultural Products

Prices of agricultural products were 25 per cent off their peaks by the end of 2008, much less of a decline than in the case of minerals. Most of the products are foodstuffs, which are less sensitive to fluctuations in global economic output.

Prices of tropical commodities have had a mixed performance (Figure 4). Unlike most other commodity prices, cocoa prices moved sharply upwards through the third quarter of 2008, continued to show strength in December, and registered an increase of about 32 per cent for the year as a whole. The price surge appears to be driven by a shortfall of production in Côte d'Ivoire, the world's largest cocoa producer and exporter, estimated to be about 35 per cent lower in 2008 than in 2007. The shortfalls are due to high fertiliser prices and relatively high levels of taxation which have reduced incentives to farmers to replant, instead shifting their efforts to other crops. Cocoa prices had been fluctuating around a narrow range during the period 2004-06, substantially lower than in previous years, but they moved up in 2007 in response to strong demand. The price increases are expected to benefit Ghana, Nigeria, and Cameron where production has been increasing.

Figure 4 - **Prices of Agricultural Exports** (base 100 in January 2000)



Source: World Bank.

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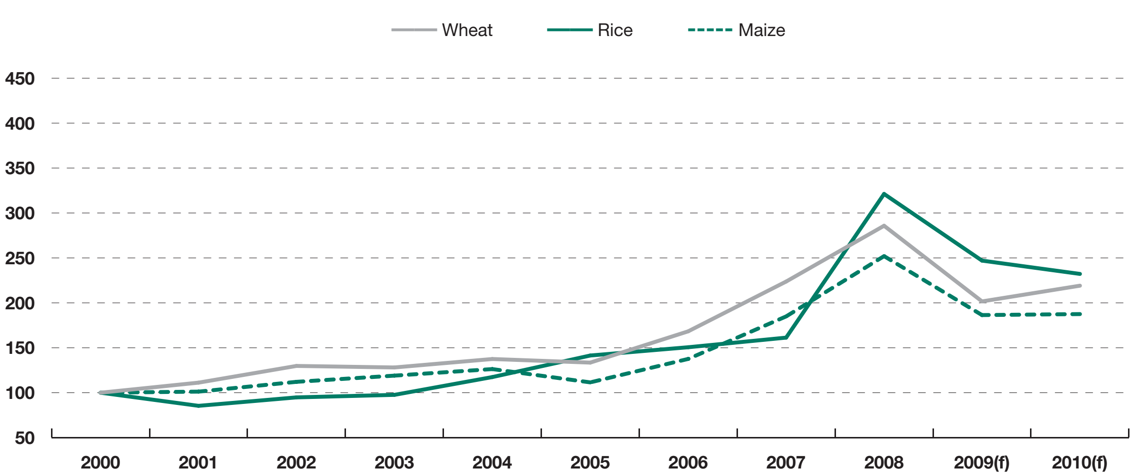
The prices of coffee, a key export for many African countries, continued to rise in 2008 (by 13 and 22 per cent for Robusta and Arabica varieties, respectively). This followed increases in both 2006 and 2007, especially for Robusta, mainly because of a production shortfall in Viet Nam (which has become a large coffee exporter). Unlike metals, coffee prices continued to rise in the third quarter of 2008 before falling back in the fourth quarter, suggesting that commodity traders may have been pushing prices higher than warranted by the fundamentals. Prices for the month of December 2008 were markedly lower than for the year as a whole, down 15 and 22 per cent for Arabica and Robusta, respectively. In the case of the latter the December price was 5 per cent lower than the average price in 2007 due to a recovery of production in Viet Nam. Little change in their current levels is expected in 2009 and 2010 with growth in production likely only slightly to exceed growth in consumption.

Tea prices increased by 18.9 per cent in 2008 compared to 2007. Prices peaked in the third quarter of 2008. By December, the average price was 21 per cent lower than the average price for the year as a whole and 5.6 per cent lower than the average for 2007. Prices are expected to remain at about the same levels in 2009 and 2010. The outlook is not favourable, since continued growth in output continually threatens to outpace growth in demand.

Cotton prices rose by 12.8 per cent in 2008 following an increase of about 10 per cent in 2007 largely due to greater global demand and a fall in US cotton production. However, after reaching their peak in the third quarter, the average price in December 2008 was 22 per cent lower than the average price for the year as a whole and 3 per cent lower than the average price for 2006, thus completely reversing the gains of the past two years (Figure 4). This deterioration of prices is particularly worrisome for countries like Mali, Benin and Burkina Faso which had experienced lower export earnings in 2006 and 2007.

While the recent boom in commodity prices has been good for exporters, food-price inflation has become a problem for many food-importing developing countries in Africa and elsewhere. In 2008, food prices in nominal terms reached an average level 147 per cent higher than the low levels of 2000. Partly, this was a result of the increased use of food crops for bio fuels, but also of higher fertiliser prices (linked to high petroleum prices but also to capacity constraints in fertiliser production), and low stocks in the face of buoyant demand. In some cases, drought has played a temporary role. The World Bank[4]

Figure 5 - **Prices of Food Imports** (base 100 in January 2000)



Source: World Bank.

StatLink http://dx.doi.org/10.1787/568210655700

4. World Bank (2008), *Global Economic Prospects 2008* Washington, DC.

has estimated that price increases for vegetable oils and grains between 2004 and 2007 had inflicted a terms-of-trade loss equivalent to 0.5 per cent of GDP for low-income countries on average, but as much as 1 per cent for 29 countries. These high prices have begun to fall back and are expected to be about 26 per cent lower in 2009 compared with the average level in 2008. One reason for this was a reduction in bio fuels production as the price of oil fell sharply thus reducing incentives to substitute bio fuels for petrol and diesel.

Official Development Assistance (ODA)

Excluding debt relief operations, total Official Development Assistance (ODA) continued to increase in 2007. The net increase in ODA from DAC members rose slightly by 2 per cent over the 2006 figure[5]. Estimations show that the positive trend continued in 2008, with an increase of 10.2 per cent in real terms of total ODA from DAC members, this time including debt relief operations. Despite the improvement this trend remains much too slow if donors are to meet the targets for increases in aid by 2010 in line with the commitments taken in Gleneagles in 2005.

The total net ODA from members of the OECD Development Assistance Committee (DAC) was USD 103.5 billion in 2007. This figure represents a decline of 8.5 per cent in real terms[6], and when expressed as a percentage of their combined gross national income, it represents a drop from 0.31 per cent of their combined gross national income in 2006 to 0.28 per cent in 2007. ODA had been exceptionally high in 2005 (USD 107.1 billion) and 2006 (USD 104.4 billion), due to large Paris Club debt relief operations for Iraq and Nigeria.

In 2007, debt relief amounted to USD 9 billion, considerably less than in 2006 and 2007, when it was USD 20 billion and USD 25 billion, respectively[7].

The largest donors in 2007, by volume, were the United States, followed by Germany, France, the United Kingdom and Japan. Five countries exceeded the United Nations target of 0.7 per cent of GNI: Denmark, Luxembourg, the Netherlands, Norway and Sweden. (See DAC 2009 Report Annex A, Table 1 and Chart 1). Japan's net ODA was USD 7.7 billion, representing 0.17 per cent of GNI, a fall of 29.8 per cent in real terms that was in part due to a decrease in debt relief operations, which were exceptionally high in 2005 and 2006, and to a decrease in contributions to international financial institutions. Japan's ODA has been on a downward trend since 2000, except for an increase in 2005 and 2006 mainly due to debt relief.

The combined ODA of the 15 DAC member countries that are also EU members – which represents nearly 60 per cent of all DAC ODA – fell by 6.6 per cent in real terms to USD 61.5 billion, representing 0.39 per cent of their combined GNI. Again, the fall was mainly due to a decrease in debt relief grants. Excluding debt relief, net ODA from DAC EU members rose by 7.7 per cent.

Aid rose in real terms in ten DAC EU countries as follows: Germany (+6.1 per cent), reflecting increases in both bilateral aid and contributions to international organisations; Luxembourg (+15.0 per cent), due to the general scaling up of its aid; Spain (+19.7 per cent), mainly due to a rise in its multilateral contributions, within a planned process of scaling-up of its aid. Austria (+8.3 per cent), Denmark (+2.9 per cent), Finland (+6.4 per cent), Greece (+5.3 per cent), the Netherlands (+3.2 per cent), and Portugal (+5.9 per cent) also increased their aid. Finally, Ireland (+4.8 per cent), raised its ODA/GNI ratio to 0.55 per cent.

Aid from other DAC EU countries fell in real terms, due mainly to decreased debt relief: Belgium (-11.2 per cent), France (-16.4 per cent), Italy (-2.6 per cent),

5. OECD DAC (2009), *Development Co-operation Report 2009*, Paris.

6. OECD DAC (2009), *op. cit.*

7. *AEO* 2008, p.25.

Sweden (-2.5 per cent) and the United Kingdom (-29.6 per cent). Excluding debt relief, aid rose in these countries with the exception of the United Kingdom, where net ODA decreased slightly due to sales of equity investments.

Net ODA by the European Commission rose by 3.1 per cent to USD 11.8 billion mainly due to increased programme and project aid. Humanitarian aid also increased, and the EC's disbursement capacity continued to improve.

The largest recipient of net bilateral ODA in 2007 was Iraq, which received USD 9 billion, of which USD 4.8 billion were net debt forgiveness grants. Afghanistan was the next largest recipient receiving USD 3 billion, followed by Tanzania (USD 1.8 billion), Cameroon and Sudan (USD 1.7 billion each).

At the time of the Gleneagles G8 and UN Millennium +5 summits in 2005, donors committed to increase their aid. These commitments were expected to raise ODA by USD 50 billion in 2010 compared with 2004 (at 2004 prices and exchange rates). Excluding debt relief and humanitarian aid, which are expected to return to their historical levels by 2010, the annual average growth rate required to reach the target was is 11 per cent. In particular, at the Gleneagles G8 Summit, donors made specific individual commitments[8]. The "*Gleneagles commitment"* from Annex II of the Gleneagles G8 Communiqué on Africa stipulated:

Box 4 - What Will Happen to Aid Flows to Africa?

An OECD Development Centre Working Paper explores the evidence on the impact of economic cycles in the donor countries on the scale of aid disbursements. Broadly speaking, the evidence is ambiguous. To cite a few examples, during their economic downturns, between 1991 and 1993 Finland cut bilateral ODA by more than 40 per cent and between 1990 and 1996 Japan cut its aid by 12 per cent. But in the United States, while aid dropped sharply during the recession of 1990-91, during the 2000-01 recession aid increased. Nor does it seem that there is much clear-cut evidence about the relationship between aid disbursement and fiscal balance in donor countries. Again, in the case of the United States, there has been no statistical relationship between net bilateral ODA and either tax receipts, deficits or total government expenditures.

It is therefore impossible to say with any certainty whether fiscally-challenged governments will cut ODA. The only thing we do know is that the global financial crisis is so widespread and so serious that the choices facing donor governments are likely to be stark ones; perhaps much more so than they have been in the recent past. It does not bode well that several donors have already announced major cuts in their aid budgets.

Nevertheless, the financial crisis could (or should) give a new impetus to governments' efforts to improve aid effectiveness, as expressed in the Paris Declaration and the Accra Agenda for Action. Even in the face of the possible stagnation of aid budgets, there might be a pay off if donors react in a way that is pro-poor and more flexible. Indeed, a hard-budget constraint may even help reduce some of the inefficiencies that have become inherent in the international aid system. Now, more than ever, policy makers need to protect aid volumes and allocate them in a way that is pro-poor.

Source: Mold, A., S. Paulo and A. Prizzon (2009), "Taking Stock of the Credit Crunch: Implications for Development Finance and Global Financial Crisis", *Working Paper* No 177, OECD Development Centre, Paris.

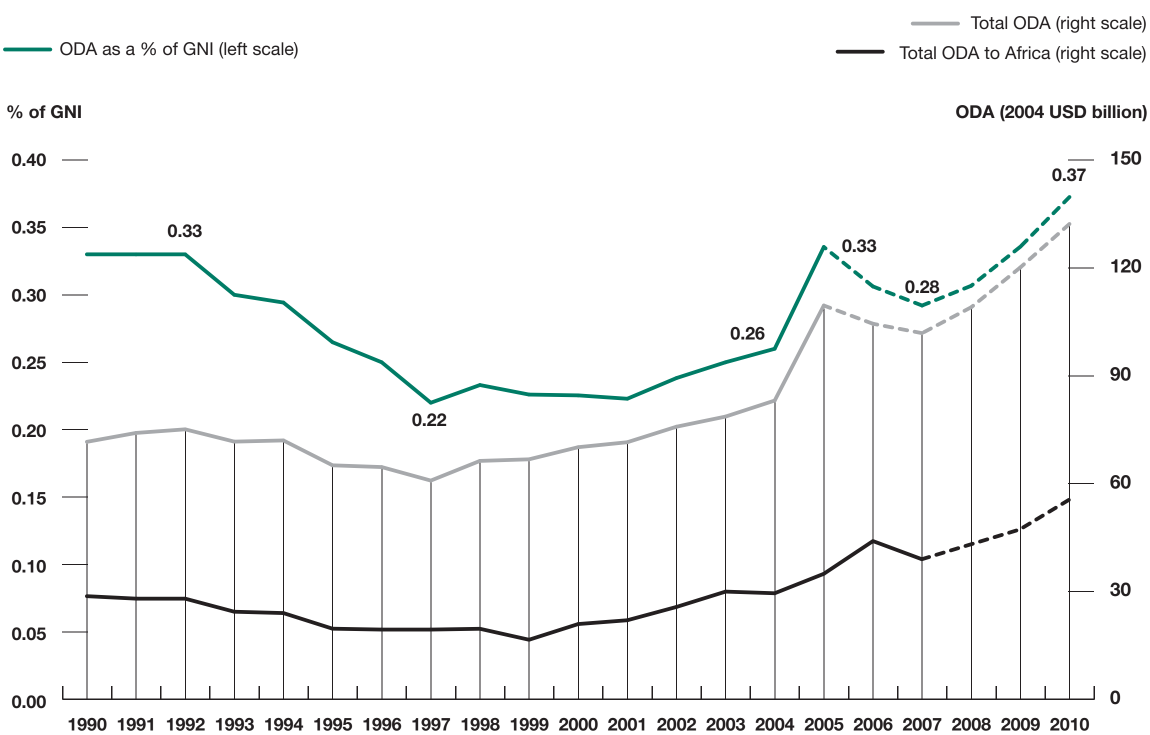
8. Annex B *(Progress by G8 Donors on their Gleneagles ODA Commitments)* in DAC 2009 report, presents key statements made by each DAC donor at the G8 Summit and indicates the trajectories now needed to attain the levels promised.

"The EU has pledged to reach 0.7 per cent ODA/GNI by 2015 with a new interim collective target of 0.56 per cent ODA/GNI by 2010. The EU will nearly double its ODA between 2004 and 2010 from 34.5 billion EUR to 67 billion EUR."

While the DAC Secretariat's assessment of donors' stated spending plans through 2010 indicate that a sizeable increase in total ODA and in ODA for Africa will occur, the expected increases will not be enough to meet the Gleneagles commitments in Figure 6.

An OECD survey[9] of donors' forward spending plans showed that, at country or regional levels, donors have already programmed an additional USD 17 billion by 2010 compared to 2004 levels. Record replenishments of IDA and the African and Asian Development Banks will add about another USD 4 billion to this figure in 2010. Thus, about USD 21 billion of the USD 50 billion promised by 2010 has already been delivered or has been planned. This leaves nearly an additional USD 30 billion in 2004 dollars - about USD 34 billion in 2007 dollars - to be programmed into donors' aid budgets if their aid commitments for 2010 are to be achieved[10]. The severity of the economic crisis in major donor countries reinforces doubts on whether aid commitments will be respected. The World Bank and the IMF[11] recently estimated that the current aid gap for Low Income Countries (LICs) is between USD 20 to USD 25 billion taking into account the impact of the global financial crisis.

Figure 6 - **DAC Members' Net ODA 1990 - 2007 and DAC Secretariat Simulations of net ODA to 2008 and 2010**



Source: DAC OECD Development Co-operation Report, 2009.

StatLink http://dx.doi.org/10.1787/568220660120

9. See *www.oecd.org/dac/scalingup*.

10. See OECD DAC (2009), *op. cit.*

11. IMF (2009), *The implications of the Global Financial Crisis for Low-Income Countries*, Washington, DC.

Concerning other donors, China is playing an increasing role though, according to the IMF, there are few available data on the growing Chinese presence in Africa in terms of aid, debt and direct investment flows. Aid and direct investment from the Gulf countries have also risen in 2007 especially in infrastructure, hotels, and real estate in West Africa.

Bilateral development projects and programmes which slightly dipped in 2006 started to rise again in 2007. Donors have also been making some progress in gradual scaling up core aid programmes in order to reduce fragmentation, which continues to be a major concern both donors and partners: *a)* for donors managing programmes in many countries (Canada, EC, France, Germany, Japan, and the United States give aid to over 100 countries; Portugal to 19 and New Zealand to 21[12]); and *b)* for partners having to deal with a large number of small donors (37 countries have more than 24 DAC and major multilateral donors; in two thirds of these more than 15 of those donors account for just 10 per cent of their aid)[13].

To address the global challenges of poverty reduction and achieve the MDGs, aid is also reported to be increasingly poverty-focused[14]. Indeed, total net ODA to the Least Developed Countries (LDCs) has nearly doubled in real terms over the last 10 years, to reach USD 32.5 billion in 2007, representing about a third of total aid[15].

Looking at countries in terms of their relative development, the DAC report shows that country programmable aid (CPA) increased by about USD 3.8 billion between 2005 and 2010 for least-developed countries (LDCs) and nearly USD 3 billion for other low-income countries (other LICs).

Regarding scaling up by country, the survey data for individual developing countries indicate that scaling up has been planned in two-thirds of them between 2005 and 2010. The survey suggests an increase in CPA of about USD 10.3 billion in 102 countries, of which 39 are in Africa, with an increase of some USD 6.1 billion. Many of the countries with the largest increases in CPA are priority partners for several DAC members and thus reflect scaling up firmly rooted in donors' country strategies.

Excluding debt relief, net ODA disbursements to fragile states[16] have risen steadily since 2000[17]. However, only five countries among which four in Africa – Afghanistan, Cameroon, Democratic Republic of Congo, Nigeria and Sudan – have received more than half of total ODA to the group in recent years (with a peak in 2006 –74 per cent – due mainly to debt relief for Nigeria). Most of this aid is provided in the form of debt relief or humanitarian relief, leaving some countries marginalised and with limited programmable aid. In these circumstances the unpredictability of aid flows is a major impediment to attaining the aid effectiveness objectives of the Paris declaration[18]. *The DAC Principles for Good International Engagement in Fragile States and Situations* focus on state building as the central objective. Aid for government and civil society (which includes aid for peace, security conflict prevention and resolution) has increased by over 155 per cent in real terms between 2000/01 and 2005/06[19].

12. Global Forum on Development, DAC/DCD December 2007
13. OECD DAC (2009), *op. cit.*
14. OECD DAC (2009), *op. cit.*
15. See OECD DAC (2009), *op. cit.*, Annex A, Chart 2
16. Fragile states, a group of 38 countries affected by conflict or burdened with a legacy of weak governance refers also to countries where the Millennium Development Goals (MDGs) are hardest to attain. For a list of fragile states, refer to bottom of Chart 4 in Annex A. (OECD DAC, 2009, *op. cit.*)
17. See Annex A, Charts 3 and 4 of OECD DAC (2009), *op. cit.*
18. Refer to the part on "*Progress in making aid more effective*"
19. OECD DAC (2009), *op. cit.*

Growth of Aid to Africa

Net ODA to Africa amounted to USD 38.7 billion in 2007, representing 37 per cent of total aid. This corresponds to a fall of 18 per cent in real terms, mostly due to the end of exceptional debt relief operations. In 2007, debt relief grants returned to their levels prior to 2005. Excluding debt relief grants, ODA to Africa rose by 12 per cent in real terms. Net ODA to sub-Saharan Africa was USD 34.2 billion, of which USD 21.5 billion was bilateral aid from DAC donors[20]. The largest recipient of net bilateral ODA in 2007 in Africa was Tanzania which received (USD 1.8 billion), followed by Cameroon and Sudan (USD 1.7 billion each)[21]. Donors continued to focus on countries which have historically benefited from large aid flows: Egypt and Morocco in North Africa; and Tanzania, Ethiopia, Sudan, Nigeria, Cameroon, Mozambique, Uganda, Kenya, and DRC in sub-Saharan Africa, these 9 countries accounting for more than 53 per cent of total ODA to SSA in 2007[22].

The Gleneagles G8 summit estimated also that, should donors meet their commitments, total ODA to Africa would *"increase (…)by USD 25 billion a year by 2010, more than doubling aid to Africa compared to 2004."* Final figures on ODA to Africa in 2004 were not known at the time of Gleneagles. The final total was in fact USD 29.5 billion. International organisations are interpreting the Gleneagles estimate as implying an increase in ODA of USD 25 billion at 2004 prices and exchange rates, so that for the promise to be fulfilled, ODA to Africa would need to be at least $54.5 billion in 2010, at 2004 prices and exchange rates[23]. To achieve this target, donors would need to boost their aid to Africa between 2007 and 2010 by over 17 per cent annually (See 2009 DAC OECD Report's Annex A, Chart 5).

Based on their performance in 2007, several G8 countries would need sharp increases in their aid to meet their commitments. US ODA was USD 5.86 billion in 2007, and is projected to reach USD 6.54 and USD 7.53 billion in 2008 and 2009, respectively[24].

Non-DAC donors, have increased their ODA to the continent. On the basis of the available information, it appears that China has played a variety of roles in Africa: trading partner, donor, financier and investor, contractor and builder. The data also show that trade, investment, and other commercial activities combined have outpaced official development assistance (ODA) and become dominant in financial terms[25].

Chinese aid flows were equal to about 20 per cent of the value of trade with China in the early 1990s. That ratio declined to 3-4 per cent in 2004-05, even though China has stepped up its ODA to Africa since the first China-Africa Co-operation Forum was held in 2000[26]. Indeed, in dollar terms, annual ODA flows from China to Africa increased from about USD310 million in 1989–92 to an estimated USD1-1.5 billion in 2004–05[27]. However, there are major difficulties in estimating Chinese aid disbursements because of a lack of official time series and problems in valuing Chinese technical assistance and in-kind aid according to the IMF's quarterly magazine. Moreover, the IMF reported that incomplete data make it hard to compare the terms on which China provided debt relief on terms

20. OECD DAC (2009), *op. cit.*

21. OECD DAC (2009), *op. cit.*

22. Data from DAC OECD statistical annex for 2007 ODA.

23. OECD DAC (2009), *op. cit.*

24. OECD DAC (2009), *op. cit.,* P. 17-18.

25. IMF, Finance & Development, March 2008, Volume 45, Number 1 *Maximizing the benefits of China's increasing economic engagement with Africa*

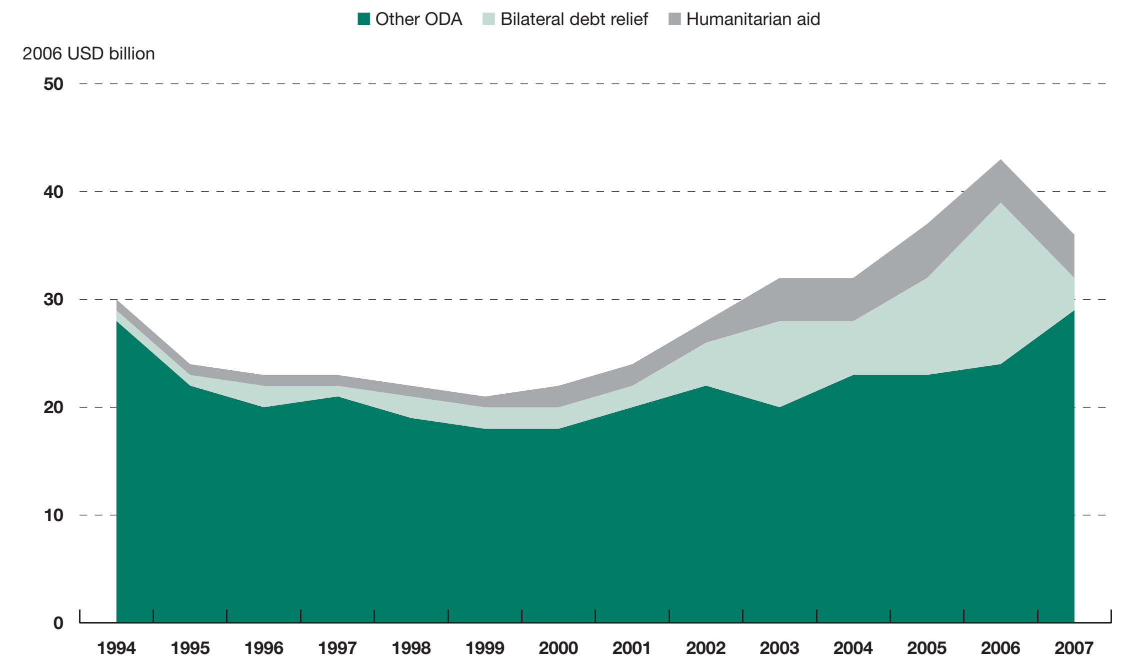
26. *Ibid.*

27. Wang, 2007; Taylor, 1998.

comparable to the terms of the Heavily Indebted Poor Countries Initiative (HIPC).

The 2009 DAC report also shows a small increase in total humanitarian aid. The recent food crises, which have caused riots and troubles in several Sub-Saharan African countries, provoked a slight increase in humanitarian emergency aid for the sub-region. This increase comes from DAC and non-DAC member countries, as well as from World Food Program, other UN agencies, and nongovernmental organisations (NGOs). However, the general picture shows that much humanitarian aid globally continued to be concentrated on Iraq and Afghanistan, as a consequence of US increased ODA to Afghanistan by 5 per cent, to USD 1.5 billion, and USD 3.7 billion for Iraq. Humanitarian aid, like debt relief from bilateral donors, decreased for Africa, while other sources of ODA rose. (See Figure 7)

Figure 7 - **Net ODA Disbursements to Africa**



Source: DAC OECD Development Co-operation Report, 2009.

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In 2008, as in 2007, the largest African aid recipients included several among the 28 which have achieved their HIPC[28] completion point or are in the process of doing so. As of March 2009, 20 African countries had reached their completion points and 8 more had reached the decision point under the enhanced HIPC Initiative; 5 others are potentially eligible[29]. The challenge of the HIPC initiative, and of the Multilateral Debt Relief Initiative (MDRI), is to ensure that the resources that are freed from debt repayment are channelled to expenditures on health, education and other social services[30].

The concern expressed in *AEO 2007/08* over debt sustainability is still relevant. The immediate problem, however, is the drying up of trade credits with the contraction of the secondary market in commercial paper, prompting the IMF and the World Bank to

28. The HIPC initiative, started in 1996, is a comprehensive approach to debt reduction for heavily indebted poor countries pursuing IMF and World Bank supported adjustment and reform programmes.

29. IMF (January, 2009), "Fact Sheet: Debt Relief Under the Heavily Indebted Poor Countries (HIPC) Initiative".

30. *Ibid.*

enter the market as a supplier of trade finance. This problem has been exacerbated by the global financial crisis that started in late 2008. To be sure, many African countries have continued to contract credits with emerging donors who are not members of the DAC and are not obliged to implement the Paris Declaration and other tools for better management and aid effectiveness. China has continued to lend important amounts of money to several Sub-Saharan African countries, but due to the incomplete data on China's aid and credits to Africa, it is difficult to estimate such flows. Thus, even after debt relief under the HIPC and MDRI initiatives is fully implemented, maintaining a sustainable level of debt service, while seeking additional financing needed to make progress towards the MDGs, will still be a challenge[31].

To address the concern among developing countries in Africa and elsewhere that the current crisis may result in reductions in aid budgets instead of the further increases that have been pledged[32], the OECD's Secretary-General, Angel Gurría, and the Chair of the DAC, Eckhard Deutscher, have issued a statement calling upon the world's major donor countries to stand by their development pledges in order to prevent the "… financial crisis from generating an aid crisis", which would have a serious impact on developing countries, especially in Sub-Saharan Africa, already struggling with the global food crisis and rising oil prices. Their "Aid Pledge" urges DAC members to "… reaffirm their aid commitments and refrain from any budgetary action that is inconsistent with such commitments."[33]

As a positive sign, preliminary figures for 2008 released by the DAC at the end of March 2009 indicate that net bilateral ODA from DAC donors to Africa and Sub-Saharan Africa totalled USD 26 billion, of which USD 22.5 billion went to Sub-Saharan Africa. This corresponds to real growth rates of 10.6 and 10 per cent for Africa and for Sub-Saharan region, excluding debt relief grants. If debt relief operations are included, the estimated growth rates were of 1.2 and 0.4 per cent respectively.

Progress in making aid more effective

Since the G20 meeting of November 2006 in Melbourne, donors renewed their commitments to increase aid effectiveness during the Accra High Level Forum in 2008. It was generally agreed that the Paris Declaration can expand development goals by strengthening cross-sectoral issues such as gender equality, respect for human rights, and environmental sustainability. Each principle of the Paris Declaration was redefined with a view to integrating these values. Concrete illustrations of the possibility of integrating these concepts and values were further shared[34].

Although the aid effectiveness agenda remains unchanged, indicators to measure the progress made in the field are evolving. The Accra High Level Forum 2008 set new priorities[35] to increase aid effectiveness into the Paris Declaration's principles which effectively means:

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

Untying aid continues to increase[36]. Not only was the 2001 DAC Recommendation complied with, but

31. See AEO 2008 report.
32. OECD DAC (2009), *op. cit.*
33. The full statement can be seen at: *www.oecd.org/document/2/0,3343,en_2649_201185_41601282_1_1_1_1,00.html*
34. OECD DAC (2009), *op. cit.,* pp. 89-99.
35. For more information, OECD DAC (2009), *op. cit.,* pp. 92-93.
36. See Aid Effectiveness: Progress Report, p.12.

also in May 2008 DAC members agreed to expand the coverage of the recommendations to eight heavily indebted poor countries (HIPCs) that are not LDCs.

However, progress towards ownership seems to be uneven among partners and donors and often remains narrowly based within partner countries. National governments appear to encounter difficulties in making their strategies operational, especially when it comes to allocating budgets for specific results.

Progress made towards alignment is reflected in the gradually increasing and selective use of public financial management (PFM) and national public procurement systems (PP). In both cases, although progress is recorded, it seems to be insufficient to meet the 2010 goals. The use of PFM appears to be linked to budget support and the best results for the use of national systems of PP are found where the partner government is itself results-focused[37].

Harmonisation is progressing, thanks to the multiple efforts conducted by donor countries through the adoption of joint programming and assistance strategies, the pooling of funds and the use of country systems when feasible. More specifically, efforts have been seen in Tanzania, where joint assistance led to integrating a gender-focused approach to a sectoral, co-operative division of labour[38]. Overall consensus building seems to be the key to generating more harmonisation.

Managing for results still proves difficult to implement due to the lengthy process it involves. Most partner countries are still in the midst of devising monitoring frameworks with results-oriented strategies, which are difficult to organise without help from donor countries to plan, budget, manage and account for the results of policies and programmes.

For this reason, most donors provide some form of capacity building aid focusing on the particular needs of each country[39]. In Uganda, where gender inequalities are deemed to be a major issue, the government, together with civil society and academic institutions, was helped to create budgetary incentives for local governments to focus on poor women and children[40]. In Africa, Tanzania, Mozambique and Uganda are the countries making the most progress towards the attainment of results-oriented frameworks according to the World Bank.

Through the lessons learnt at the Accra High Level Forum, the development community realised that although the Paris Declaration improves aid effectiveness, much better delivery and monitoring are needed on the ground in order to achieve the Millennium Development Goals by 2015.

The Progress Report on implementing the Paris Declaration highlights several areas for possible improvement on the part of both partners and donors. Among these, the most striking are: leadership issues to spur the Paris Declaration's implementation process as well as broadening the base of stakeholders involved in the process; the necessity to change the incentive structure further to encourage donors and partners; and coherence issues between aid policies and trade, migration and environment[41]. Other areas of concern have been identified in the 2008 monitoring survey and the World Bank's Review, *Results-Based National Development Strategies: Assessment and Challenges Ahead.* They point out "definitional clarity, accelerated construction of monitoring frameworks, and greater agreement on how to strengthen systems" as being essential to reach the 2010 target of reducing by one-third the proportion of countries without transparent and verifiable performance assessment frameworks[42].

37. See progress report on Aid effectiveness, pp. 11-12.

38. See OECD DAC (2009), *op. cit.,* pp. 95.

39. See report on Aid effectiveness p.13.

40. OECD DAC (2009), *op. cit.,* pp. 96-97.

41. OECD DAC (2009), *op. cit.,* p. 10.

42. Aid effectiveness, p.86.

Box 5 - How Does Africa Fare in Making Aid More Effective?

How far from the 2010 targets?	Key factors for aid effectiveness	How does Africa fare?
Progress on track	Significant improvements in providing technical co-operation in a co-ordinated and aligned manner	For indicator 4, the 2008 survey shows that globally, the target has already been exceeded from 48 per cent in 2005 to 60 per cent in 2007. Figures for Africa show also a similar upward trend, improving from 39 per cent in 2005 to 56 per cent in 2007.
	Encouraging improvements in the quality of country PFM systems	The objective of indicator 2a is to measure and encourage improvements in developing-country systems for managing public funds. At the global level, 36 per cent (10 countries) have improved the quality of PFM systems. Six out of these ten countries are from Africa (Zambia, Rwanda, Burundi, Ethiopia, Ghana and Mauritania), improving the score for the quality of PFM systems by at least one measure.
	Improvements in untying aid both globally and in Africa	For indicator 8, global figures show increase in untying aid from 75 per cent in 2005 to 88 per cent in 2006. In Africa, it improved from 78 per cent in 2005 to 88 per cent in 2006.
Targets requiring efforts but within reach	Accountability of aid has improved both globally and in Africa	The objective of indicator 3 is to improve transparency and accountability of aid by encouraging partner countries and donors to accurately record aid in the national budget. Globally, on average, the realism of the country's budget improved from 42 per cent in 2005 to 48 per cent in 2007 African countries have improved budget realism by 6 per cent from 45 per cent in 2005 to 51 per cent in 2007.
	Aid predictability has improved both globally and in Africa	For Indicator 7, there has been modest improvement in donors disbursing aid within the scheduled year. Globally, on average, the proportion of aid disbursed within the fiscal year for which it is scheduled for has improved slightly from 41 per cent in 2005 to 46 per cent in 2007. In Africa, the figure has improved from 44 per cent in 2005 to 48 per cent in 2007.
	Use of programme-based approaches decreased slightly in Africa	Globally, donors increased the use of co-ordinated mechanisms for aid delivery by channelling more aid through PBAs, from 43 per cent in 2005 to 47 per cent in 2007. In Africa, the use of PBAs has decreased slightly from 48 per cent in 2005 to 46 per cent in 2007, reflecting, in part, more stringent definitions used in the survey.
	The number of parallel project implementation units decreased in Africa – yet there is a long way to go	The objective of indicator 6 is to encourage donors to make increasing use of country systems to avoid using parallel project implementation units (PIUs), Globally, the stock of parallel PIUs reduced from 1817 in 2005 to 1601 in 2007. In Africa, the number of parallel PIUs reduced from 960 in 2005 to 902 in 2007, still a far cry from the target of two-thirds reduction of the stock of parallel PIUs.

Box 5 - How Does Africa Fare in Making Aid More Effective?

	Making country development strategies operational remains a challenge for Africa	Indicator 1 assesses the degree in which partner countries design development strategies that are operational and effective in achieving their own development goals. Progress has been slow – globally, countries with sound operational strategies have increased from 17 per cent in 2005 to 24 per cent in 2007, but far from the target of 75 per cent. Compared to 2005, seven African countries obtained a rating of B for the quality of a country's national development strategies, four of which had increased the score from C to B between 2005 and 2007 (Burkina Faso, Ethiopia, Ghana and Zambia).
	Sound frameworks for monitoring development results remains a challenge	Significant challenges remain in establishing sound frameworks for results-based monitoring. Globally, the share of countries that have sound quality frameworks has improved slightly from 7 per cent in 2005 to 9 per cent in 2007. The challenge is shared in Africa, with only two countries obtaining a score of B in 2005 and three countries obtaining a B in 2007 (Mozambique, Tanzania and Uganda).
Targets requiring special efforts	**Global improvement in the use of country systems, but decline in Africa**	Indicator 5a and 5b measure, respectively, the degree in which donors use in-country public financial management and procurement systems. Globally, the percentage has risen modestly from 40 per cent in 2005 to 45 per cent in 2007 for the use of domestic PFM systems and 39 per cent in 2005 to 43 per cent in 2007. However, in Africa, the use of domestic PFM systems has declined from 40 per cent to 38 per cent and from 43 per cent to 41 per cent for country procurement systems. The survey results show little evidence to suggest that donors make more use of national systems if they are of sound quality.
	Significant challenges remain in co-ordinating donor missions and country analytical work.	One of the most frequent complaints made by partner country authorities is that too much time is spent meeting with donors. Indicator 10a shows that the number of co-ordinated missions has not increased. Globally, the proportion of donor missions that are co-ordinated rose from 18 per cent in 2005 to 21 per cent in 2007, and in Africa, from 19 per cent to 22 per cent. The total number of donor missions remains high, with 7 500 missions in Africa.
	Mechanisms for establishing mutual accountability mechanisms at country level has largely stalled, both at the global level and in Africa	Indicator 12 records whether countries have mechanisms for mutual reviews. Globally, only 14 out of 55 countries have such mechanisms. In Africa, only Burundi, Ethiopia, Ghana, Malawi, Mozambique, Senegal and Tanzania have such mechanisms.

Source: DAC Secretariat.

Both the 2006 Baseline Survey and the 2008 Survey on Monitoring the Paris Declaration featured 19 African countries[43] representing a broad spectrum of geographic, linguistic and situational differences. The Box below provides an overview of how African countries fare in improving the quality of aid vis-à-vis the global pool of countries which took part in the 2008 Survey on Monitoring the Paris Declaration.

43. The 19 African countries that took part in two rounds of surveys are: Benin, Burkina Faso, Burundi, Cape Verde, Democratic Republic of Congo, Egypt, Ethiopia, Ghana, Kenya, Malawi, Mali, Mauritania, Mozambique, Niger, Rwanda, Senegal, Tanzania, Uganda and Zambia. In addition 12 new Africa countries took part in the 2008 Survey to establish a baseline. They are: Cameroon, Central African Republic, Chad, Ivory Coast, Gabon, Liberia, Madagascar, Morocco, Nigeria, Sierra Leone, Sudan and Togo.

Efforts are already underway to respond to some of these challenges. Several donors and partners have started work on designing verifiable indicators that both could use leading up to the next high-level forum in 2011. The DAC Network on Development Evaluation is also working to improve the quality of evaluation systems by producing and distributing evaluation quality standards, glossaries and guidance.

Finally, it should be mentioned that the proliferation of aid channels has been combined with fragmented aid. ODA fragmentation can be damaging to the effectiveness of ODA, particularly in recipient countries with low institutional capacity, as it may increase the transaction costs of aid. Fragmentation is manifested in different forms, such as the number of donor-funded activities, the financial size of aid commitments and the dispersion of small-scale free-standing technical assistance as a modality (instrument) of aid delivery. The 2007 EU Code of Conduct on Complementarity and Division of Labour, for instance, links efforts to reduce aid fragmentation to enhanced donor coordination and harmonisation[44].

Foreign Direct Investment

FDI has been one of the principal beneficiaries of the liberalisation of capital flows over recent decades and now constitutes the major form of capital inflow for many SSA countries, including some low-income ones like Chad, Mauritania, Sudan and Zambia. Economies are often considered less vulnerable to external financing difficulties when current account deficits are financed largely by FDI inflows, rather than debt-creating capital flows. For instance, in South Africa in 2007, FDI covered the whole of the current account deficit. There is no denying the importance of FDI inflows both for their contribution to sustaining current account imbalances in countries and for their contribution to broader economic growth, through technological spillovers and competition effects.

Prior to the financial crisis, foreign direct investment (FDI) inflows to Africa had been rising strongly since 2002, reaching USD 53 billion over 2007, a 47.2 per cent increase on 2006 and their highest historical level. In 2007, USD 22.4 billion was directed to North Africa and USD 30.6 billion to Sub-Saharan Africa. Africa's share of global FDI flows registered a significant decline to 2.9 per cent of global FDI in 2007, down from 3.2 per cent in 2006. Even according to recent estimates[45], while global FDI may have fallen by up to 20 per cent in 2008; flows to Africa have remained resilient, growing by 16.8 per cent to USD 61.9 billion over 2008, despite the slowdown. The rate of return of FDI in Africa has been, increasing since 2004 and, at 12.1 per cent, was the highest among developing host regions in 2007. Mergers and acquisitions (M&As) in Africa rose by an estimated 157 per cent to USD 26 billion in 2008.

Behind a large share of the rise in FDI lies surging prices for raw materials, particularly oil, which fuelled a boom in commodity-related investment. High raw-material prices also helped maintain outward FDI flows from Africa, which remained stable at USD 6.5 billion in 2007. As a percentage of gross fixed capital formation, inflows stabilised at 21 per cent. Nevertheless, with the advent of the crisis, lower world demand and depressed prices for Africa's commodity exports are expected to affect investment levels, with particularly negative short-term effects for the resource-exporting countries in the region.

Attracting FDI into diversified and higher value-added sectors remains difficult in many countries. According to UNCTAD data, the primary sector remained the main focus of foreign investment. However, foreign interest in communications, manufacturing and infrastructure investments also

44. http://europa.eu/scadplus/leg/en/lvb/r13003.htm

45. UNCTAD "Assessing the impact of the current financial and economic crisis on global FDI flows", January 2009.

increased. Service-sector investment rose in North Africa, but remained negligible in Sub-Saharan Africa, barring financial institution buy-ins. Notably, some commodity-exporting countries have been making significant efforts to move up the value chain by, for example, expanding their refinery activities (Côte d'Ivoire, Egypt, Nigeria), though higher labour costs than other developing countries still hobble the potential for FDI in manufacturing.

FDI increased in 36 countries, and declined in 18. Top FDI destinations for 2007 were: Nigeria (USD 12.5 billion) Egypt (USD 11.6 billion) and South Africa (USD 5.7 billion) followed by Morocco, Libya, and Sudan. South Africa shifted back to a positive balance after having found itself a net exporter of investment capital in 2006, according to preliminary estimates, South African inflows more than doubled over 2008 to USD 12 billion. The most attractive countries for investment tend to hold significant natural resource endowments, active privatisation programmes, liberalised FDI policies and active investment promotion activities.

FDI levels and prospects still vary widely by region, sector and country. North Africa's sustained privatisation programmes and investment-friendly policies continued to attract large FDI inflows, reaching USD 22 billion in 2007, a 15 per cent increase on 2006.FDI investments in North Africa were the continent's most diversified, with projects in textiles, oil and chemicals and the production of generic pharmaceuticals. Inflows to Egypt remained substantial, reaching USD 11.6 billion. Privatisations also boosted FDI to the sub-region (for example the privatisation of the Crédit Populaire d'Algérie and the USD 5.4 billion foreign entry into Libya's state-owned Tamoil). West Africa continued to benefit from the commodity boom and ambitious privatisation schemes, leading to inflows of USD 15.6 billion in 2007. Nigeria still accounted for 80 per cent of total West African investment, mostly reflecting oil industry expansion projects.

Central African inflows grew by 28 per cent to USD 4.1 billion. East Africa, still the lowest recipient of FDI on the continent, saw a 65 per cent increase in FDI flows in 2007, from USD 2.3 billion to USD 3.8 billion, thanks to new prospects in the primary sector and through projects in Madagascar[46] and privatisations in Kenya.

In Southern Africa, Angola remained a net capital exporter in 2007. South Africa, the continent's most diversified economy after having become a net exporter of capital in 2006, once again registered positive net inflows of USD 5.7 billion. Preliminary estimates suggest a further boost of inflows over 2008, reaching USD 12 billion at year's end. South Africa's stock of FDI at work in the country remains the highest in the continent by far at USD 93 billion, nearly a quarter of total FDI stock in Africa (standing USD 393.4 billion at end 2007). In 2007, FDI to the LDCs increased to USD 10 billion, from USD 9.6 billion the previous years.

Ten African countries introduced policy measures to improve the investment climate in 2007, most notably improving regulations pertaining to FDI and transnational company involvement in the economy. Regional entities also introduced FDI-promoting measures in 2007, including the COMESA Common Investment Area, which ambitions to establish a free investment area by 2010 and help its members, most of which are too small to attract sufficient investment to support national development and regional integration projects. ECOWAS created a department to promote cross-border investment and joint ventures so as to promote investment and promote public-private partnerships and is working to deepen the financial integration of the sub-region through its Finance and Investment Protocol. The SADC is also undertaking a joint investment promotion programme with the EU. In May 2008, the AfDB signed a memorandum of understanding with the Export-Import Bank of China, with provisions for co-financing and guarantees for public and possibly private sector projects.

FDI outflows from Africa remained strong in 2007 at USD 6 billion, though short of the peak of

46. UNCTAD classifies Madagascar in East Africa.

USD 8 billion of 2006. This performance was due to expanding operations of trans-national corporations, particularly from South Africa but also from countries that had been benefiting from high commodity prices. Top contributors to outward FDI were South Africa, Egypt, Morocco, Liberia, Angola, Algeria and Nigeria, mostly investing in natural resources exploitation and the services sector. South African firms invested heavily in banking, ICT and infrastructure. South African TNCs accounted for 80 per cent of total African outflows in 2007, with Morocco, Liberia and Nigeria accounting for a further 12 per cent. Though African FDI outflows remained centred on extraction, African TNCs also engaged in telecommunications and retail-sector investments.

While the boom in commodity markets contributed to maintaining growth in foreign investment through 2008, lower demand and depressed raw material prices brought on by the crisis have made disinvestment a looming prospect. This is echoed by the latest UNCTAD survey findings, stating that only 20 per cent of investors plan to increase investment in Africa between 2007-09 (against 80 per cent for Asia), illustrating foreign investors' narrow perspective on African investments.

The composition of non-FDI capital flows shows persistent variations between country groupings: ODA and bank lending predominate in Low Income Countries (LIC); equity flows are largely restricted to South Africa; bond financing is making inroads into middle-income countries, even though Nigeria had to cancel its first global Naira-denominated bond issue in early 2009 due to bad market conditions. South Africa is also developing into a source of external financing for other African countries.

The value of cross-border mergers and acquisitions (M&A) activity fell sharply in 2007 to USD 10.2 billion from USD 19.8 billion in 2006, partly due to fewer extractive and exploration projects for sale. Nevertheless, preliminary estimates for 2008 show sharp swing back of 157 per cent to USD 26.3 billion[47], thanks to a massive jump in M&A activity in Egypt to USD 15.9 billion.

China expanded its support to Chinese investments in Africa, building on its general investment policy on Africa adopted in 2006. In 2007 the Export-Import Bank of China financed over 300 projects in the region, constituting almost 40 per cent of the Bank's loan book. The Industrial Bank of China (ICBC) made a large investment in the Standard Bank Group of South Africa. Japan announced in May 2008 its decision to set up a USD 2.5 billion investment fund (the Facility for African Investment, managed by JBIC) to help Japanese firms do more business in Africa, as part of its target to double Japanese private-sector investment on the continent to USD 3.4 billion by 2012.

Sovereign Wealth Funds and national investors are also investing more in Africa's infrastructure and have become, through their sheer size (predicted to reach at least USD 5 trillion by 2012[48]), important potential sources of FDI. Also increasing importance are investors from the Middle East, especially, but not limited to, North African projects.

While Africa was recently being hailed as an exciting financial frontier, even barring the crisis, local equity markets remain small, and local currency debt markets often too illiquid to exert a significant growth impact. Though the number of functioning stock markets has risen from five in 1989 to sixteen in 2007, in effect, the majority of African exchanges list only a handful of companies and are highly illiquid. There was for example no trading on the Maputo Stock exchange for the whole of 2004. Excluding South Africa's Johannesburg Stock exchange (JSE, with 401 listed companies in 2006), the average number of domestic companies listed per exchange was only 43 in 2006.

47. From an alternative source: total value of the top ten M&A deals to the end of October 2008 was USD 6.4 billion, compared with USD 14.9 billion for the top ten deals of 2007, with three of 2008's deals being refinancing rather than new projects.

48. JP Morgan *Sovereign Wealth Funds: A Bottom-up Primer* May, 2008.

In response to perennial size and liquidity problems, two exchange operators are attempting to create centralised, continent-wide exchanges[49]. The Johannesburg Stock Exchange (JSE), the largest on the continent, is attempting to bring the largest African firms to make secondary listings in South Africa. The second initiative involves Financial Technologies, the operator of India's commodity exchange, which is seeking to establish a pan-African commodity bourse. Based in Botswana, Bourse Africa could facilitate trades across the continent.

The African Union has also been looking to develop a pan-African Stock exchange[50], but the project remains in early stages. Widespread exchange controls, incompatible regulatory regimes and national resistance remain formidable hurdles to any pan-African exchange project.

As of March 2009, the Johannesburg Stock Exchange (JSE) had lost 45 per cent from its peak in May 2008[51]. This is not a bad performance, relative to that of many mature markets, but the rapid currency depreciation following the repatriation of foreign capital has exacerbated the impact of the fall.

Private equity fund raising, static at USD 2.3 billion in 2006 and 2007, increased to USD 3.2 billion for 2008, bringing the total funds invested through private equity funds to USD 7.6 billion for 2008. South Africa's private equity industry reached ZAR 86.6 billion in funds under management at end-2007, an increase of 46 per cent over 2006, and with funds under management representing 2.8 per cent of GDP, up from 1.7 per cent in 2006. Sixty-four per cent of funds raised over 2007 were from US sources, up from 39 per cent in 2006. Private equity investment activity reached 5 per cent of total South African M&A activity (measured in terms of deal size i.e. debt and equity) in 2007. South African private equity investment activity reached 11th place in 2007 global rankings, its highest ever position.

Nevertheless, knock-on effects of the downturn are starting to be felt through the suspension of projects. A USD 3.3 billion Nigerian-Chinese deal to build cement plants throughout the continent was suspended[52]. A USD 9 billion agreement between China and the Democratic Republic of Congo for mineral resources in exchange for infrastructure has also stalled, in part due to unwillingness from Western creditors to write off the country's significant outstanding debt as it contracts new debt[53].

The Institute of International Finance forecast in January 2009 that net private sector capital flows to emerging markets would fall to about USD165 billion in 2009 from the USD466 billion recorded in 2008, and warned that capital flows to emerging markets are in danger of collapse as the financial crisis in developed economies chokes off the supply of credit to developing economies. According to the IIF, commercial banks are expected to make a net withdrawal of about USD61 billion from emerging markets in 2009. Remittance inflows to Africa, estimated at USD 10 billion for 2007, are also set to fall by up to a third as the economic situation of migrants in developed host countries deteriorates.

While the small size and isolation of Africa's financial markets initially appeared to provide effective protection in the first stages of the financial crisis, it has quickly become clear that the continent, dependent on external factors such as the Asia-driven commodity boom for its outstanding growth run of recent years, is very much in the front line for the second-round effects of a global recession.

49. *Financial Times*, Initiatives beat drum for African capital markets, 8 February 2009.

50. http://www.afriquejet.com/news/africa-news/african-experts-agree-on-pan per cent11african-stock-exchange-2009011219374.html http://www.afrimap.org/newsarticle.php?id=1265

51. Source: Datastream, FTSE/JSE index.

52. *Financial Times*, "China trade with Africa hit by deal rethink", 17 December 2008.

53. *Financial Times*, China in the Congo, 9 February 2009.

Africa's access to external finance is likely to be severely constrained, creating uncertainty as to how it will secure the substantial foreign investment it requires to fund projects, create jobs, finance current account deficits and continue to develop. With global banks pulling back capital from all emerging markets, African banks, while not initially affected by the crisis and little exposed to toxic instruments, will find themselves with much tighter credit conditions limiting the availability of trade finance and constraining their own lending.

There is however the possibility that South-South investments could help take up some the slack. Two recent examples are noteworthy. First, the Liberian government has recently signed a USD 2.6 billion agreement with a Chinese company, China Union, to excavate iron ore, in what constitutes one of the largest ever FDI projects in the continent[54]. Secondly, the Brazilian company Petrobras has announced a massive expenditure plan for the period 2009-2013, reaching USD 174 billion, of which 2 billion are planned for Nigeria and 800 million for Angola[55]. Over the medium to long term, as commodity prices recover investor interest can be expected to return. These new forms of co-operation are not without risks, however (See Box 6).

Box 6 - **China's Financial Co-operation with the Democratic Republic of the Congo**

China is an attractive investment partner for some African countries. The Democratic Republic of Congo (DRC) authorities base their development strategies on the president's five-point plan and aim to maintain high levels of spending in the approach of the 2011 presidential elections. This has made them reluctant to take on the conditions associated with the HIPC debt relief process. There is no doubt that the country has large financial needs, especially for reconstruction and pacification in the East of the country. Moreover, DRC faces a serious economic downturn due to macroeconomic instability, a heavy debt burden, poor governance and the current global financial crisis.

In 2007, China signed a deal with the DRC including USD 9.2 billion in loans focused on infrastructure in the transport, energy, housing, health and education sectors. In return, the DRC agreed to cede rights in a joint venture to develop copper and cobalt concessions with prospects for strong growth in revenues. This deal represents the most important commitment made by China in Africa. It has often been praised by the Chinese as win-win co-operation. Although it may seem beneficial to both countries, several challenges to this deal have risen particularly within the context of the global economic slowdown.

A major challenge is the DRC debt's sustainability. The IMF and the traditional donors have suspended their assistance and the debt relief process through the HIPC initiative, which was supposed to write off about USD 9 billion, because of the unfavourable terms of the Congo-China deal. Other problems are the lack of clarity in the Congolese commitments and the current slowdown in the mining sector which has already resulted in the closing of several copper smelters and severe job losses especially in Katanga. DRC had based its growth prospects and financial resource mobilisation strategies to repay the debt around the performance of the mining sector. The sharp declines in the prices of copper and cobalt have thus slowed down the implementation of the Congo-China deal which is now exposed to higher risks of default on loan repayment obligations Therefore, it may be necessary for both parties to renegotiate the deal in order to adjust the terms in a way that would allow the DRC to return to the HIPC debt relief process.

Source: UNECA.

54. http://www.voanews.com/english/Africa/2009-01-23-voa8.cfm.

55. "Bresil: La crise, quelle crise?", *Jeune Afrique* No. 2508, From 1 to 7 February 2009, page 58.

Nevertheless, the impact of tighter credit conditions on African small and medium businesses is likely to be limited. Most companies have always had very limited access to bank credit, which accounts for example for only 10 per cent of the capital lent to Nigeria's manufacturing sector.

As private sources of capital dry up, so development finance institutions, such as the IFC, will have a critical role to play. The African Development Bank's plans to triple lending for African infrastructure schemes in an effort to salvage key projects are an indication of the increasingly important role multilaterals, development banks and DFIs may be led to play should downside risks materialise fully.

The AU has established the African Investment Bank, which while not yet functional, appears to be making some progress, with a proposed launch set for 2011. To be based in Tripoli, Libya, and wholly-owned by African actors, the bank is designed to serve finance private sector development and development 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, African banks could very well develop consumer businesses and domestic loans.

Macroeconomic Performance in Africa

Economic Growth

In 2008 GDP growth in Africa was 5.7 per cent; it was 6.1 per cent in 2007. This was, thus, the fifth consecutive year when growth exceeded 5.5 per cent. However, the impact of the global economic crisis is expected to slash growth rates to 2.8 per cent in 2009, less than half of the average growth rate achieved during the past five years. The IMF[56] found that over the last 30 years a 1 per cent slowdown in the rest of the world has led to a fall of 0.5 per cent in Sub-Saharan Africa, therefore any further worsening of international economic conditions could well reduce the growth prospects for Africa in 2009 and 2010 even further. The steady process of integration of the continent into the global economy that occurred during the last 15 years, has increased the vulnerability of Africa to drastic falls in financial flows, such as foreign direct investment, trade credit and remittances and to reductions in export earnings. A greater-than-expected fall in these flows will certainly have negative consequences for African growth. On the other hand, the impact of these negative effects could – at least partially – be offset by the prudent macroeconomic management (See Box 7) of most African countries during the last decade, as well as increased trade links with China, India and other emerging economies. Moreover, more than 60 per cent of the population live in rural areas, are dependent on domestic food production, and are thus somewhat less vulnerable to external shocks.

In 2008, growth was driven by the commodity-price boom, which peaked at mid-year and had clearly collapsed by the end of the year, accompanied by strong growth in private investment. Growing conditions in the agricultural sector were also generally favourable. Countries were beginning to have problems with controlling inflation, but, by and large, were continuing to reap the benefits of sound macroeconomic policies (See Box 7). As in previous years, oil exporters fared better than oil importers. All countries had to cope with higher prices of food and fertilisers. Thus, the gap in GDP growth rates between the two groups of countries widened to two percentage points. Growth would have been somewhat higher for the oil importing countries were it not for the energy crisis in South Africa and the post-election civil unrest in Kenya.

56. Op cit. IMF (2009).

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

Region	**2000-05**	**2006**	**2007**	**2008(e)**	**2009(p)**	**2010(p)**
Central	5.7	3.4	4.0	5.0	2.8	3.6
East	4.9	7.6	8.8	7.3	5.5	5.7
North	4.1	5.6	5.3	5.8	3.3	4.1
South	4.1	6.8	7.0	5.2	0.2	4.6
West	7.1	5.1	5.4	5.4	4.2	4.6
Africa	**4.8**	**6.0**	**6.1**	**5.7**	**2.8**	**4.5**
Memorandum items						
North Africa (including Sudan)	*4.2*	*6.1*	*5.7*	*6.0*	*3.5*	*4.2*
Sub-Saharan Africa	*5.2*	*5.9*	*6.4*	*5.5*	*2.4*	*4.7*
Oil-exporting countries	*5.4*	*6.1*	*6.8*	*6.6*	*2.4*	*4.5*
Oil importing countries	*4.1*	*5.8*	*5.4*	*4.6*	*3.3*	*4.5*

Source: Various domestic authorities; IMF *World Economic Outlook* and authors' estimates (e) and projections (p).

StatLink http://dx.doi.org/10.1787/574313086568

Box 7 - **Macroeconomic Policies for Growth and Stability in Africa**

In many African countries, good macroeconomic policies have helped promote investment, facilitate sustainable economic expansion, and maintain macroeconomic stability. Economic recovery was underpinned by domestic factors such as the improvement in macroeconomic management and the business environment, as well as key external factors such as strong global demand and debt relief. Further issues need to be addressed.

Monetary policy, inflation management and growth

Countries across the continent share the common goal of reducing inflation to low single digits. Strategies differ from country to country, but most seek to reduce the growth rate of the money supply. Demand-pull inflation, resulting from a process of economic expansion, will be positively associated with growth as long as the inflation rate remains moderate. Where inflation comes from excessive profit taking by business, supply shocks, or exchange-rate volatility, accommodating some of this inflationary pressure by allowing the money supply to expand may be appropriate.

Monetary policy instruments and targets

Many countries in Africa target the growth rate of monetary aggregates. However, pro-cyclical monetary management and the tightening of monetary policy in response to a negative economic shock in order to maintain low inflation rates runs the risks of worsening the economic impact of these shocks.

Real economic outcomes – such as growth and employment – represent long-run goals and may not be useful when making short-run monetary policy decisions. Therefore, intermediate targets for short-term real interest rates would be used to conduct monetary policy. These intermediate targets would be set consistent with longer run development objectives. For example, one goal would be to keep real short-term interest rates at a low, but positive, level. Short-term interest rates would replace the growth of monetary aggregates as the operating targets used to formulate monetary policy. Since the emphasis would be on targeting *real* interest rates, the intermediate target would embody the balance between inflation management and supporting economic growth.

Exchange rates and capital management

Misaligned real exchange rates can harm economic growth. Therefore, maintaining a competitive real exchange rate may be an important policy tool for raising growth.

African countries also need strategies to reduce exchange-rate volatility associated with capital-market liberalisation and the choice of exchange-rate regimes. As African equity and bond markets become increasingly sophisticated, the relevance of volatile capital flows and related exchange rate uncertainty will grow. South Africa provides a useful example of these issues in the African context.

Fiscal policy and public investment

Macroeconomic policies will only promote growth in Africa if sufficient complementary public investments – in physical infrastructure, basic economic services, and skills and education – are undertaken.

The need for strategic public interventions implies that fiscal policy is an important component of a broader set of economic policies that provides an environment conducive to growth while maintaining stability and managing macroeconomic balances. In African countries, fiscal policies often operate within a policy environment characterised by high external and domestic debt, large inflows of donor-directed overseas development assistance (ODA), and limited capacity to mobilise public resources from domestic sources. These factors limit the discretionary funds available to pursue important growth-supporting policies and call for closer co-ordination of macroeconomic policies. Therefore, spending priorities need to be matched with efforts to mobilise public revenue, particularly from domestic sources.

Collection of taxes from domestic sources, for a given level of income, can be increased in three ways: *i)* increasing the efficiency of tax collection; *ii)* expanding the tax base; or *iii)* raising tax rates or introducing new taxes. In recent years, many countries in Sub-Saharan Africa have improved revenue collection through: preventing the erosion of traditional sources of revenue (e.g. taxes from international trade); improving the efficiency of tax collection; maintaining a diverse set of tax instruments; and exploring ways of raising domestic non-tax revenues (e.g. licensing fees for access to natural resources). Extraction firms as well as informal businesses should be fully incorporated into the tax base.

For most African countries there is a need to raise increased non-debt generating external assistance in the form of debt relief or ODA. Many African countries qualify for debt relief under the HIPC programme. Non-HIPC countries could still apply for debt relief measures, even though they do not fit exactly into the HIPC profile. However, while complete external debt relief would free resources for developmental spending, and higher levels of direct budget support could potentially increase the resources available to foster investment, ODA flows can be uncertain and volatile, undermining the budget-planning process.

Overall, a counter-cyclical stance may be essential for fiscal policy to promote sustained growth especially in the context of high dependence on commodity booms. However, the implementation of a counter-cyclical policy requires policy space that is not always available to African countries.

Source: James Heintz and Robert Pollin (2008), "Targeting Employment Expansion, Economic Growth and Development in Sub-Saharan Africa: Outlines of an Alternative Economic Program for the Region", *ECA Policy Research Paper,* March, Addis Ababa, Ethiopia.

In 2008, GDP growth was particularly strong in net oil-exporting countries, at 6.6 per cent, down only slightly from the exceptionally strong 6.8 per cent registered in 2007 largely due to the increase in oil prices and increases in production in a number of countries, together with increased public and private investment. However, the growth differential between these and net oil-importing countries widened from 1.4 percentage points in 2007 to a full two percentages points in 2008 with average GDP growth in the latter of 4.6 per cent in 2008, down considerably from the 5.4 per cent registered in 2007.

The contrast with the growth projected for 2009 is striking. Growth is expected to be markedly lower in both groups. However, the impact of the global crisis is expected to be felt more strongly in the oil-exporting countries (and mineral exporters) than in more diversified economies and in those exporting certain agricultural commodities such as beverages. Thus, the net oil importers can expect GDP growth of 3.3 per cent in 2009 compared to 2.4 per cent for the net oil exporters. A major factor accounting for the slowdown of growth in the oil exporters is the assumption that the African members of OPEC (Angola, Algeria, Libya and Nigeria) fully respect the agreement reached within that organisation to reduce production quotas in an attempt to sustain oil prices at levels somewhat above those assumed in this report. Our assumption is that the quota reductions will translate on average into a reduction of production of about 8 per cent for these four countries.

GDP growth is expected to pick up in 2010 when the average real GDP growth rate for the continent as a whole is expected to be 4.5 per cent, with net oil-exporting and net oil-importing countries growing at the same pace.

These forecasts are based on a number of plausible but somewhat optimistic assumptions, suggesting that they are subject to significant downside risk such as a more severe and prolonged international economic recession than expected, and greater than expected falls in aid, remittances, capital and trade flows. Apart from assuming a resumption of moderate growth in the global economy in 2010, they also assume that oil prices rebound to USD 50 per barrel in 2009 and USD 55 in 2010; that growing conditions in agriculture will be favourable in 2009 and 2010; that oil output of OPEC members will increase by about 3 per cent in 2010; that no new regional conflicts having significant macroeconomic impacts emerge; and that the worsening fiscal balances and current-account balances forecast for many of the net oil-importing countries (and a few net oil-exporting countries) will be fully financed. Thus, the continued implementation of debt-relief agreements for a number of the HIPC countries that began in 2006 will be particularly helpful.

North Africa

Economic growth was 5.8 per cent on average in 2008, up from 5.3 per cent in 2007. It is expected to slow significantly in 2009, to 3.3 per cent before increasing to 4.1 per cent in 2010. The 2008 growth rates reflected strong performances in nearly all the countries of the region. Exceptionally high growth was recorded in Egypt (7.2 per cent), Libya (6.5 per cent), and Morocco (5.7), while growth in Mauritania and Tunisia was slightly above 5 per cent. A sluggish hydrocarbon sector brought GDP growth in Algeriadown to 3.3 per cent. All North African countries will grow more slowly in 2009, with reductions of about 3 percentage points for Algeria and Libya, due to cutbacks in oil production, and in Egypt because of lower tourism, Suez Canal revenues, and income from a range of other exports. Morocco and Tunisia have a pattern of production and exports that is less vulnerable to the reduction in demand resulting from the global crisis, but growth will slow there as well. With a global recovery in 2010, resumption of demand for exports from North African countries is expected to reverse many of the negative factors, leading to better figures for growth of between 3.7 per cent in Algeria and Libya to 5.4 per cent in Morocco.

West Africa

Real GDP growth in the countries of West Africa was 5.4 per cent in 2008, as it was in 2007, and is projected to slow by more than one percentage point to 4.2 per cent in 2009, before strengthening to 4.6 per cent in 2010. In the West African Economic and Monetary Union (WAEMU), consisting of Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal and Togo, economic performance improved in five of the eight countries, but slipped back a bit in Niger and Senegal. In Togo, however, GDP growth in 2008 was estimated to have been barely positive, at 0.8 per cent, continuing the pattern of declining growth in per capita income over the past several years, which was worsened by severe flooding in June 2008. Among the factors for the improved growth in most of these countries was the consolidation of political stability in Côte d'Ivoire – the largest economy within WAEMU – which had GDP growth of 2.3 per cent, about one-half percentage point higher than in 2007. Growth slipped back to 3.7 per cent in Senegal, primarily because of weakness in the output of cereals and groundnuts, as well as in industrial output, especially of phosphates and fertiliser. Cotton production also increased, especially in Burkina Faso where it reached record levels in 2008. The major positive development in the WAEMU was the sustained growth in agricultural production in several of them. Mali benefited from high gold prices and reasonably strong growth in food production, and Niger from uranium prices. GDP growth in Mali was 3.6 per cent, up from 3.2 per cent in 2007; in Niger, it was 4.8 per cent, rather less than the 5.7 per cent registered in 2007.

Within the eight non-WAEMU members (Cape Verde, The Gambia, Ghana, Guinea, Liberia, Nigeria, Sierra Leone and São Tomé and Principe), Nigeria – by far the largest economy in West Africa – had GDP growth of 6.1 per cent in 2008, about the same as in 2007, despite reduced oil output of 8 per cent caused by disrupted oil production in the Niger Delta. Projections for 2009 indicate a slowdown of Nigeria's growth rate to 4 per cent, mainly due to the binding constraint of the OPEC quota on oil production and the slowing down of growth in investment. Cape Verde's growth performance remained strong in 2008 (6.1 per cent), compared to 6.9 per cent in 2007. In Liberia post-conflict spending on infrastructure and the recovery of agricultural production were responsible for exceptionally strong growth of about 7.3 per cent for the third year in a row, while in Ghana and Sierra Leone growth in 2008 was 6.4 per cent and 5.4 per cent, respectively, on the basis of good performance in cocoa production and processing, and strong increases in food production. Forecasts for 2009 are mixed, but, in addition to Nigeria which was mentioned above, most other countries are also expected to exhibit slower growth due mainly to slower growth in public and private investment associated with lower commodity prices and remittances. Unlike other countries in this group, Liberia and Sierra Leone are expected to continue to enjoy high growth levels as output recovers after years of conflict.

Central Africa

In 2008, average GDP growth in the seven countries of Central Africa was 5 per cent, up from 4 per cent in 2007. In 2009, GDP growth is expected to slow sharply, to 2.8 per cent and to increase to a moderate 3.6 per cent in 2010. The strong growth in 2008 was due mainly to a strong rebound of oil production in the Republic of Congo and continued strong growth in Equatorial Guinea (9.9 per cent) and Gabon (5.5 per cent), also net oil exporters. GDP failed to increase significantly in Chad in 2008 for the third consecutive year as a strong increase in agricultural output was offset by a sharp decline in oil production. Growth is projected to strengthen to 7.7 per cent in 2009 (compared to 7 per cent in 2008) in the Republic of Congo due mainly to increased oil production and high international oil prices which underpinned an expansion of public investment. In all other countries growth is expected to remain low or to fall, reflecting mainly the reduction in demand for the oil and minerals as a result of the global economic crisis. In the case of the Democratic Republic of the Congo, the effects of the global crisis have been compounded by renewed civil unrest, leading to a forecast of essentially zero GDP growth in 2009. The projections for Cameroon show some weakening in 2009 and 2010 with GDP growth of about 3 per cent per year, down from 4.1 per cent in 2008.

East Africa

GDP growth in East Africa averaged 7.3 per cent in 2008, down from a very strong 8.8 per cent in 2007, despite the turmoil in Kenya which caused growth to slow to 2.6 per cent, compared to 7 per cent in 2007. This strong growth is expected to slow to 5.5 per cent in 2009 and is projected to be about the same in 2010. In 2008, Ethiopia, Rwanda, Sudan, Tanzania and Uganda continued to be the fastest growing countries within East Africa, growing at 11.6 per cent, 8.5 per cent, 8.4 per cent, 6.8 per cent and 7 per cent, respectively. All five countries are also projected to maintain strong, but lower growth in 2009 and 2010 because demand for their major agricultural and horticultural exports is less sensitive to the effects of the global crisis than minerals and textile fibres; tourism has, however, been heavily impacted, and, these forecasts are subject to considerable uncertainties due to the unstable political situation in some countries. Burundi, Comoros and Seychelles, which have recently been exhibiting slow growth, are expected to continue stagnating, the latter two countries experiencing depressed tourism due to the global recession and, in the case of Comoros, to civil unrest as well. Djibouti, however, which grew by 5.9 per cent in 2008, is expected to experience an acceleration of GDP growth in 2009 and 2010, reaching about 6.6 per cent on average in this period. Kenya is also expected to exhibit strong growth in 2009 (5 per cent) due to recovery of domestic demand following the sharp slowdown in 2008. However, this rate of growth is about 1 percentage point lower than the average rate of growth in 2005-2007, reflecting the continued weakness of demand in the tourism sector.

Southern Africa

Economic growth in Southern Africa was 5.2 per cent, down sharply from the 7 per cent registered in 2007. It is expected to slow dramatically in 2009, to only 0.2 per cent before recovering to 4.6 per cent in 2010. This dramatic slowdown is mainly due to developments in South Africa and in Angola. In South Africa, growth slowed to 3.1 per cent, down from 5.1 per cent in 2007 due mainly to the energy crisis which affected large portions of the economy, a fall in private consumption and less buoyant private investment. The further slowdown to 1.1 per cent projected in 2009 is due mainly to the impact of the global economic crisis on demand for South Africa's mineral exports compounded by a contraction in private consumption and investment. In Angola, growth remained extremely high (15.8 per cent) in 2008, but down from the 21 per cent registered in 2007. However, the economy is expected to contract by 7.2 per cent in 2009 on the assumption that the reduction in quotas by OPEC countries will translate into a reduction of oil production in Angola of about 10 per cent. In Madagascar and Malawi, growth accelerated to reach 7 per cent and 8.4 per cent, respectively due to strong growth in agriculture in both countries and to large investments in the mineral sector in the former. Growth slowed all the other countries in the region, many of them affected by the slowdown in South Africa. In addition, mineral exporters (Mozambique, Namibia, Tanzania and Zambia) began to experience a slowing of investment in the second half of the year. Growth in Mauritius remained high, although it, too, lost some momentum compared to 2007. These trends are expected to intensify in 2009 with a further slowing of growth forecast for all countries. In the case of Madagascar, the situation is expected to be worse because of the impact of the political crisis, particularly on the tourism sector, with GDP growth expected to fall by more than 2 percentage points, to 4.8 per cent. On the assumption of a resumption of moderate growth in the world economy in 2010, these trends are expected to be reversed symmetrically with growth likely to accelerate (or resume, in the case of Angola) in nearly all countries.

Inflation

Inflation in Africa (excluding Zimbabwe) accelerated to the double-digit level of 11.6 per cent in 2008, up sharply from 7.5 per cent in 2007, largely due to the impact of higher energy (mostly hydrocarbons), fertiliser and international food prices. This surge in inflation affected both net oil exporters and net oil importers although, as might be expected, the increase in inflation was larger by about 1 per cent for the latter. This group, (excluding Zimbabwe) experienced an upward surge of inflation from 7.9 per cent in 2007 to 13.5 per cent in 2008. In 2009, inflation in this group of countries is expected to return to about the same level as in 2006, and to fall further in 2010. In oil-exporting countries, inflation, which increased by less, is expected to fall more slowly. The number of African countries (excluding Zimbabwe) with double-digit inflation increased from only 6 in 2007 to 28 in 2008. This number will decline to 11 in 2009 and then to 6 in 2010. Even CFA franc countries, which have had historically low rates, experienced inflation in the high single digits, thus increasing the differential between them and the Euro zone considerably. The forecasts assume that the authorities will not need to tighten monetary policy significantly since commodity prices have already fallen sharply and domestic demand has weakened along with the deterioration of the economic outlook due to the international financial and economic crisis.

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

Region	2000-05	2006	2007	2008(e)	2009(p)	2010(p)
Central	15.8	6.3	2.9	8.8	7.2	6.5
East	5.9	12.0	10.1	17.8	10.1	8.0
North	2.6	3.6	6.8	8.1	7.7	5.3
South	13.8	7.4	9.6	15.2	7.6	6.6
West	10.3	7.4	5.4	10.6	8.6	8.0
Africa	**7.9**	**6.4**	**7.5**	**11.6**	**8.1**	**6.5**
Memorandum items						
North Africa (including Sudan)	*2.9*	*4.5*	*7.0*	*8.6*	*7.7*	*5.5*
Sub-Saharan Africa	*11.6*	*7.7*	*7.9*	*13.8*	*8.3*	*7.2*
Oil-exporting countries	*9.8*	*5.9*	*7.2*	*10.0*	*9.1*	*7.1*
Oil importing countries	*6.0*	*7.0*	*7.9*	*13.5*	*6.9*	*5.8*

Note: All figures exclude Somalia for lack of data and Zimbabwe due it its hyperinflation.
Source: Various domestic authorities; IMF *World Economic Outlook* and authors' estimates (e) and projections (p).

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North Africa

Inflation in North Africa accelerated to 8.1 per cent in 2008, up from 6.8 per cent in 2007 as inflation rose to 11.7 per cent in Egypt, to 7.6 per cent in Mauritania and to 11.2 per cent in Libya, increased from 3.1 per cent to 5 per cent in Tunisia, and remained high in Mauritania at 7.4 per cent. Algeria and Morocco managed to keep inflation at around 4 per cent. The average rate of inflation in North Africa is projected to decline in both 2009 and 2010, when it is expected to average 5.3 per cent. However, in Egypt it is expected to increase still further in 2009, to 13 per cent, before falling back to single-digit levels in 2010.

West Africa

In 2008, the average rate of inflation in West Africa was 10.6 per cent, up from 5.4 per cent in 2007. The WAEMU countries, whose currencies are pegged to the Euro, still have a far lower average inflation rate than the member countries of the West African Monetary Zone (WAMZ)[57], four out of five of which had inflation rates ranging from 11 to 19 per cent. In Guinea, inflation remained high, at 19.3 per cent, but this was a bit lower than in 2007. The rate of inflation in Nigeria accelerated from 5.4 per cent in 2007 to 11 per cent in 2008. In Ghana inflation surged from 10.7 per cent in 2007 to 14.1 per cent in 2008. In São Tomé and Principe inflation increased from 18.5 per cent in 2007 to 25.9 per cent in 2008, reversing the modest improvement it had made in 2007. In Sierra Leone inflation increased from 12.1 in 2007 to 13 per cent in 2008. Inflation in Liberia increased from 11.4 per cent in 2007 to 17.5 per cent in 2008. In Cape Verde, where inflation has generally been much lower than in other West African countries, it increased from 4.3 in 2007 to 6.7 per cent in 2008, and in The Gambia,

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

inflation increased from 5.4 per cent in 2007 to 6.4 per cent in 2008. Projections for 2009 and 2010 are for gradual declines in the region as a whole but to remain in the high single digits.

Central Africa

The average rate of inflation in Central Africa accelerated to 8.8 per cent in 2008, up from 2.9 per cent in 2007 due to large increases in Cameroon (5.7 per cent, up from 1.5 per cent), Central African Republic (9.2 per cent, up from 0.9 per cent), Chad (9.2 per cent, up from 9 per cent), and DRC (26.2 per cent, up from 16.7 per cent. Inflation was about 5.5 per cent in Congo Republic, Equatorial Guinea and Gabon in 2008, as well, but the year-to-year increases were much lower. All of these countries are net food importers and depend on imports of refined petroleum products even if some of them are net oil exporters. The projections for 2009 and 2010 are for a gradual reduction in inflation to 6.5 per cent in the latter year. In fact, all but the DRC are expected to have inflation rates of 5 per cent or less, with most countries below that rate, moving closer to the convergence target of 3 per cent accepted by the countries belonging to the Bank of Central African States (BEAC) area (Cameroon, the Central African Republic, the Republic of Congo, Equatorial Guinea and Gabon). Only in the DRC is little progress expected, with inflation expected to remain at about 20 per cent in both 2009 and 2010.

East Africa

In 2008, inflation increased dramatically in East Africa (excluding Somalia), to 17.8 per cent, up from 10.1 per cent in 2007. This was substantially higher than in any other African region. Inflation exceeded 20 per cent in four countries: Burundi (24.5 per cent), Ethiopia (25 per cent), Kenya (25.8 per cent), and Seychelles (37 per cent). It was at least 10 per cent in another 6 countries (Djibouti, Eritrea, Rwanda, Sudan, Tanzania, and Uganda. Only in Comoros did inflation remain at a moderate level (5.9 per cent). The high inflation in East Africa in 2008 was largely due to the high prices of imported fuel (essentially hydrocarbons), fertilisers and food, which had knock-on effects increasing the cost of domestic food production. However, domestic factors also played a role, particularly in three of countries where inflation exceeded 20 per cent. In Ethiopia, sustained rapid growth added to the upward pressure on prices. In Kenya, the civil unrest which followed the tightly contested elections in the first half of the year, disrupted transportation and agricultural production and, thus, the movement of food from farms to markets pushing prices of agricultural products. In Seychelles, a major devaluation magnified the effect of increases in the international prices of imports. The inflation outlook in East Africa for 2009 and 2010 is for substantial reductions in most countries. In 2009, inflation is expected to be above 20 per cent only in Seychelles because of further depreciation of the currency, and is expected to be in the range of 10 to 15 per cent in only 3 others. In 2010, inflation is projected to be at or below 10 per cent in all 11 countries, although achieving this will be a challenge for monetary policy. Thus, the average rate of inflation in East Africa is expected gradually to fall to 10.1 per cent and 8 per cent in 2009 and 2010, respectively.

Southern Africa

In Southern Africa (excluding Zimbabwe), inflation averaged 15.2 per cent in 2008, but it was already nearly 10 per cent in 2007. The average is dominated by South Africa, where inflation was 11.5 per cent in 2008, up from 7.2 per cent in 2007[58]. In 2008 it ranged from 8.3 per cent in Malawi to 13.2 per cent in Angola, but in all but 3 countries, it was above 10 per cent. The high rates in all countries were caused by the acceleration of international fuel, fertiliser and imported food prices, as in other African regions. However, high rates of government spending and supply constraints in Angola, and the pervasive effects of the electricity crisis in South Africa were aggravating factors. Since most of these factors were transitory, inflation in the region as a whole (excluding Zimbabwe), is expected to decline to 7.6 per

58. The reference index for South Africa has shifted from the CPIX to the CPI.

cent in 2009 and to 6.6 per cent in 2010. Moreover, inflation in 2010 is projected to be below 10 per cent in all countries, although achieving this in some of them, which have had a history of generally high inflation (Angola, Madagascar), may prove to be a challenge for the monetary authorities.

Public Finances

In 2008 the overall fiscal balance (including grants) of the group of net oil-exporting countries increased to 6.1 per cent in 2008, up from 4 per cent in 2007, mainly because of higher oil prices but also because of increases in production in some of them (but not in Algeria, Libya or Nigeria). The group of net oil-importing countries exhibited an overall deficit equivalent to 1.8 per cent of GDP in 2008, compared to a very small deficit in 2007 (0.3 per cent). The increase in the deficit of the net oil-importing countries reflects increases in fuel, fertiliser, and food subsidies in many countries as they attempted to mitigate the effects of high import prices. The continuation of generally good macroeconomic management and the maintenance of a high level of grants, including a portion provided in the form of debt relief prevented deficits from increasing even further. Projections for 2009 are dramatically different for these two groups of countries. Net oil-importing countries are expected to experience a further widening of their average deficit to 2.7 per cent mainly because of a decline in tax receipts as GDP growth slows. However, for the net oil exporters, the fiscal surplus in 2008 is expected to give way to a large deficit equivalent to 7.5 per cent of GDP mainly due to declines in oil prices and production (in some countries). Small improvements for both groups of countries are expected in 2010. The forecast for government spending in the oil-exporting countries assume that these large deficits can be financed by drawing on the surpluses accumulated in earlier years. However, it remains important for the oil exporters to continue investing in the types of project that promote diversification of their economies to reduce dependence on their oil sectors. For the poorer oil-importing countries, debt relief and other forms of financial support from international financial institutions and their bilateral development partners will be particularly important as they attempt to maintain positive GDP growth during the current global recession. For countries where inflation has increased to double-digit levels, monetisation of the increase in these projected deficits would be problematic. There is a clear need to improve domestic resource mobilisation in most African countries and the awareness of the importance of this agenda is growing (See Box 8).

North Africa

In North Africa the average fiscal balance was equivalent to a surplus of 5.3 per cent of GDP in 2008, up from 3.6 per cent in 2007. The higher oil prices resulted in substantial increases for the largest oil-exporting countries in the region, Algeria (6.8 per cent

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

Region	2000-05	2006	2007	2008(e)	2009(p)	2010(p)
Central	2.0	17.5	7.4	11.6	3.3	4.2
East	-2.2	-3.9	-3.6	-2.2	-4.8	-5.2
North	-1.1	6.5	3.6	5.3	-5.6	-5.1
South	-2.5	3.2	2.3	1.9	-4.6	-3.6
West	-0.5	6.4	-0.4	-0.3	-8.6	-9.2
Africa	**-1.4**	**5.0**	**1.9**	**2.8**	**-5.4**	**-5.0**
Memorandum items						
North Africa (including Sudan)	*-1.0*	*5.5*	*2.8*	*4.9*	*-6.0*	*-5.6*
Sub-Saharan Africa	*-1.7*	*4.7*	*1.4*	*1.5*	*-4.9*	*-4.6*
Oil-exporting countries	*0.3*	*8.6*	*4.0*	*6.1*	*-7.5*	*-7.1*
Oil importing countries	*-2.9*	*1.1*	*-0.3*	*-1.8*	*-2.7*	*-2.3*

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

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Box 8 - Taxation, Mobilising Domestic Resources, and Strengthening Public Financial Management: The African Tax Administration Forum

In August 2008, Commissioners and Senior Tax Administrators from 39 countries, together with representatives from development partners, including the OECD's Centre for Tax Policy and Administration and the Development Co-ordination Directorate, met in Pretoria, South Africa.

The meeting discussed taxation, state building and capacity development in Africa and took stock of the progress made, challenges faced and a possible new direction for African tax policy and administration in the 21st Century. The focus of the gathering was on:

i) The importance of taxation in state building;
ii) The changing environment of taxation in Africa; and
iii) An African initiative: Strengthening African Tax Administrations

The goal was to lay a strong basis for a new approach to taxation, state building and capacity development of African Tax Administrations and the launch of an African Tax Administration Forum.

The Commissioners agreed that

i) The Importance of Taxation in State Building

Capable and responsible states are key actors in confronting and overcoming today's global developmental challenges.

Governments around the world recognise that revenue mobilisation is central to this goal and their ambitions to achieve the Millennium Development Goals (MDGs). More effective tax systems can:

1. Mobilise the domestic tax base as a key mechanism for developing countries to escape aid or single-resource dependency.
2. Reinforce government legitimacy through promoting accountability of governments to tax-paying citizens, effective state administration and good public financial management; and
3. Promote economic growth, reduce extreme inequalities, and thereby significantly improve the lives of our citizens;
4. Achieve a fairer sharing of the costs and benefits of globalisation;

ii) The Changing Environment of Taxation in Africa

Developed and developing economies, NGOs, private investors and international organisations should work together to promote fair and efficient tax systems and administrations that will ensure each country receives the fruits of its own economic achievement and improves its overall governance.

One of the most pressing issues facing Africa is to free African countries from their dependence on foreign assistance and indebtedness. An indispensable condition of this is the strengthening of our capacity to mobilise domestic resources. Domestic revenue should be one of the main sources for fiscal space expansion because of its sustainability, thereby reducing dependence on donor assistance.

Billions of USD per year left the African continent between 1991 and 2004. These outflows are estimated at 7.6 per cent of the annual GDP of the region and, in effect, make African countries net creditors of donor countries. They also undermine African countries' tax bases. Action by the international community is required to ensure that the potential tax base of developing countries is not undermined.

Overall revenue yields and voluntary compliance are low in many African countries; the tax bases often remain narrow, while the informal sector continues to grow; the taxation of international transactions, in particular transfer pricing, has become increasingly difficult; the overall tax gap remains unquantified.

Over the coming decade, African countries will need to enlarge their sources of tax revenue and broaden the tax base considerably in order to compensate for the move away from trade taxes resulting from WTO obligations and from regional trade agreements.

iii) An African initiative: Strengthening African Tax Administrations

A key component of a capable state is the existence of efficient and effective tax administrations. Improving revenue performance will require a major improvement in tax administration through better service delivery, and taxpayer education, effective use of automated systems, better co-operation between tax administrations to counter tax evasion and aggressive tax planning, and strengthening audit and human resource management capability.

Donors can do more to support revenue-raising efforts in partner countries. Of the USD 7.1 billion spent in 2005 on bilateral aid for government administration, economic policy and public-sector financial management, only 1.7 per cent was directed to tax-related assistance.

It is in this context that to explore the feasibility of launching a new initiative that would primarily focus on capacity building in African tax administrations and which will help our governments meet their Monterrey commitments.

The senior African Tax Administrators participating in this meeting mandated a Steering Group of African Commissioners which will be the voice of African Tax Commissioners and provide a vital opportunity to develop joint strategies and programmes to develop this initiative on their behalf. This will be an African programme reflecting African needs and African strategies. African countries will drive and manage the programme priorities, supported by donors, other tax administrations and development partners. This initiative is an opportunity for Africa to say what Africa wants in the tax area; for African based processes and institutions to take the lead on the continent.

The new African Tax Administration Forum will act as a focal point for exchanging experiences on good practices, benchmarking performance, improving co-operation between, and setting the strategic direction for African Tax Administrations. The Forum will conduct research work on taxation on the African continent, develop specific diagnostic tools for African revenue bodies and develop a capacity building programme. An integrated part of the programme will also be to build on the work of the OECD's Forum on Tax Administration and the work of the WCO, IMF, the African Development Bank and of bilateral donors.

Taking forward this initiative

To take forward this initiative, the Steering Group of African Commissioners from Botswana, Cameroon Ghana, Nigeria, Rwanda, South Africa and Uganda, met again in Cape Town in February 2009 to develop ATAF's action plan. That meeting with interested development partners agreed the adoption of a roadmap and to set up an interim Secretariat. The roadmap anticipates a formal launch in late 2009 and in the meantime, will commence work on researching tax systems in Africa; developing and delivering a technical support programme for African officials (beginning with an event in Kigali in April 2009); and constructing a framework for diagnostic studies.

Source: Centre for Tax Policy and Administration, OECD.

of GDP, up from 4.8 per cent) and Libya (34.5 per cent of GDP, up from 26.2 per cent). In Egypt the deficit widened to 6.8 per cent of GDP in 2008, up from 5.6 per cent in 2007. Mauritania and Tunisia, on the other hand, experienced little change in their fiscal deficits in 2008 compared with 2007, while Morocco continued to show a small surplus. In 2009, fiscal balances are projected to deteriorate for all countries in the region, dramatically in the case of the oil exporters. In Algeria, the surplus of 2008 is expected to give way to a deficit of 11.5 per cent in 2009, while in Libya the large 2008 surplus will disappear in 2009. Few changes are expected in fiscal balances in 2010 for any of these countries.

West Africa

In 2008, fiscal balances (including grants) deteriorated in most West African countries. However, as a percentage of GDP only four countries registered deficits of 4.5 per cent of GDP or more: Burkina Faso (6.4 per cent), Ghana (10.0 per cent), Mali (5.4 per cent) and Senegal (4.5 per cent). Guinea-Bissau which had a large deficit in 2007 (10.3 per cent of GDP), momentarily moved into surplus due to debt relief. In 2009 all five countries are expected to continue to have large deficits, most showing little change. The small Nigerian surpluses in 2007 and 2008 will give way to a deficit of 11.1 per cent in 2009. Fiscal balances are projected to remain about the same in 2010. Apart from Nigeria, which has large surpluses to draw upon, the large deficits projected for the five countries mentioned above may prove difficult to finance. This suggests that the GDP outlook for these countries as presented in this AEO is subject to considerable downside risk should funding difficulties translate into reductions in projected government spending,

Central Africa

In 2008, five of the seven countries in Central Africa, most of whom are oil exporters, registered surpluses which were larger than in 2007. The exceptions were the Central African Republic, whose small surplus fell slightly, and the Democratic Republic of Congo. The fiscal balance of the DRC, in fact, moved from a small surplus in 2007 to a deficit of 5.8 per cent in 2008. Projections for 2009 and 2010 are for further reductions in the surpluses of Cameroon, Central African Republic, Chad, Congo Republic, Equatorial Guinea and Gabon. The already substantial deficit of DRC is projected to increase still further. Since the inflation outlook in that country is already quite poor, this deficit would need to be financed from external sources. This suggests that there is considerable downside risk associated with the (poor) outlook for GDP growth in this report.

East Africa

In 2008 the combined fiscal deficit (including grants) in East Africa (excluding Somalia) improved, falling from 3.6 per cent of GDP in 2007 to 2.2 per cent in 2008 due to strong growth, increases in export earnings and improved resource mobilisation. However, there were considerable differences among the 11 countries. Deficits fell substantially or remained low in 8 countries. However, deficits as a percentage of GDP worsened or remained high in three others: Burundi (8.9, up from 3 in 2007), Eritrea (8.5, down slightly from 10 in 2007), and Kenya (6.1, up from 1.1 in 2007). The reasons for the differences in performance varied widely. In Kenya the deterioration was linked to the decline in economic activity in several sectors in the first half of 2008. Improvement in the Seychelles was due to the implementation of an economic austerity and reform programme. In Sudan and Tanzania the improvements were due to increase in the value of their export earnings. Since many of these factors were transitory, prospects for 2009 are rather different. The small surplus exhibited by Sudan in 2008 is expected to give way to a deficit of 10.6 per cent of GDP in 2009. On the other hand, Burundi is projected to benefit from sizeable debt relief and, thus, to exhibit a large surplus in 2009. The high deficit in Kenya is expected to return to a more moderate 3 per cent. However, the large deficit in Eritrea is projected to persist. Relatively little change in these fiscal positions are expected for 2010. Thus, the overall deficit for the region is expected to worsen to 4.8 per cent of GDP in 2009 and 5.2 per cent in 2010.

Southern Africa

The average fiscal surplus of the countries in Southern Africa fell slightly from 2.3 per cent in 2007 to 1.9 per cent in 2008. However, surpluses fell or deficits increased in 9 of the 11 countries. Only in Mauritius and Zambia did fiscal balances improve with reductions in the deficits of both countries of about 1 percentage point of GDP. The projections for 2009 are dominated by changes in two countries. In Angola, the surplus of 10.8 per cent of GDP registered in 2008 is expected to be transformed into a deficit of 8.7 per cent in 2009 due to the fall in oil prices and the reduction in production required to respect the quota reductions agreed within OPEC. In South Africa the deficit is expected to widen substantially, from 1 per cent of GDP in 2008 to 3.7 per cent in 2009 due to the effects on government revenue of the economic slowdown and the decision of the government to implement a counter-cyclical fiscal stimulus in the face of the global crisis. Some improvement in budget balances is generally expected in nearly all countries in 2010 along with improved rates of economic growth. Thus, the combined fiscal deficits of the region as a whole in 2009 and 2010 are expected to be 4.6 and 3.6 per cent of GDP, respectively.

Balance of Payments

In 2008, Africa's average current account balance exhibited a surplus equivalent to 3.3 per cent of GDP, up from 2.2 per cent in 2007. This overall figure, however, masks large differences among countries. On the one hand, net oil-exporting countries recorded a current account surplus of 10.7 per cent in 2008 (up slightly from 8.9 per cent in 2007); on the other hand, the group of net oil-importing countries experienced a large average current account deficit of 7.1 per cent of GDP in 2008 (up from 5.4 per cent in 2007) compared with an average of 1.6 per cent in the period 2000 to 2005. Among the net oil importers, only 7 countries out of 40 improved their current account balances significantly (Burundi, Cameroon, Chad, Guinea, Liberia, Mali and Swaziland). The surplus in the current account balances of net oil-exporting countries is projected to give way to deficits of 3.5 and 2.4 per cent of GDP in 2009 and 2010, respectively, due to declines in oil prices and production (among the African OPEC countries). Meanwhile the average current account deficit of the net oil-importing countries is expected to improve in 2009 with reductions in the international prices of their imports exceeding reductions in the prices of their exports, but then to worsen slightly in 2010 as imports pick up along with economic growth.

In recent years, Africa's overall balance of payments has benefited from increased foreign direct investment flows and significantly reduced debt service payments in many heavily indebted poor countries (HIPCs) (see details in previous section). However, the rapidly rising current account deficits associated with the global recession is rapidly eroding international reserves, with African countries increasingly turning to the IMF for support in order to avoid exchange rate crises.

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

Région	2000-05	2006	2007	2008(e)	2009(p)	2010(p)
Central	-4.1	1.9	-0.5	9.0	-5.4	-3.0
East	-5.5	-9.3	-9.3	-6.3	-7.6	-8.3
North	5.6	14.9	12.1	11.5	0.7	1.1
South	-1.1	-1.1	-3.3	-2.0	-6.8	-7.4
West	-2.4	4.4	-0.2	0.0	-8.4	-7.0
Africa	**0.6**	**4.8**	**2.2**	**3.3**	**-4.4**	**-4.1**
Memorandum items						
North Africa (including Sudan)	*4.5*	*12.2*	*9.6*	*10.1*	*-0.6*	*-0.5*
Sub-Saharan Africa	*-2.0*	*0.4*	*-2.4*	*-1.0*	*-6.9*	*-6.5*
Oil-exporting countries	*3.0*	*13.1*	*8.9*	*10.7*	*-3.5*	*-2.4*
Oil importing countries	*-1.6*	*-4.2*	*-5.4*	*-7.1*	*-5.5*	*-6.4*

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

StatLink http://*dx.doi.org/10.1787/574406724248*

North Africa

In 2008, northern African countries continued to display large differences in their current account balances. Algeria and Libya continue to exhibit large current account surpluses of about 25 per cent and 32 per cent of GDP, respectively in 2008, similar in size to those of 2007, despite little growth in exports of hydrocarbons, as improvements in terms of trade offset strong growth in import volumes. Egypt registered a small surplus, which was slightly lower than in 2007. The deficits of Morocco and Tunisia worsened somewhat, but remained moderate as a percentage of GDP, at 3.7 and 4.2 per cent, respectively. Mauritania's deficit decreased slightly in 2008 to 9.3 per cent, down from 11.3 per cent in 2007. In 2009 and 2010, the surpluses of Algeria and Libya are projected to fall quite sharply due to the collapse of oil prices. Egypt is expected to exhibit a small deficit in 2009, while the deficits of Morocco and Tunisia are expected to fall slightly, whereas the sizeable deficit in Mauritania is expected to worsen. Little change in current account balances is expected in 2010. As a result of the above, North Africa's current account surplus fell from 12.1 per cent of GDP in 2007 to 11.5 per cent in 2008, but is expected to be only about 1 per cent in 2009 and 2010.

West Africa

In 2008, 8 countries out of 16 in West Africa registered current account deficits ranging from about 7 to 14 per cent of GDP. The deficits of three other countries were even higher, ranging from 18 to 34 per cent. Surpluses were registered only in Côte d'Ivoire and Nigeria. The combined current account balance in West Africa is dominated by Nigeria where the current account surplus was 3.2 per cent of GDP in 2008, little changed from 2007. In 2009 many countries are expected to exhibit major changes due to the effect of the global crisis on their terms of trade, and reductions in import volumes in some of them as large investment programmes slow down (Liberia) or balance of payments constraints cause public investment growth to slow. Thus the deficits of Gambia, Guinea, Mali, Senegal and Togo expressed as a percentage of GDP are expected to decline by amounts in the range of 3.8 to 9.5 percentage points, and the deficit of Liberia is expected to decline from 28.8 per cent in 2008 to 5.7 per cent in 2009. In Nigeria, the surplus in 2008 is expected to give way to a deficit of 9.1 per cent in 2009. In 2010 the pattern is for a slight widening of these deficits in most countries. However, under the assumptions of higher oil prices and production in Nigeria, the current account deficit in that country is expect to fall somewhat. Thus for the region of West Africa as a whole, the current account is expected to exhibit deficits of 8.4 per cent of GDP in 2009 and 7 per cent in 2010.

Central Africa

In 2008, the average current account balance in Central Africa was in surplus equivalent to 9 per cent of GDP (compared to -0.5 per cent in 2007), largely due to further large increases in the nominal value of oil exports in Chad, the Republic of Congo, Equatorial Guinea and Gabon. Cameroon and DRC also registered small surpluses which represented improvements in their current account balances compared to 2007. However, the deficit in the Central African Republic increased significantly, to 9.4 per cent of GDP, up from 6.1 per cent in 2007. Because of the lower oil prices for 2009, the surpluses of oil exporters in that year are expected to disappear; and, indeed, the Congo Republic is projected to register a large deficit. In 2010 the pattern on current account balances not expected to change much. Thus, in 2009 and 2010, the countries in Central Africa as a group are expected to register a deficit on their current accounts of 5.4 per cent and 3 per cent, respectively.

East Africa

In 2008 the average current account deficit in East Africa fell slightly to 6.3 per cent of GDP (down from 9.3 per cent in 2007) compared with an average of 5.5 per cent for the period 2000-05. All the countries in East Africa, except for Sudan, are net oil-importing countries and many import fertilisers and food as well. They were thus especially affected by the increases of international prices for these products in 2008. Consequently, all of them experienced a worsening in their current account deficits. In Sudan, the only net oil exporter, however, the current account deficit fell to 3.4 per cent, down from 16.3 per cent in 2007. For 2009 and 2010, the fall in oil prices is expected to nearly reverse this situation with deficits falling or remaining roughly unchanged in the net oil importing countries, but deteriorating in Sudan. Little further change is expected in 2010. Thus, for East Africa as a whole current account deficits in 2009 and 2010 as a percentage of GDP are expected to be 7.6 per cent and 8.3 per cent, respectively. These large deficits have also taken a toll on international reserves, for example, nearly exhausting those of Ethiopia.

Southern Africa

Among the countries in Southern Africa, a worsening of the current account deficits of 9 of the 11 countries in 2008 was offset by an increase in the surplus of Angola due to the increase in oil prices and, to a much lesser extent, in the current account of Swaziland because of a large increase in net transfers. Among the deficit countries, Madagascar experienced an increase from 13.9 per cent of GDP in 2007 to 25.8 per cent in 2008 due to large increases in imports of investment goods associated with a major mining project. In 2008, South Africa had a current account deficit of 7.8 per cent of GDP due to a fall in exports and an increase of imports due to the implementation of a massive infrastructure modernisation programme. In 2009, South Africa expects to continue with its infrastructure programme requiring large imports of capital goods. The deficit is therefore expected to be around 6.4 per cent of GDP but will depend on export prices and the value of the ZAR. In 2009 in Angola the decline in international oil prices and the reduction in production of oil required to stay within its OPEC quota are expected to result in the current account surplus of 12.9 per cent of GDP realised in 2008 giving way to a deficit of 8.1 per cent in 2009. Not much change in this picture is expected for 2010. Thus, for the region as a whole the overall current account deficit in expected to worsen from about 2 per cent of GDP in 2008 to 6.8 per cent and 7.4 per cent in 2009 and 2010, respectively. In some countries, such as Malawi, international reserves have already declined to critical levels, making support from the IMF essential to avoid compounding the effects of the crisis.

The Millennium Development Goals Progress Report

Just six years from the deadline set by the international community for achieving the Millennium Development Goals (MDGs), world reports indicate that none of the Sub-Saharan African countries is currently on track to attain all of the goals by 2015. This broad statement however, inevitably conceals the variety of the results obtained by each country, and more particularly, the striking progress made by some.

For several years now, the economic and political context in Africa has been developing favourably with good economic performances and a significant drop in the number of countries suffering from civil conflict. Several African countries have conducted strict macroeconomic policies and have launched democratic and growth acceleration reforms. However, rising world prices for food products combined with the global slowdown in economic growth and the ever-present risk of conflict and long-term climate change are undermining the conditions for growth and attaining the MDGs. The repercussions of the food crisis and climate change on the ability of African countries to eradicate poverty and attain human development goals makes it all the more imperative that MDGs be integrated into national programmes, backed up by a reinforced commitment by political actors and by financing from development aid institutions.

The table *Main Progress Towards Achieving the Millenium Developement Goals* is the outcome of the application of a methodology calculating a measure of progress for each goal. This indicator is obtained by comparing the current rate of growth with the rate of growth necessary to attain the goal by 2015. Four levels of progress have thus been identified: "early achiever" meaning that the goal is already attained or will be by the expected deadline; "on track" meaning that the country is on course to attain the goal; "off-track" if progress is slow, and lastly, "regressing" signalling a reversal in the trend towards the goal. Figure 8 - Distribution of Countries Status by MDGs shows the distribution of African countries according to each country's indicator value.

The measurement of progress towards each goal enables us to take account of the work remaining to be done.

Goal 1 – Eradicate extreme poverty and hunger

Target 1 – Reduce by half, between 1990 and 2015, the proportion of the population whose income is less than 1 USD a day.

Significant progress has been registered in terms of reducing poverty in Sub-Saharan Africa, which went from 58 per cent in 1999 to 50 per cent in 2005. Of the 48 countries for which data is available, alongside the countries of North Africa, Cameroon, Cape Verde, Mauritania, Senegal, Kenya and Ghana registered the best performances and have every chance of attaining the goal. Likewise, Benin, Republic of Congo, Guinea, Swaziland and Uganda are on target, although these countries exhibit poverty rates that are higher than average.

However, more than half of African countries exhibit either deteriorating poverty or insufficient progress to reverse the indicator's historic trend. This applies mainly to the countries of Western Africa (10 countries) and Southern Africa (9 countries). If trends continue, none of these countries will manage to obtain the goal. Even more alarming, some of these countries have poverty rates that are substantially higher than the average and they risk being completely marginalised. Despite good economic performances and an improved political climate, growth was not sufficient to speed up poverty reduction. Strong initial inequalities combined with demographic growth have prevented growth from adequately reaching the poorest sections of the population.

Furthermore, the ability of African countries to reach this goal is currently compromised by upheavals in the world economy with rising food prices and financial turbulence liable to destroy former progress. In light of these developments and with a high proportion of the poor in rural areas combined with low agricultural productivity, emergency measures to promote a sustainable improvement in agricultural productivity have become imperative.

Target 2 – Reduce by half, between 1990 and 2015, the proportion of the population who suffers from hunger.

In terms of combating hunger, the results are mixed. In Sub-Saharan Africa, the proportion of the population that is under-nourished fell from 32 per cent in 1990 to 28 per cent in 2005 but efforts have been slow and insufficient to guarantee that the goal will be attained by 2015. In Sub-Saharan Africa, one third of the population concentrated in Central and Eastern Africa suffers from hunger. Angola, Chad, Djibouti, Ghana and Mozambique posted significant improvements.

The incidence of hunger increased however in Republic of Congo, Burundi, Liberia, Guinea-Bissau and Comoros as well to a lesser extent in Botswana, Swaziland, Tanzania, Gambia, Sierra Leone and Madagascar. Lastly, in the countries of North Africa as well as in Mali, Mauritius, South Africa, Zambia and Zimbabwe progress has been modest.

Food security is facing new threats due to rising food and petrol prices, and an increasing population while a large part of the population resides in rural zones and agricultural productivity remains poor.

Goal 2 – Achieve universal primary education

Target 3 – Between now and 2015, give children everywhere, boys and girls alike, the means to complete a full course of primary schooling.

Net primary enrolment rates

In Sub-Saharan Africa 23 million children attended school in 2006, whilst this figure was 16 million in 1999. In the region, primary enrolment rates increased 14 points between 1999 and 2006, from 56 per cent to 70 per cent. However, the strong rise in the number of primary-school aged children, which should grow by 26 million between now and 2015 necessitates increased efforts. Despite this progress, only 49 per cent of countries reached (18) or are on track to reach (8) the goal by 2015. Madagascar, Malawi, Mauritius, São Tomé and Principe, Seychelles, South Africa and Tanzania join the countries of North Africa that have already achieved the target. Certain countries with rates inferior to or near 50 per cent in 1990 recorded remarkable performances, thus attaining net enrolment rates in excess of 70 per cent in 2006. These include Benin, Ethiopia (with a rate rising from 22 to 71 per cent), Guinea, Malawi, Mauritania, Mozambique and Tanzania. The elimination of enrolment fees and the implementation of school-construction programmes particularly in rural areas doubtlessly explain the results. However, half of the countries in the region will not reach the target. In some, progress is practically inexistent (Central African Republic, Democratic Republic of Congo, Guinea Bissau, Sierra Leone and Somalia) or has even in some cases declined significantly as in Angola, Botswana, Cape Verde and Liberia.

Proportion of school children beginning the first year of studies in primary education and completing the fifth year

The enrolment of children in primary schooling is clearly a necessary step towards universal primary education, but it is not in itself sufficient. Increasing the completion rate in primary education poses a real challenge for the region. The performances registered in enrolment rates have not been accompanied by a sufficient increase in primary completion rates. In Sub-Saharan Africa, more than 30 per cent of children enrolled in education do not complete the primary cycle (versus 10 per cent in North Africa). While net enrolment rates are close to 100 per cent in North African countries and exceed 85 per cent in 11 Sub-Saharan African countries, they are particularly weak in Burkina Faso, Central African Republic, Eritrea and Niger. Likewise, while the literacy rate has improved since 1990 (from 66.5 per cent in 1990 to 73 per cent in 2006), progress remains wholly inadequate to attain the goal of 100 per cent by 2015. In 2006, save for the countries of North Africa, only 10 countries in which the initial rates were already high recorded rates of between 80 and 90 per cent, while in 8 countries less than 50 per cent of youth are literate.

Goal 3 – Promote gender equality and empower women

The progress in eliminating gender disparities in access to primary education is the most striking. Gender gaps in education are weakest in Eastern Africa, followed by South Africa and North Africa, while Southern Africa exhibits the greatest disparities. Thus, 67.9 per cent of countries have reached or are on course to reach the target by 2015 and more than 80 per cent have a rate superior or close to the average. Gambia, Guinea, Mauritania and Benin have reached parity with gaps closing by more than 30 points since 1990. Some countries (Mauritania, Gambia, Rwanda and Malawi) exhibit moreover an advantage in favour of women. In contrast, disparities remain particularly high and register weak improvements in Somalia, Central African Republic, Guinea Bissau and Chad. Lastly, four countries (Cape Verde, Eritrea, Libya and Swaziland) although close to the average in terms of status, have not progressed. Performances in primary education are to a lesser extent reproduced in secondary education where disparities between countries are correlated to those in primary schooling.

While the eradication of gender disparities in school enrolment represents a major development objective in itself, it is also imperative that women have the opportunity to enter the labour market and participate in political decision making. In this field, progress has been mixed. Thus, the reduction of gender disparities in labour market participation is not significant. On the other hand, representation of women in the political sphere while poor, is improving. Thus, in 12 countries the percentage of national parliamentary seats occupied by women more than doubled between 1990 and 2007. Rwanda exhibited the best performance with a rate of 56 per cent, followed by Mozambique (34.8 per cent) and South Africa (32.8 per cent). In contrast, the already high inequalities in São Tomé and Principe were maintained and they deepened further in Chad and Mali.

Goal 4 – Reduce mortality of children under five

Target 4 – Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate.

Overall, the under-five child mortality rate fell by 12.85 per cent for Africa as a whole between 1992 and 2007, while an annual rate of decline of 8 per cent is needed if the goal is to be attained on time. Child survival presents a real challenge for the region. But this broad trend however, conceals variations between regions and between countries. While the rate receded by 55 per cent in North Africa, this trend was reversed in Central Africa where child mortality increased by 13 per cent. Only 32.7 per cent of countries have attained or are on course to attain the goal by 2015. Besides the North African countries, some countries (Eritrea, Malawi, Mauritania, Namibia, Comoros and Gabon) with initially high mortality rates made remarkable progress by having already attained the goal (with a more than 45 per cent reduction). Likewise, Gambia, Madagascar, Uganda and Djibouti, all on course, recorded rates of decline of about 40 per cent. However, in 31 countries, performances are distinctly inadequate and four countries (Democratic Republic of Congo, Côte d'Ivoire, Nigeria and Angola) exhibited a deterioration of the indicator. A significant proportion of countries with below-average ranking followed. In addition, there is a strong correlation between the status and performance in Goal 1 and the position achieved in terms of infant mortality. Deaths are attributable to poverty responsible for increasing malnutrition and declining conditions of hygiene thus reducing immune system defences and causing diseases that could have been prevented by immunisation. Measles is the leading cause of death in children in Africa before AIDS, tuberculosis and malaria (World Health Organization, 2008). While vaccination coverage against measles has registered an improvement in Sub-Saharan Africa (56 per cent in 1990 and 72 per cent in 2006), it remains inadequate to effectively ensure children's chances of survival. Beyond the average trends, it appears that the scale of the challenge of child survival varies from one country to the next. A number of countries, even poor ones, have displayed noteworthy performances (Eritrea, Malawi and Namibia) raising the possibility that progress is possible with political will, adequate resources and targeted strategies.

Goal 5 – Improve maternal health

Target 5 – Reduce by three quarters, between 1990 and 2015, the maternal mortality ratio.

The performance of the maternal mortality ratio in Africa signals an urgent need for action in order for goal 5 to be attained. According to a WHO study (2008), almost 265 000 maternal deaths, or half of global maternal deaths were recorded in Sub-Saharan Africa. The number of maternal deaths per 100 000 live births varies from 2 100 in Sierra Leone to 23 in Mauritius, with 8 countries registering rates of over 1 000. With a less than 1 per cent reduction in the ratio between 1990 and 2007, a great deal of ground remains to be covered to reach the target. With the exception of Eastern Africa, which experienced a 49 per cent reduction from relatively high initial rates, in other regions maternal health has stagnated or declined.

Only 26.9 per cent of countries made sufficient efforts to reach the target by 2015. While Mauritius, Cape Verde, Tunisia and South Africa have reached the target from poor starting ratios, Rwanda, Eritrea, and Mozambique have performed remarkably well reducing mortality by more than 50 per cent (or more than 60 per cent for some). With ratios now below 1 000, this progress has enabled these countries to improve their standing in terms of this target. In contrast, in 21 countries, maternal health has deteriorated with increases in the mortality ratio sometimes in excess of 60 or 70 per cent. The situation is particularly worrying in Liberia, Guinea, Mali, Malawi and Central Africa Republic where ratios are near the critical threshold of 1 000 as well as for Sierra Leone and Angola for which the ratio of 1 000 appears increasingly out of reach.

Maternal mortality is linked to complications arising from pregnancy or childbirth. The main causes, in decreasing order of importance, are: haemorrhage; sepsis and infections, including HIV; hypertensive disorders; complications following abortion; and obstructed labour. In Niger the risk of maternal mortality over a lifetime is highest, with a mortality rate linked to pregnancy of 1 in 7, compared with 1 in 3 300 women in Mauritius (1 in 15 women in Mali). Lastly, the number of adolescent pregnancies represents a risk factor. Despite a noticeable decrease since the 1990s (from 121 per 1 000 in 1997 to 103.5 in 2007), adolescent fertility remains particularly high in Southern Africa (185.3) and Western Africa (124.1); with a rate of 218.8, Liberia has the highest level of adolescent births. These causes could be avoided through improved access to and quality of health care for women, universal access to reproductive health services, access to family planning, prevention of unwanted pregnancies and improved education levels of women. In 2007, only 50 per cent of women gave birth under the supervision of a qualified health worker, compared with a rate of 45 per cent in 1990 with strong country differences, ranging from 10 per cent in Ethiopia to 95 per cent in Algeria. Even when initiatives existed, they could be beyond the reach of the poorest segments of the population. Beyond the challenge of inadequate quality, access to health services can be determined by place of residence in the absence of good communication infrastructure between urban and rural areas, as well as by household wealth or the education level of women.

Goal 6 – Combat HIV/AIDS, malaria and other diseases

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

The target of halting the spread of HIV/AIDS is beyond the reach of Africa by 2015. In 2007, 22 million adults in Sub-Saharan Africa were living with HIV and 1.5 million deaths were due to AIDS. Although HIV prevalence was stabilising in some countries, the rate went from 2.1 per cent in 1990 to 4.9 per cent in 2009. Southern Africa continues to register the highest rates (higher than 15 per cent, or even more than 20 per cent) contrasted with rates of below 10 per cent in Western, Central and North Africa. Only Ghana, Kenya and Rwanda appear to have reached the target. Likewise, Uganda, which had an initial rate of 13.7 per cent, has achieved sufficient progress to reverse the trend. In contrast, in more than 80 per cent of countries, the HIV infection rate has not sufficiently reduced or, on the contrary, has increased. A defining characteristic of the illness is the speed with which it has spread. In South Africa, Lesotho and Swaziland the infection rate grew from less than 1 per cent to in excess of 20 per cent. Women are those most affected by HIV (59 per cent); infection rates of pregnant women are very high which increases the risk of transmission to children. Furthermore, the increase in the number of AIDS orphans presents a real development challenge in Africa with negative effects on other development objectives. In Southern Africa, more than 70 per cent of orphaned children are due to AIDS. Even in areas where HIV infection rates have stabilised, the number of orphans continues to rise due to the delay between the time a person contracts and dies from the disease. While effective treatments exist, access to them remains unequal from country to country. In Namibia and Botswana, more than one third of those needing antiretroviral treatment receive it, while only 10 per cent in Ethiopia, Lesotho, Mozambique, Nigeria, Tanzania and Zimbabwe receive treatment. An effect of the HIV epidemic has been to increase the number of cases of tuberculosis. Despite existing treatments and an 84 per cent immunization rate, the incidence of tuberculosis has not fallen except in North Africa, Ghana, Mali, Mauritius, São Tomé and Principe, Seychelles and Somalia. The number of cases of tuberculosis is at the highest in Southern Africa with Swaziland leading (1 262 cases per 100 000). Southern Africa also has registered the strongest increase compared with other regions with prevalence increasing by 58 per cent between 1990 and 2005.

Goal 7 – Ensure environmental sustainability

Goal 7 focuses on ensuring environmental sustainability by improving access to clean water and sanitation supply systems. Despite an increase in the coverage rate of the population with access to safe water from 56 per cent in 1990 to 64 per cent in 2006, this progress is insufficient for all African countries to achieve the target by 2015. In terms of status, 14 countries have coverage rates below 55 per cent; Ethiopia registers the lowest rate and Mauritius the highest. In addition, access to clean water is higher in urban areas than in rural ones (85 per cent versus 51 per cent). From the point of view of performance, slightly more than 60 per cent of countries (32 countries) have reached or are on track to reach the goal. Thus, starting from a relatively poor initial rate, Namibia, Liberia, Lesotho and Ghana have achieved significant progress. The trend is equally promising for Angola, Central African Republic, Mauritania and Mali. However, 14 countries appear to have performed poorly exhibiting either inexistent progress (Seychelles) or a reduction in their coverage rate (Algeria, Comoros, Republic of Congo, Equatorial Guinea, Ethiopia, Somalia). The challenge lies in extending coverage to the poorest segments in rural zones and urban slums.

Even more worrying is the situation regarding access to sanitation services. Africa has made little progress on this front, with a sanitation rate of 33 per cent in 1990 rising to just 38 per cent in 2006. Coverage is highest in North Africa and lowest in Western Africa. However, access to sanitation is key for other sectors such as health, the environment and education, but also for attaining gender equity. Demographic growth and the acceleration of urbanisation with increasing growth of slums will inevitably aggravate the situation to the detriment of health and the environment. Lastly, given the demographic growth outlook, the real challenge is not to reduce the gap between those with access to safe water and sanitation to reach the goal, but to make provision for all of those needing services who will be born by 2015.

Goal 8 – Develop a global partnership for development

To fulfil the first seven MDGs, donors must contribute even more aid, make debt relief grants more sustainable and opt for more equitable trade regulations. Yet, as can be noted from the above sections, progress has been largely inadequate except in terms of external debt relief.

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Table 5 - Main Progress Towards Achieving the Millennium Development Goals

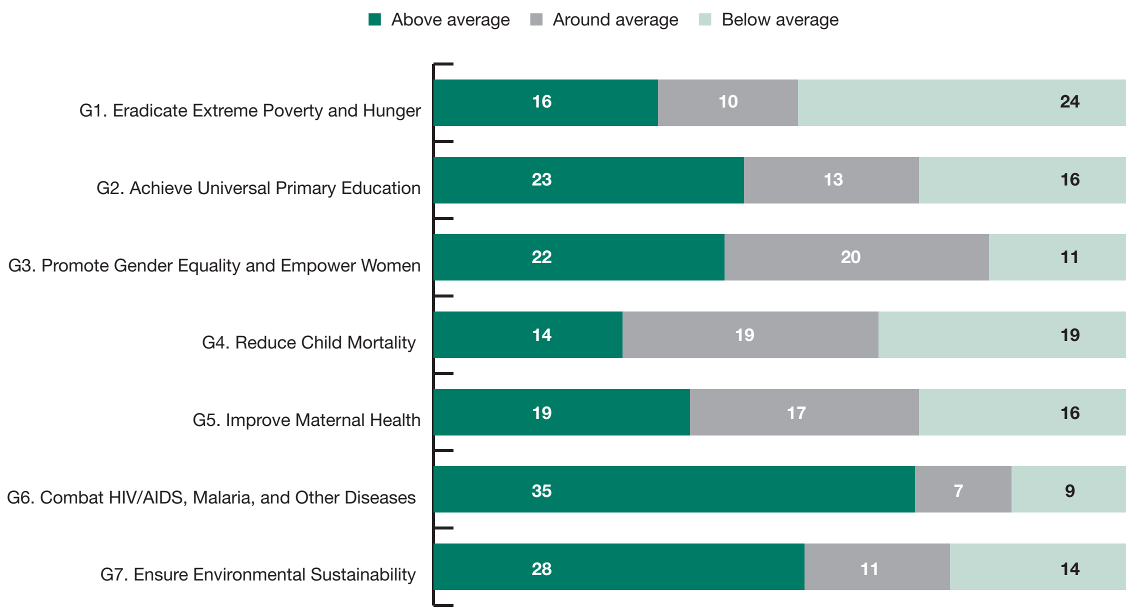
HDI Rank		Goal 1	Goal 2	Goal 3	Goal 4	Goal 5	Goal 6	Goal 7	
		Eradicate extreme poverty and hunger	**Achieve universal primary education**	**Promote gender equality and empower women**	**Reduce child mortality**	**Improve maternal health**	**Combat diseases**	**Ensure environmental sustainability**	
Targets		Reduce by half population, between 1990 and 2015, the proportion of whose income is less than USD1 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 rates	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" or "on track"
Indicators		Proportion of Population living Below USD1 (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 (%)	
100	Algeria	early achiever	early achiever	on track	early achiever	regressing	regressing	regressing	**4 of 7**
157	Angola	off track-slow	regressing	off track-slow	regressing	regressing	regressing	on track	**1 of 7**
161	Benin	on track	on track	early achiever	off track-slow	early achiever	regressing	off track-slow	**4 of 7**
126	Botswana	off track-slow	regressing	early achiever	off track-slow	regressing	regressing	early achiever	**2 of 7**
173	Burkina Faso	off track-slow	off track-slow	on track	off track-slow	off track-slow	off track-slow	early achiever	**2 of 7**
172	Burundi	off track-slow	on track	off track-slow	off track-slow	on track	regressing	early achiever	**3 of 7**
150	Cameroon	early achiever	early achiever	off track-slow	off track-slow	regressing	regressing	early achiever	**3 of 7**
118	Cape Verde	early achiever	regressing	regressing	early achiever	early achiever	…	early achiever	**4 of 7**
178	Cent. Afr. Rep.	off track-slow	off track-slow	off track-slow	off track-slow	regressing	regressing	on track	**1 of 7**
170	Chad	regressing	off track-slow	off track-slow	off track-slow	regressing	regressing	early achiever	**1 of 7**
137	Comoros	off track-slow	off track-slow	on track	early achiever	off track-slow	regressing	regressing	**2 of 7**
130	Congo	on track	off track-slow	off track-slow	off track-slow	off track-slow	off track-slow	regressing	**1 of 7**
177	Congo, DRC	regressing	off track-slow	early achiever	regressing	early achiever	off track-slow	off track-slow	**2 of 7**
166	Côte d'Ivoire	off track-slow	off track-slow	off track-slow	regressing	off track-slow	regressing	early achiever	**1 of 7**
151	Djibouti	regressing	off track-slow	off track-slow	on track	regressing	regressing	off track-slow	**1 of 7**
116	Egypt	early achiever	early achiever	on track	early achiever	off track-slow	regressing	early achiever	**5 of 7**
115	Equat. Guinea	…	off track-slow	early achiever	off track-slow	off track-slow	regressing	regressing	**1 of 7**
164	Eritrea	regressing	off track-slow	regressing	early achiever	early achiever	regressing	early achiever	**3 of 7**
169	Ethiopia	early achiever	on track	on track	off track-slow	early achiever	regressing	regressing	**4 of 7**
107	Gabon	early achiever	early achiever	early achiever	early achiever	regressing	regressing	early achiever	**5 of 7**
160	Gambia	early achiever	on track	early achiever	on track	on track	early achiever	early achiever	**7 of 7**
142	Ghana	early achiever	off track-slow	early achiever	off track-slow	off track-slow	regressing	early achiever	**3 of 7**
167	Guinea	on track	on track	early achiever	off track-slow	regressing	regressing	off track-slow	**3 of 7**
171	Guinea- Bissau	regressing	off track-slow	off track-slow	off track-slow	regressing	regressing	early achiever	**1 of 7**
144	Kenya	early achiever	off track-slow	early achiever	off track-slow	off track-slow	early achiever	early achiever	**4 of 7**
155	Lesotho	early achiever	regressing	early achiever	off track-slow	regressing	regressing	early achiever	**3 of 7**
176	Liberia	regressing	regressing	on track	off track-slow	regressing	regressing	early achiever	**2 of 7**

52	Libya	…	early achiever	regressing	early achiever	early achiever	regressing	off track-slow	**3 of 7**
143	Madagascar	off track-slow	early achiever	early achiever	on track	off track-slow	regressing	off track-slow	**3 of 7**
162	Malawi	off track-slow	early achiever	early achiever	early achiever	regressing	regressing	early achiever	**4 of 7**
168	Mali	early achiever	on track	on track	off track-slow	regressing	regressing	on track	**4 of 7**
140	Mauritania	early achiever	on track	early achiever	early achiever	off track-slow	regressing	on track	**5 of 7**
74	Mauritius	regressing	early achiever	early achiever	early achiever	early achiever	regressing	early achiever	**5 of 7**
127	Morocco	early achiever	early achiever	on track	early achiever	on track	regressing	on track	**6 of 7**
175	Mozambique	off track-slow	on track	off track-slow	off track-slow	early achiever	regressing	off track-slow	**2 of 7**
129	Namibia	regressing	early achiever	early achiever	early achiever	regressing	regressing	early achiever	**4 of 7**
174	Niger	regressing	off track-slow	off track-slow	off track-slow	off track-slow	regressing	off track-slow	**0 of 7**
154	Nigeria	regressing	off track-slow	early achiever	regressing	off track-slow	regressing	off track-slow	**1 of 7**
165	Rwanda	regressing	early achiever	early achiever	off track-slow	on track	early achiever	early achiever	**5 of 7**
128	São Tomé and Principe	regressing	early achiever	early achiever	off track-slow	regressing	…	early achiever	**3 of 7**
153	Senegal	early achiever	off track-slow	early achiever	off track-slow	off track-slow	regressing	early achiever	**3 of 7**
54	Seychelles	…	early achiever	early achiever	…	…	…	regressing	**2 of 7**
179	Sierra Leone	off track-slow	off track-slow	early achiever	off track-slow	regressing	regressing	early achiever	**2 of 7**
…	Somalia	…	…	off track-slow	off track-slow	off track-slow	regressing	regressing	**0 of 7**
125	South Africa	off track-slow	early achiever	early achiever	off track-slow	early achiever	regressing	off track-slow	**3 of 7**
146	Sudan	…	regressing	off track-slow	off track-slow	off track-slow	regressing	off track-slow	**0 of 7**
141	Swaziland	on track	regressing	regressing	off track-slow	regressing	regressing	early achiever	**2 of 7**
152	Tanzania	regressing	early achiever	early achiever	off track-slow	regressing	regressing	early achiever	**3 of 7**
159	Togo	regressing	off track-slow	on track	off track-slow	off track-slow	regressing	off track-slow	**1 of 7**
95	Tunisia	early achiever	early achiever	early achiever	early achiever	on track	regressing	early achiever	**6 of 7**
156	Uganda	on track	early achiever	early achiever	on track	off track-slow	on track	early achiever	**6 of 7**
163	Zambia	regressing	early achiever	early achiever	off track-slow	regressing	regressing	off track-slow	**2 of 7**
…	Zimbabwe	regressing	off track-slow	early achiever	off track-slow	regressing	regressing	off track-slow	**1 of 7**
	Early Achiever	**15**	**18**	**27**	**13**	**9**	**3**	**27**	
	On track	**5**	**8**	**9**	**4**	**5**	**1**	**5**	
	Off track-slow	**12**	**19**	**13**	**31**	**17**	**3**	**14**	
	Regressing	**16**	**7**	**4**	**4**	**21**	**43**	**7**	
	Satisfactory Performance Ratio	**41.7%**	**50.0%**	**67.9%**	**32.7%**	**26.9%**	**8.0%**	**60.4%**	

Sources: African Development Bank.

StatLink http://dx.doi.org/10.1787/574420267833

Figure 8 - **Distribution of Countries Status by MDGs**



Source : African Development Bank.

StatLink http://dx.doi.org/10.1787/568238566361

Governance and Political Issues

On the whole, political and social stabilisation has been generally progressing on the continent, while higher political awareness among the population has obliged governments to become more accountable, as witnessed by the organisation of regular electoral consultations and the implementation of structural reforms in public administration, which have improved governance and increased transparency. However, the administrative capacity of government remains weak, impeding the consolidation of democratic institutions (especially in fragile states); the judicial system still receives little political priority. Gaps in the implementation of regulations are common and, as a result, application of the rule of law remains tenuous.

As noted in *AEO 2007/08*, violence during ordinary demonstrations of democratic dissent, like strikes or demonstrations remains a characteristic of political life in some countries and continued during 2008. Since the end of 2007, when rising living costs triggered a series of disturbances, political economy considerations have acquired increasing relevance and the authorities have had to strike a careful balance between the need to take some measures to control unrest and the need to avoid a shift to authoritarianism which would limit civil rights, including freedom of the press. With some exceptions, the stance taken by governments faced with these problems turned out to be constructive. The challenge will be to continue on this track, against a background of decreasing public resources, and uncertain donor support.

Conflicts and Political Troubles

Although slow progress towards more stable and democratic regimes continued in many countries, in others the situation generally worsened in 2008 compared to 2007, mainly due to further intensification of long-term conflicts, a resurgence of troubles in countries which had gained stability in the recent past, or new waves of episodic instability in relatively stable countries due to the rising costs of living. (see Table 22 in the Statistical Annex).

Several post-conflict countries have been successful in their struggle to couple macroeconomic normalisation with the promotion of social stability. Angola and Mozambique are good examples of this, with the former holding democratic elections for the first time since the end of the civil conflict, and only the second time since independence. Although insecurity remains a concern, especially in urban areas, stability has improved in Liberia and Sierra Leone, after a decade of particularly destructive conflicts. After 6 years of civil unrest, the situation in Côte d'Ivoire continued to stabilise. Although successful in bringing hostilities to an end and leading to the formation of a national union government, the signing of the Ouagadougou agreement in March 2007 has not yet resulted in elections as originally foreseen. Despite this, violence on the part of both sides of the conflict has decreased dramatically, while the relaxation of the social climate allowed the state to regain control of security in the northern region and resume the delivery of basic services. The Great Lakes region seems to be laying the bases for an improvement in the near future. The conflict in Uganda has lost impetus with the elaboration of a peace agreement in April 2008 (although not yet signed by the rebels), and, after a dramatic intensification of the conflict in DRC, the year closed with the arrest of the chief of one of the rebel groups which had been fuelling violence in the North-Kivu region, thanks to the fruitful co-operation between the governments of Joseph Kabila in DRC and Paul Kagame in Rwanda.

Despite these welcome improvements, there are signs of increasing political tension that cannot be ignored. The year had started on a positive note in DRC, with the organisation of a Peace Conference in Goma in early January. However, violent clashes between the army and several rebel groups poisoned the situation in the north-east part, continuing to fuel instability in the entire region for most of the year. In Chad, the conflict opposing President Deby and the rebellion burst into open warfare when the latter attacked the capital city, N'djamena. With the support of France, the government regained control, although episodic clashes between the army and the rebels continued throughout the year, worsened by ethnic and religious feuding. Neighbouring Sudan and the Horn of Africa remained restless. The Darfur war continues to kill civilians, while the humanitarian situation risk becoming catastrophic after president Bachir ordered international humanitarian non-governmental organisations out of the country in early 2009 in reaction to an arrest warrant issued by the International Criminal Court bringing charges against him of crimes against humanity. In stateless Somalia the situation remains critical, and the civil war is in its eighteenth year. The signature of a peace deal in June 2008 between the Transitional Federal Government (TFG) and the Alliance for the Re-liberation of Somalia (ARS) did not stop the fighting, and the lack of an effective state threatens the security of the entire region. Besides the on-going battles among rival groups, in 2008 several attacks by pirates on foreign commercial ships spread insecurity along the coast, and weapons which are smuggled into Somalia are also trafficked into other countries in the region. In Central and East Africa, Burundi and the Central African Republic have had trouble in overcoming the effects of past civil conflicts with dramatic episode of violence threatening peace agreements.

An upsurge in the violent activities of a number of rebellion movements can also be observed. Since mid 2007, the Touareg rebellion has acquired new strength in Niger and Mali, intensifying killings and kidnapping of soldiers and foreigners. While the government of Niger has not recognised the existence of a rebellion and refuses to deal with the Touareg, Mali signed a peace agreement with them in April 2008; however, the situation has not yet completely returned to normal. In Nigeria the conflict in the Delta Niger region continued in 2008. Since 2005, it is estimated that Nigeria lost some 20 per cent of its oil production due to these incidents. Despite the creation of a ministry in 2008 to deal with these issues, pacification still seems elusive.

In Kenya, following the contested election of December 2007, some 1 300 people were killed and more than 350 000 were displaced.

In 2008, there were a number of coups d'état. The Mauritania military junta was officially sanctioned by the African Union, which urged it to return to constitutional order after the army overthrew the first ever democratically elected president in August 2008, Mohamed Abdallahi. In December, and after months of social unrest, the army took power in Guinea, taking advantage of the death of the former president, Lasana Conté. The series of coups continued at the beginning of 2009, with the killing of the President Joao Bernardo Vieira of Guinea Bissau by the army, after two failed attempts during 2008. The country had been particularly restless in recent years, due to the increasing presence of Latin American drug dealers using West African coasts as a channel to smuggle drugs in Europe. In early 2009, a harsh political struggle broke out between President Marc Ravalomanana and the mayor of Antananarivo, Andry Rajoelina resulting in violent demonstrations and a number of deaths when the army fired on protesters. After an intervention of the army in support of Rajoelina, President Ravalomanana stepped down, in what was condemned by the African Union and several African leaders as an "unconstitutional transfer of power".

Hunger riots began at the end of 2007 and intensified during 2008, triggered by unprecedented increases in food and fuel prices which reduced the real income of households already struggling with harsh living conditions. Burkina Faso, Cameroon, Egypt, Mozambique and Senegal are only a few of the countries which experienced strikes, demonstration and riots. In Cameroon, protests against high prices were coupled with discontent over president Biya's intention to modify the constitution in order to be allowed to run for a third mandate in the presidential elections to be held later in 2011. In South Africa, violent riots with xenophobic connotations in May 2008 caused the death of 62 foreigners and the displacement of several thousand people.

The situation remains tense in some countries and new tensions could explode in the coming months due to the worsening of economic conditions due to the global crisis affecting employment in the mining sector as well as in services, such as construction. Although several governments managed the situation in 2008 by implementing support measures and containing social discontent, the situation is likely to be more challenging in 2009, in a context of reduced public resources.

The Political Stance

Partly in response to the rising instability, the political stance hardened considerably in 2008 in several countries (see Tables 23 and 24 in the Statistical Annex). In Mali, episodes of harsh reactions to the Touareg rebellion alternated with attempts to push negotiations forward to solve the crisis. In the case of hunger riots, governments generally reacted by increasing the presence of the army and police, and arresting demonstrators.

The rising pressure over state control resulted in government attacks on local and international press. Reporters Sans Frontières expressed worries about the intimidation of journalists, especially in countries of West and North Africa. Episodes of arrests of journalists, withdrawal of licenses and closing of the editorial units of newspapers or magazines occurred in some countries.

North Africa has also been very active in the fight against illegal immigration, as a result of several bilateral agreements signed with European countries, in particular France and Spain. This resulted in the arrest of hundreds of migrants attempting to reach the coasts of Europe illegally on precarious and overcrowded boats. In a desperate attempt to improve their living standards, hundreds of young people die every year.

However, the country that experienced the strongest hardening of the political stance in 2008 was Zimbabwe. Repression of all opposition increased before and after the elections organised in May, which were won, nevertheless, by Morgan Tsvangirai, the opposition party leader. Robert Mugabe, president since Zimbabwe's independence in 1980, refused to accept the result and further intensified repression, despite the disapproval of AU and SADC leaders. A series of bans on political gatherings, curfews and repression of independent media further restricted political and civil liberties. The country further fell into a deep economic and humanitarian crisis, worsened by a cholera outbreak that killed several thousand people and risked affecting neighbouring countries. In February 2009, Mugabe

Table 6 – **Freedom in Africa in 2008, countries sub-scores[59]**

Country	Political Rights	Civil Liberties	Status	2007
Algeria	6	5	Not Free	=
Angola	6	5	Not Free	=
Benin	2	2	Free	=
Botswana	2	2	Free	=
Burkina Faso	5	3	Partly Free	=
Burundi	4 (worse 1 pt)	5	Partly Free	Worsened
Cameroon	6	6	Not Free	=
Cape Verde	1	1	Free	=
Central African Republic	5	5 (worse 1pt)	Partly Free	Worsened
Chad	7 (worse 1pt)	6 (worse 1pt)	Not Free	Worsened
Comoros	4 (worse 1pt)	4	Partly Free	Worsened
Congo, Rep.	6	5	Not Free	=
Congo, Dem. Rep.	5	6	Not Free	=
Cote d'Ivoire	7 (worse 1pt)	5 (impr 1pt)	Not Free	Mixed
Djibouti	5	5	Partly Free	=
Egypt	6 (impr 1pt)	5 (impr 1pt)	Not Free	Improved
Equatorial Guinea	7	6	Not Free	=
Eritrea	7	6	Not Free	=
Ethiopia	5	5	Partly Free	=
Gabon	6	4	Partly Free	=
Gambia, The	5	4	Partly Free	=
Ghana	1	2	Free	=
Guinea	6	5	Not Free	=
Guinea-Bissau	4	4	Partly Free	=
Kenya	4 (worse 1pt)	3	Partly Free	Worsened
Lesotho	2	3	Free	=
Liberia	3	4	Partly Free	=
Libya	7	7	Not Free	=
Madagascar	4 (worse 1pt)	3	Partly Free	Worsened
Malawi	4	4 (worse 1pt)	Partly Free	Worsened
Mali	2	3 (worse 1pt)	Free	Worsened
Mauritania	4 (impr 1pt)	4	Partly Free	Improved
Mauritius	1	2	Free	=
Morocco	5	4	Partly Free	=
Mozambique	3	3 (impr 1pt)	Partly Free	Improved
Namibia	2	2	Free	=
Niger	3	4 (worse 1pt)	Partly Free	Worsened
Nigeria	4	4	Partly Free	=
Rwanda	6	5	Not Free	=
São Tomé and Principe	2	2	Free	=
Senegal	2	3	Free	=
Seychelles	3	3	Partly Free	=
Sierra Leone	3 (impr 1pt)	3	Partly Free	Improved
Somalia	7	7	Not Free	=
South Africa	2	2	Free	=
Sudan	7	7 (worse1pt)	Not Free	Worsened
Swaziland	7	5	Not Free	=
Tanzania	4	3	Partly Free	=
Togo	5 (impr 1pt)	5	Partly Free	Improved
Tunisia	7 (worse 1pt)	5	Not Free	Worsened
Uganda	5	4	Partly Free	=
Zambia	3 (impr 1pt)	4	Partly Free	Improved
Zimbabwe	7	6	Not Free	=

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

StatLink http://dx.doi.org/10.1787/574440506211

59. In parenthesis: changes from 2007 index. Impr: improved; worse: worsened; =: unchanged. The smaller the index, the higher the level of freedom.

finally accepted to constitute a national unity government, giving the position of Prime Minister to Tsvangirai. At the time of writing, the situation is far from being stabilised, however.

As in 2007, the political freedom index (PFI) from Freedom House for 2008 shows a trend in Sub-Saharan Africa towards some setbacks. Eleven countries experienced a worsening of either political or civil rights, only six showed improvement. The PFI is based on measures of several components of political freedom such as: free and fair elections; honest tabulation of ballots; the extent to which citizens are free to organise in different political parties or other political groupings of their choice; whether there is a significant vote for the opposition and a realistic possibility of coming to power through elections; self-determination, and freedom from any kind of domination; reasonable self-determination for cultural, ethnic, religious and other minority groups; and the extent to which political power is decentralised.

Peace and Security

According to the Heidelberg Institute for International Conflict Research[60], the number of conflicts[61] in Africa (Sub-Saharan African and Maghreb, according to the definition) remained stable at 89, mainly driven by conflicts over natural resources and, to a lesser extent, political power at the national and regional levels. However, in 2008, the number of highly violent conflicts rose from 9 to 12[62] reversing a trend towards decreasing intensity of violence in recent years. The deterioration of the situation in Chad resulted in its reclassification as a country at war, alongside conflicts in Darfur and Somalia. In the latter case, the retreat of the Ethiopian troops at the beginning of 2009 did not bring about a significant improvement, and clashes continue between the Transitional Federal Government (TFG) and groups loyal to the United Islamic Courts (UIC). As a result, while still ranking second in the world for the number of conflicts, after Asia and Oceania, Africa is now the region with the highest number of wars (highly violent conflicts).

As in the past, Sub-Saharan Africa hosted the largest number of UN-led peace operations in 2008 (10 out of 17), including in Burundi, Central Africa Republic/Chad, Côte d'Ivoire, DRC, Ethiopia/Eritrea, Liberia, Sierra Leone, Sudan (South), Sudan (Darfur), and Western Sahara. In 2008, UNMEE, the UN mission to Ethiopia and Eritrea came to an end, despite the increasing tension over border demarcation in 2007. Although no new mission was deployed, the African Union/UN Hybrid Operation in Darfur (UNAMID) approved in December 2007 was effectively implemented in 2008. This initiative represents the realisation of the UN's goal to strengthen co-operation with multilateral and regional organisations. However, peacekeeping operations did not manage to improve the situation significantly. In view of the increasing instability in DRC, the Security Council decided to increase the number of troops by 3 000 units for the mission (MONUC).

After a very active 2007, which saw the launch of a number of new regional initiatives, new interventions by the African Union (AU) in 2008 were limited to the AU mission to Somalia (AMISOM) and the hybrid UN-AU mission in Sudan. Furthermore, AU observers are still deployed along the border between DRC and Rwanda, with observers from the UN and the two parties, as well as in Southern Sudan. AU Liaison Officers, based in Asmara and Addis Ababa, contribute to the monitoring of the Temporary Security Zone between the two countries. The deterioration of the situation in

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

61. 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 s evere 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".

62. Nine severe crises were recorded in Mali, Nigeria, Southern Sudan, DRC, Burundi and Kenya, while other crises were recorded in Niger, Central African Republic and Ethiopia, while involved in the conflict in Somalia). For the full list, please see the 2008 Conflict Barometer at http://www.hiik.de/en/konfliktbarometer/index.html

Somalia caused the UN Security Council to extend the AMISOM mandate by six months on February 2008. In March, AU troops supported the Comoros government in its intervention in dissident Anjouan Island to return it to central government control.

Efforts to make the African Peace and Security Architecture (APSA), launched in Durban in 2002, operational are continuing: the Annual Consultation between the Commission of the African Union (AU), members of the AU Peace and Security Council (PSC), the Regional Mechanisms for Conflict Prevention, Management and Resolution, representatives of the G8 member countries, the European Union (EU), the United Nations (UN) and other partners was held in June 2008 in Addis Ababa. Progress and the implementation of the AU peace and security agenda were assessed and the Panel of the Wise was inaugurated in December 2007. At the end of January 2008, a Memorandum of Understanding (MoU) on Co-operation on Peace and Security between the AU and the Regional Mechanisms for Conflict Prevention, Management and Resolution was signed. As part of the capacity building component of the Africa Peace Facility (APF) put in place by the EU at the request of the AU, a number of Regional Mechanisms have already deployed Liaison Officers with the AU in Addis Ababa. Moreover, the EURO RECAMP initiative was launched in November 2008 by the EU and aims to train African military and civilian leaders belonging to the African Stand-by Force (ASF) in order to compensate for the severe capacity shortage. The ASF is expected to be able to provide rapid reaction in emergency situations. The Continental Early Warning System (CEWS) is expected to become operational by 2009.

Electoral processes

Some 36 million Africans were called to express their vote in parliamentary and presidential consultations in 2008 held in 10 countries; 70 per cent of voters participated, compared to 36 per cent in 2007. Elections in Ghana, the biggest country in terms of population that had an election, accounted for much of this result with a turnout of 70 per cent, while in Angola 98 per cent of voters went to the polls. Generally the outcomes

Table 7 - **Elections in Africa, 2008-09**

	2008	2009
Algeria		Presidential (April) and parliamentary (Dec)
Angola	Parliamentary (Sept)	Presidential (no date)
Botswana		Parliamentary (Oct)
Chad		Parliamentary (no date)
Comoros	Autonomous Island Legislative Assembly Elections (March)	Parliamentary (Apr)
Congo	Senatorial (indirect) (Jun)	Presidential (Jul)
Côte d'Ivoire		Presidential (no date)
Djibouti	Parliamentary (8 Feb)	
Equatorial Guinea		Presidential (Dec)
Ghana	Presidential and parliamentary(Dec)	
Malawi		Parliamentary and presidential (19 May)
Mauritania		Presidential (6 June)
Mauritius	Presidential (indirect) (May)	
Mozambique		Presidential and parliamentary (Dec)
Namibia		Presidential and parliamentary (Nov)
Niger		Presidential and parliamentary (Nov)
Rwanda	Parliamentary (Sept)	
South Africa		Parliamentary (22 Apr)
Swaziland	Parliamentary (Oct)	
Tunisia		Presidential and parliamentary (Oct)
Zimbabwe	Presidential and Parliamentary (March)	

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

StatLink http://dx.doi.org/10.1787/574445007801

were positive: Angola held its first democratic elections after the end of the war, and the second after independence. The electoral process was peaceful and international observers did not report any major irregularities. Rwanda, Zambia, Ghana conducted peaceful elections. In Ghana, the opposition leader, John Atta-Mills, of the National Democratic Congress (NDC) won the poll, while, in Rwanda, women took 56 per cent of the total parliamentary seats, making this country's Chamber of Deputies the first in the world to have a female majority. However, post-electoral violence plagued Zimbabwe, where the situation deteriorated leading to state-sanctioned violence directed towards opposition members. Elsewhere, incidents of violence triggered by the 2007 elections in Kenya and Nigeria continued into 2008.

In 2009 15 electoral consultations are expected, including the long-delayed elections in Côte d'Ivoire, and national elections in South Africa, where rising tensions during the electoral campaign resulted in the split of the major party. The first democratic elections for the presidency are also expected in Angola, although a constitutional reform might delay elections to 2010.

Corruption

According to Transparency International data for 2008, corruption remains a serious challenge for the continent and progress in combating it remains mixed. In 2008 the number of countries listed in the world top quartile rose to three (Botswana, Cape Verde and Mauritius) compared to two in 2007 (Botswana and South Africa). There might have been 4 in 2008 had the score for South Africa not slipped below 5. In 2008, 10 countries were in the second quartile (as in 2007), while 22 were in the third and 18 in the lowest, compared to 20 and 20, respectively, in 2007. Although some countries improved their performance, it is clear that transparency and good governance remain elusive, with 36 countries still scoring less than 3, indicating that corruption is perceived as rampant.

The 2008 CPI results show that countries like Benin, Burkina Faso, Mauritius and Nigeria significantly increased their score. However, the situation deteriorated sharply in Burundi and Somalia, while setbacks were also recorded in Mozambique, Tanzania and Uganda. Generally, worse performing countries saw their position deteriorate; the number of countries with a score below 2 increased from 6 to 13. These countries also represent those in which human development is among the lowest, confirming that there is a link between fighting corruption and improving the quality of public expenditure to reduce poverty.

Cape Verde, Mali, Mozambique, Niger and Tunisia ratified the United Nations Convention against corruption in 2008, bringing to 39 the number of African countries to have done so. In 2008, Cameroon and Sudan signed the African Union Convention on Preventing and Combating Corruption, bringing the number of African countries having signed to 43 since 2003. In addition, two new ratifications occurred, in Seychelles and Sierra Leone. The convention entered into force in 2007.

Despite the trouble spots, the continent's commitment to achieving good governance in all its ramifications is reflected in the African Peer Review Mechanism (APRM) process, launched in July 2002 as the flagship governance programme of the NEPAD. The primary purpose of the APRM is to foster the adoption of policies, standards and practices that lead to political stability, high economic growth, sustainable development and accelerated sub-regional and continental economic integration. As of February 2008, 29 countries had voluntarily acceded to the Mechanism. Mauritania was, however, suspended in November 2008 following a *coup d'état* that ousted its democratically elected president.

For the first time ever, four peer reviews were conducted in 2008: Benin, Uganda, Nigeria and Burkina Faso. This is an achievement when only five peer reviews had been conducted between 2003 and 2007: Ghana, Rwanda, Kenya, South Africa and Algeria. Country Review Missions to Mali, Mozambique, Lesotho and Ethiopia have been scheduled the first half of 2009 and missions to Mauritius and Zambia are expected in the second half of the year. Mozambique,

Table 8 - **Corruption Perception Indexes (CPI) for African Countries, 2007 and 2008**

Country	Global Rank 2008	CPI 2008	Global Rank 2007	CPI 2007
Botswana	36	5.8	38	5.4
Mauritius	41	5.5	53	4.7
Cape Verde	47	5.1	49	4.9
South Africa	54	4.9	43	5.1
Seychelles	55	4.8	57	4.5
Namibia	61	4.5	57	4.5
Tunisia	62	4.4	61	4.2
Ghana	67	3.9	69	3.7
Swaziland	72	3.6	84	3.3
Morocco	80	3.5	72	3.5
Burkina Faso	80	3.5	105	2.9
Senegal	85	3.4	71	3.6
Madagascar	85	3.4	94	3.2
Lesotho	92	3.2	84	3.3
Algeria	92	3.2	99	3.0
Gabon	96	3.1	84	3.3
Mali	96	3.1	118	2.7
Benin	96	3.1	118	2.7
Tanzania	102	3.0	94	3.2
Rwanda	102	3.0	111	2.8
Djibouti	102	3.0	n.a.	n.a.
Egypt	115	2.8	105	2.9
Malawi	115	2.8	118	2.7
Zambia	115	2.8	123	2.6
Mauritania	115	2.8	123	2.6
Niger	115	2.8	123	2.6
Togo	121	2.7	143	2.3
Nigeria	121	2.7	147	2.2
São Tomé and Principe	121	2.7	n.a.	n.a.
Eritrea	126	2.6	111	2.8
Mozambique	126	2.6	111	2.8
Uganda	126	2.6	111	2.8
Ethiopia	126	2.6	138	2.4
Libya	126	2.6	n.a.	n.a.
Comoros	134	2.5	n.a.	n.a.
Liberia	138	2.4	n.a.	n.a.
Cameroon	141	2.3	138	2.4
Kenya	147	2.1	150	2.1
Côte d'Ivoire	151	2.0	150	2.1
Central African Republic	151	2.0	162	2.0
Burundi	158	1.9	131	2.5
Gambia, The	158	1.9	143	2.3
Guinea Bissau	158	1.9	n.a.	n.a.
Angola	158	1.9	147	2.2
Sierra Leone	158	1.9	150	2.1
Congo, Rep	158	1.9	150	2.1
Zimbabwe	166	1.8	150	2.1
Equatorial Guinea	171	1.7	168	1.9
Congo, Dem Rep	171	1.7	168	1.9
Guinea	173	1.6	168	1.9
Sudan	173	1.6	172	1.8
Chad	173	1.6	172	1.8
Somalia	180	1	n.a	n.a

Source : *Transparency International.*

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Table 9 - **African Index of Economic Freedom for 2002-09**

World Rank	Country	2009 Score	2008 Score	2007 Score	2006 Score	2005 Score	2004 Score	2003 Score	2002 Score
18	Mauritius	74,3	72.3	69.2	67.5	67.2	64.3	64.4	67.7
34	Botswana	69,7	68.6	68.5	69.2	69.6	69.9	68.6	66.2
61	South Africa	63,8	63.2	63.4	63.5	62.7	66.3	67.1	64.0
63	Uganda	63,5	64.4	63.7	64.5	63.5	64.1	60.1	61.0
71	Namibia	62,3	61.0	63.2	60.3	61.0	62.4	67.3	65.1
73	Madagascar	62,2	62.4	61.1	61.1	63.2	60.9	62.8	56.8
77	Cape Verde	61,3	58.4	57.1	59.2	58.3	58.1	56.1	57.6
85	Burkina Faso	59,5	55.6	55.1	55.8	56.5	58.0	58.9	58.8
90	Kenya	58,7	59.6	59.9	60.0	58.2	57.7	58.6	58.2
93	Tanzania	58,4	56.4	56.8	58.5	56.3	60.1	56.9	58.3
96	Ghana	58,1	56.7	57.3	55.3	56.3	59.1	58.2	57.2
97	Egypt	58	59.2	55.1	53.9	56.4	55.5	55.3	54.1
98	Tunisia	58	59.3	59.6	56.8	54.8	58.4	58.1	60.2
101	Morocco	57,7	56.4	57.2	52.3	52.6	56.7	57.8	59.0
107	Algeria	56,6	55.7	55.0	55.3	52.7	58.1	57.7	61.0
108	Zambia	56,6	56.4	57.2	57.6	55.6	54.9	55.3	59.6
110	Senegal	56,3	58.2	58.1	56.2	57.9	58.9	58.1	58.6
112	Gambia, The	55,8	56.6	57.4	57.1	56.3	55.3	56.3	57.7
113	Mozambique	55,7	56.6	55.9	53.1	56.0	57.2	58.6	57.7
114	Mali	55,6	55.5	54.7	54.1	57.3	56.6	58.6	61.1
115	Benin	55,4	55.0	55.0	53.9	52.2	54.6	54.9	57.3
117	Nigeria	55,1	55.5	56.0	48.4	48.2	49.2	49.5	50.9
118	Gabon	55	53.6	54.2	55.5	54.2	57.1	58.7	58.0
119	Côte d'Ivoire	55	54.9	56.0	57.2	57.6	57.8	56.7	57.3
124	Rwanda	54,2	54.1	52.4	52.8	51.6	53.3	47.8	50.4
127	Mauritania	53,9	55.0	53.6	55.6	59.1	61.8	59.0	52.5
128	Niger	53,8	52.7	53.1	52.4	54.0	54.6	54.2	48.2
129	Malawi	53,7	53.8	54.0	56.5	54.7	53.6	53.2	56.9
135	Ethiopia	53	53.2	54.4	51.7	51.9	54.5	48.8	49.8
136	Cameroon	53	54.0	55.4	54.3	52.7	52.3	52.7	52.8
140	Djibouti	51,3	52.3	53.5	54.3	56.4	55.6	55.7	57.8
142	Eq. Guinea	51,3	52.5	54.1	52.4	54.2	53.3	53.1	46.4
144	Guinea	51	52.8	54.5	52.9	57.4	56.1	54.6	52.9
151	Lesotho	49,7	51.9	53.1	54.6	54.1	50.3	52.0	48.9
153	Burundi	48,8	46.3	47.1	48.7	-	-	-	-
154	Togo	48,7	48.8	49.7	47.3	48.1	47.0	46.8	45.2
156	Cent. Afr. Rep.	48,3	48.2	50.3	53.9	56.2	57.5	60.0	59.8
158	Sierra Leone	47,8	48.9	47.6	45.8	45.4	43.6	42.2	-
159	Seychelles	47,8	-	-	-	-	-	-	-
161	Chad	47,5	47.7	50.0	49.8	52.0	53.1	52.6	49.2
162	Angola	47	47.1	45.2	43.9	-	-	-	-
165	Guinea Bissau	45,4	45.1	46.8	47.2	46.7	42.6	43.1	42.3
166	Congo. Rep.	45,4	45.2	44.4	43.7	46.1	45.9	47.7	45.3
171	Libya	43,5	38.7	37.0	33.2	32.8	31.5	34.6	35.4
178	Zimbabwe	22,7	29.8	31.9	33.4	35.1	34.4	36.7	36.7
-	Swaziland	59,1	58	60.6	61.8	59.9	58.6	59.6	60.9
-	Sudan	-	-	-	-	-	-	-	-
Sub-Saharan Africa		**55,6**	**54.4**	**54.8**	**54.5**	**55.3**	**55.4**	**55.3**	**55.3**
North Africa		**54,3**	**54.0**	**52.9**	**51.2**	**51.4**	**53.7**	**53.7**	**53.7**

Source: The Heritage Foundation/the *Wall Street Journal*, 2009 Index of Economic Freedom. http://www.heritage.org/Index/.

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Lesotho and Mali have already received country review missions and will be peer-reviewed in 2009.

Two additional dimensions were recently added to the APRM process. The APRM Forum embarked on the examination of the cross-cutting issues (areas of deficiencies identified in all the reviewed countries to date) at its first Extraordinary Summit which took place in Cotonou, Benin, in November 2008. The areas of focus were: Managing Diversities and Xenophobia; Elections in Africa; and Resource Control and Management: Land; and, Corruption. At the heart of the peer review process is the National Programme of Action (NPOA) designed to address the various challenges identified in the four thematic areas. For the first time in the history of the APRM, the January 2009 summit of the APRM Forum was dedicated to a comprehensive and holistic review of progress in the implementation of the National Programmes of Action by countries that have completed the Review Process. Ghana, Rwanda, Kenya, Algeria, South Africa and Benin presented their progress reports.

Launched in 2002, the Extractive Industries Transparency Initiative (EITI)[63] promotes transparency in payments made by extractive companies and revenues received by governments of countries rich in oil, gas and minerals. Among the 26 candidate countries, 18 are African[64]. Central African Republic (December 2008) and Tanzania (February 2009) were the most recent countries to join the initiative. To date, only 7 countries (Cameroon, Gabon, Ghana, Guinea, Liberia, Mauritania and Nigeria) have published reports on their revenues and payments, and some of the reports are not very informative. Moreover, civil society engagement – imperative to a successful implementation of the initiative – is still very limited in many of these countries. African countries need to strengthen their commitments to EITI, embed it in broader governance reform processes, including incorporating revenue transparency into domestic legislation (Nigeria and São Tomé and Principe have taken these steps already).

Economic Governance

Among other key factors such as high commodity demand and prices, improved economic governance, including sound macroeconomic and public expenditure management, and institutional reforms to improve the business environment underpinned good economic performance in Africa prior to the current global downturn. This subsection on economic governance focuses on developments in the business environment in Africa in 2008.

Doing business has become easier in Africa in 2008, as many countries have implemented more reforms in 2007/08 than ever before. In 2007/08, 28 economies implemented 58 reforms as compared to 24 economies and 49 reforms in 2006/07. The pace of reforms is gathering momentum with a 70 per cent rise in the number of countries reforming between 2005 and 2008. Consequently, in 2008 Africa's regional ranking on the pace of reform improved to third place after Europe and Central Asia, up from fifth place in 2007. Three African countries (Senegal, Burkina Faso and Botswana) are among the top 10 in doing business reformers in 2007/08.

Top reformers in SSA[65] in 2008 include Senegal, Burkina Faso, Botswana, Liberia, Sierra Leone and Rwanda. Several regulatory reforms were undertaken in these countries that substantially improved their global rankings on overall ease of doing business by 2008 (Table 10). Starting a business and trading across

63. In 2008 the World Bank initiated EITI++, which is an initiative aiming to complement EITI's focus on transparency in revenues only. EITI++ is a worthwhile advance as it takes a holistic approach to the value chain and aims to provide technical assistance to improve the quality of contracts for countries, and to monitor operations and the collection of taxes and royalties. It further aims to improve resource-rich countries' economic decisions on resource extraction and help manage price volatility and investment of revenues more effectively. However, since EITI++ is in its infancy, it is too soon to tell whether this particular initiative will be able to yield useful information.

64. Cameroon, Central African Republic, Congo, Democratic Republic of Congo, Cote d'Ivoire, Equatorial Guinea, Gabon, Ghana, Guinea, Liberia, Madagascar, Mali, Mauritania, Niger, Nigeria, São Tomé and Principe, Sierra Leone.

65. Only SSA is considered due to data limitation. The data comes from the World Bank's *Doing Business 2009*, which groups North Africa with the Middle East.

borders are the most popular reforms in the region this year. Senegal has improved its business environment and moved up from 168th (DB2008) to 149th (DB2009) due mainly to major regulatory reforms that made it easier to start a business, register property and trade across borders. Burkina Faso implemented a new labour code; introduced a one-stop shop for construction permits that made transferring property much easier.

Botswana cut the time to start a business through computerisation, facilitated trade by introducing an electronic data interchange system; and strengthened investor protections. Liberia facilitated firm entry by simplifying its business registration process and licensing reforms. It also eased access to credit by establishing a borrower database/credit information system held by the Central Bank of Liberia. Starting a business has become much easier in Sierra Leone because of the elimination of some registration formalities such as the requirement to pay taxes upfront and to obtain permission from exchange control. Among other things, reduced time and cost to register property as well as introduction of a single application form for location clearance and building permit made doing business easier in Rwanda.

Table 10 - **Top Reformers of Africa in 2008**

Country	Major areas of reforms	Progress in global rankings on ease of doing business between DB2008 and DB2009	Remarks
Senegal	• Starting a Business • Registering Property • Trading Across Borders	168 to 149	Senegal is world's top reformer in trading across borders
Burkina Faso	• Dealing with Construction Permits • Employing workers • Registering Property • Paying Taxes	164 to 148	Burkina Faso is World's best reformer in Employing Workers
Botswana	• Starting a Business • Protecting Investors • Trading Across Borders • Paying Taxes (simplifying procedures)	52 to 38	
Liberia	• Starting a Business • Dealing with Construction Permits • Getting Credit (Information)	167 to 157	
Sierra Leone	• Starting a Business • Dealing with Construction Permits • Registering Property • Trading Across Borders	163 to 156	
Rwanda	• Dealing with Construction Permits • Registering Property • Trading Across Borders • Enforcing of Contract	148 to 139	

Source: DB 2009 database.

StatLink http://dx.doi.org/10.1787/574541812582

According to the *Doing Business 2009* Report, the best performers in the overall global ranking on ease of doing business in SSA are Mauritius (24) followed by South Africa and Botswana. In fact, Mauritius has joined the top 25 countries in the world in terms of the ease of doing business in 2009. The country has introduced major reforms in starting a business, registering property and getting credit. South Africa implemented two major reforms in the area of business start-up, and paying taxes. Thanks to amendments to the Corporate Act, electronic submission of documents and publications eased business start-up. The government also reduced the tax burden by eliminating the regional establishment levy and regional service levy.

Table 11 - **Some Indicators of the Business Environment, Sub-Saharan Africa vs. Other Regions, 2009**

Region	East Asia and Pacific	Eastern Europe & Central Asia	Latin America & Caribbean	Middle East & North Africa	OECD High income	South Asia	Sub-Saharan Africa
Starting a business							
Number of procedures	8.6	7.7	9.7	8.4	5.8	7.4	10.2
Duration (days)	44.2	22.6	64.5	23.5	13.4	32.5	47.8
Cost (per cent of GNI per capita)	32.3	8.6	39.1	41	4.9	31.9	111.2
Min. capital (per cent of GNI per capita)	37.3	36	3.4	331.4	19.7	0.6	173.4
Employing workers							
Difficult of Hiring Index	19.2	36.4	34.7	22.5	25.7	22.2	39
Rigidity of Hours Index	19.2	48	33.1	41.1	42.2	15	43.5
Difficult of Firing Index	20	32.4	25.6	31.6	26.3	41.3	41.5
Rigidity of Employment Index	19.5	38.9	31.2	31.7	31.4	26.2	41.3
Firing Costs (weeks of wages)	38.6	26.3	53.9	53.6	25.8	66	68.3
Registering Property							
Number of procedures	5	6	6.8	6.4	4.7	6.4	6.8
Time (days)	99	72.1	71.4	37.4	30.3	106	95.6
Cost (per cent of property per capita)	4.1	1.9	6	5.9	4.7	5.9	10.5
Enforcing Contracts							
Number of procedures	37.2	36.4	39.7	43.7	30.8	43.5	39.4
Time (days)	551	425.2	710.1	688.8	462.7	1053	659.7
Cost (per cent of debt)	48.4	23.4	31.3	23.7	18.9	27.2	48.9

Source: *Doing Business 2009* database of the World Bank (accessed on 3 March 2009).

StatLink http://dx.doi.org/10.1787/574545162873

In addition to starting a business, SSA countries also implemented major tax reforms, reflected in reduced corporate income tax rates, a simplified process of paying taxes, elimination of some taxes, revised tax codes, and the time needed to comply with the corporate tax system (DB2009). Four of the 25 world economies that reduced corporate income tax in 2007/08 are from Africa: Burkina Faso, Côte d'Ivoire, Madagascar and Morocco. Mozambique has simplified the process of paying taxes in 2007/08 and along with Morocco and Zambia has joined the group of countries that revised their tax code in the same year. Madagascar and South Africa are among the few world economies that removed some taxes in 2007/08. Cameroon, Congo Republic and Nigeria are among the 10 economies in the world where it takes over 200 hours to comply with the corporate tax system in 2007/08.

Thirteen SSA countries did not undertake major reforms in 2008; six of these countries are landlocked (Burundi, DRC, Ethiopia, Malawi, Uganda and Swaziland), two are islands (Comoros and Seychelles) and one is an oil economy (Sudan). The remaining countries are Guinea-Bissau, Niger, Tanzania and Togo. Some Sub-Saharan African countries are still in the bottom list of the economies where doing business is most difficult: Burundi (177th), Congo, Rep (178th), Guinea-Bissau (179th), CAR (180th) and DRC (181st).

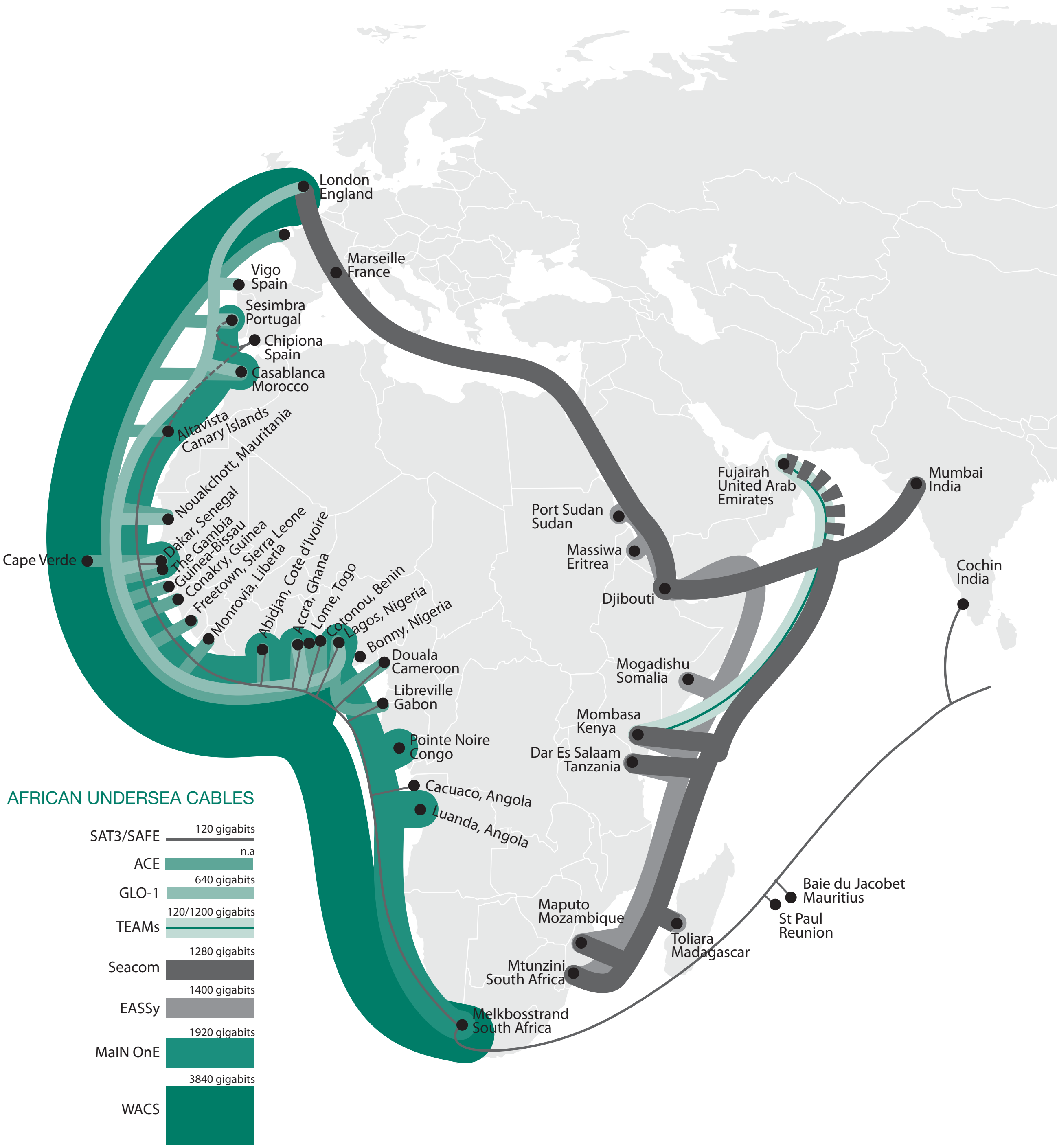
Nevertheless, Africa is still lagging behind in business environment. Despite profound improvements in the pace of reforms to make the business environment more conducive to domestic and foreign investors, the business environment in Africa is still least attractive to firm entry and growth, compared to the rest of the world.

Starting a business in Sub-Saharan Africa is the most difficult in the world. It entails 10.2 procedures that take nearly 49 days to complete with a cost of 111.2 of GNI per capita and a minimum capital requirement of 173.4 per cent of GNI per capita (Table 11). Only Latin America outranks Sub-Saharan Africa in the length of days (65, compared to 49) to complete a business start up, but in Latin America the process costs less and the minimum capital requirements is lower.

Registering property in Sub-Saharan Africa involves more procedures and cost than in other regions. Again, only the Latin America and Caribbean region is comparable. It has the highest "rigidity of employment" index and the highest costs of firing employees, implying that the labour market is highly inflexible. However, it is worth mentioning that some African countries like Burkina Faso have joined the world's top reformers in employing workers in 2008. Access to credit is the most difficult, compared to other regions of the world, mainly because of the lack of credit information and collateral requirements. For instance, Sub-Saharan Africa has the lowest ranking in terms of a credit information index (1.4) that measures the rules affecting the scope, access and quality of credit information. Nevertheless, the sub-region is close to the world average in terms of contract enforcement, duration of bankruptcy procedure and the subsequent recovery rate. Mozambique is the world's top reformer in enforcing contracts in 2008.

Part Two

Innovation and ICT in Africa



Africa needs laptops, PCs, fibre optic cables and mobile phones to fuel a communications revolution. It is a revolution that proves no one Information and Communication Technology (ICT) system fits the entire globalised world. Companies and governments are having to adapt to people who want phones that adapt to their often limited resources.

Fixed line telephones have never been a fixture in Africa. The mixture of far-flung villages and scattered cities teeming with low wage families was too much for companies who could easily lay or hang copper wire cables across Europe and North America.

The mobile phone, easy to carry around, and whose infrastructure is cheaper to deploy, has led Africa's revolution. It is the only continent in the world where mobile phone revenues are higher than fixed line. It has the world's fastest growth rate in cellphone usage and governments are reaping the benefit in increased taxes. People in villages and packed cities want to send SMS — Short Message Service — texts and they want to talk, but they want to do it cheaply. So telecoms companies are offering free roaming packages between countries, a world first, and technology to meet the demand. There is e-banking and farmers get market prices on text messages.

So Africa has proved that mobile phones can be acquired and run on limited wages, but the spread of internet has been far slower and general access to ICT services is much lower than the rest of the world and this report will look at the bottlenecks impeding growth. The global economic crisis, lack of connectivity to the rest of the world, inadequate regulation that impedes the spread of the innovative business models and financing all need to be studied. Africa needs to build the skills that drive the innovation behind the African-style e-revolution.

The European Union's Lisbon Strategy has identified Research and Development (R&D) expenditure, structural reforms and labour market de-regulation as the key to rapid uptake of new technology. Improving education to speed up the move to the knowledge economy and boost growth is also crucial to the strategy.

In Africa, it is now believed that knowledge does not just come from R & D, but also interaction between indigenous practices and customs and new technology which can inspire new products and services, such as the e-banking. Liberalisation has helped this trend. Major corporations such as Intel, Microsoft and Nokia have used anthropologists who work with local people to help develop new services.

In line with trends in the Organisation for Economic Development (OECD) and Latin American countries, information and communications technology policies are being integrated into broader science, technology and innovation programmes in Africa. A 2007 African Union (AU) summit adopted a science and technology plan of action. The New Partnership for Africa's Development (NEPAD) is developing a science and technology programme. The AU summit asked the UN Educational, Scientific and Cultural Organisation (UNESCO) to help and talks are now being held between the OECD, UNESCO and the World Bank. UNESCO is supporting a review of science, technology and innovation in 20 countries. It also co-ordinates United Nations (UN) - wide efforts through the UN Science & Technology Cluster - to support NEPAD (see Box 1 for the UN Economic Commission for Africa's (UNECA) contribution). Countries are pushing their own programmes, some with international organisations. Tanzania worked out a science and technology programme with UNESCO and the UN Industrial Development Organisation (UNIDO). Kenya, Mozambique and South Africa also have ambitious programmes while Algeria, Botswana, Mauritius and Rwanda have each set a goal of becoming regional information and communications technology hubs.

Box 1 - Science, Technology and Innovation Can No Longer be Ignored in Africa

Innovation is increasingly becoming an important element in economic growth, and a key driver for the emerging knowledge economy. UNECA is mindful of the fact that for innovation to occur in African countries, scientific collaborative R&D projects need to be strengthened to support technology transfer to Africa and involve African researchers in localising innovation. For example, an ECA-supported ICT R&D project, known as the VarsityNet initiative in partnership with the Department of Computer Science, Addis Ababa University (AAU) in Ethiopia saw the development of an e-government platform based in the Amharic local language for web-based, multilingual and multi-alphabet, customizable document exchange platform to be used by local and central governments in the country. This research initiative led to the growth of the Ethiopian Open Source Community and the creation of the Ethiopia Free and Open Source Network. This environment also saw a marked increase in open source localisation projects in many other Ethiopian colleges, but contributed to the research capacities of the Department in no small measure with respect to software development. Similarly, the AAU also devised a prototype to enable medical practitioners to enter clinical data using mobile devices as well as to access patients' records using the same devices. These serve as an innovation tool for medical institutions, once adopted. This example shows how important innovation is to the African development process and how ICTs can become innovative agents as well. ICTs also offer the power for unleashing and supporting African technological innovation.

ICTs can assist African scientific communities gain better access to scientific knowledge, which would not only be a source of innovation in itself but another way of fostering an innovative environment for scientists. Through ICTs scientists could participate in international projects related to climate change, biodiversity, desertification and other issues of critical importance to Africa. UNECA has launched the "Access to Scientific Knowledge in Africa (ASKIA)" initiative to support and promote access to scientific knowledge by the African scientists, decision makers, students and researchers. It will mainly provide a mechanism for African scientists to tap into global scientific knowledge as well as the production of indigenously owned knowledge that supports economic and industrial growth. Therefore, access to infrastructure, such as broadband access for African universities should become a priority.

According to a recent UNECA report commissioned by the ICT, Science and Technology Division (ISTD), entitled *Promoting Science, Technology and Innovation for Sustainable Development in Africa*, written by Prof. Mohamed Hassan, President of the Third World Academy of Sciences, "Africa does not have the scientific and technological capacity to effectively address the challenges that it confronts. Equally important, it lacks the innovative capacity to devise solutions to overcome these challenges". This is the reason why STI has become an area that Africa cannot continue to ignore any longer, and the rationale for the creation of the ICT, Science and Technology Division of UNECA to address these challenges in African development.

Source: Aida Opoku-Mensah, Director ICT, Science and Technology Division (ISTD), UN Economic Commission for Africa (ECA).

Some science and technology advocates say innovation does not get a high enough priority when donor nations are pressing policies. The UN's Millennium Development Goals do not explicitly mention innovation but do acknowledge its importance by including indicators related to technology access such as the number of fixed-lines, mobile phone subscribers and internet users. Most Poverty Reduction Strategy Papers (PRSPs) for heavily indebted countries do not make full use of innovation and information and communications technology policies unless there is strong local support. In Ghana, for example, with the support of the Kwame Nkrumah University of Science and Technology, innovation was included in the country's PRSP. The 47 countries reviewed in this *AEO* have national ICT policies but they will need support from the donor community and private sector to get them implemented and to help, NEPAD is working on an African Science, Technology and Innovation Indicators Initiative (ASTII).

There are conditions to be taken advantage of and faults to be addressed, however, in the Africa technology debate:

- Science, technology and innovation (STI) policies must be integrated into broader strategies. Innovation and ICT are not effectively integrated into the policy priorities of the donor community. Poverty Reduction Strategy Papers (PRSPs) fail to fully include innovation unless there is strong local support. Development partners must strengthen national ICT policies in Africa.
- Regulatory systems need to improve. Government regulation plays a key role in information and communications technology since most investment comes from the private sector. Regulatory authorities too often favour incumbent fixed-line operators, who have typically problems to make profits, over new entrants and this impedes competition and private investment. However, many countries have introduced better practice to favour incumbent operators through "converged licenses", which allow wider flexibility in choosing technology and through the use of symmetric termination charges. These have created more equality in the regulatory arena between fixed-line and mobile operators.
- Despite the international financial crisis, telecommunications in Africa remains an attractive business. Preliminary evidence suggests that ICT investment in Africa will be less affected by the crisis than other regions, as was the case after the Internet bubble burst in 2000-2001. Several deals were concluded in late 2008 and early 2009. However, the prospects for new deals are fading and total capital expenditure is falling. Price competition will intensify in coming months and most multinational operators will consolidate their presence.
- New infrastructure connecting Africa to the rest of the world will soon be operational. Many high capacity international backbone network projects are being built to connect Africa to the rest of the world on an open access basis. Wholesale tariffs now at USD 2 000-10 000 for the West coast fibre optic submarine cable, SAT3 and at USD 3 000-5 000 for satellite connection, will start falling to within the range of USD 500-1 000 by late 2009. On the east coast, the first fibre optic submarine cables will be ready in the third quarter of 2009. On the west coast, five fibre optic submarine cable projects and two satellite projects have been announced. Private African capital is behind much of this but there are also public-private partnerships with international investors.
- Improved connectivity will not be enough to reach more users. On top of better international networks, inland backbone trunk networks will be needed and retail prices will have to come down as wholesale tariffs have. Some experts fear that fixed-line operators in Africa will not pass on cost reductions to customers, using them instead to bolster revenues.
- In terms of regional integration, inland regional backbone networks are being built to link major cities in eastern and southern Africa and in landlocked central Africa. Algeria, Botswana, Mauritius and Rwanda are implementing projects to become ICT regional hubs. Pan-African mobile operators are promoting free roaming services, making Africa the first region in the world to offer this innovative service.
- Innovative business models prove it is possible to reach the poor on a commercial basis. Most mobile phone communications in Africa are pre-paid. Micropayments (less than USD 1) to charge mobile accounts are also widespread in Africa. Microfinance business models have been developed in Uganda and Rwanda, and phone sharing is common. SMS messages allow

communications for a fraction of ZAR one cent. Advertising-funded services are very successful in South Africa. New and environmentally friendly technology and energy are enabling operators to reach new areas in Africa.

- Governments should privatise the remaining state-owned fixed-line incumbents since private investors can bring the technological know-how necessary to upgrade their networks. This reform has to be coupled with a regulatory environment that is conducive to attracting private investment in order to reverse the fixed-line's tendency to steadily lose business. Innovative good practice in the form of "converged licenses", which are technology neutral, and the symmetric regulation of termination charges, could assist fixed-line operators in their constrained financial situation, while sustaining a level-playing field between fixed and mobile operators.
- International co-operation helps technology and innovation. Telecommunications investment is increasingly dominated by countries such as Kuwait, South Africa and Egypt. China has been providing low cost hardware and credit to under-capitalised state-owned operators, while Indian institutions are building a 53-nation Pan-African E-Network under an African Union initiative. US-style prepaid deals and European SMS messages are extremely popular. E-trade co-operation with the European Union and United States is increasingly important to meeting trade regulations. UK and French companies have also been making large telecommunications investments in Africa. But South-North

Box 2 - **Policies on Innovation Science and Technology at Headquarters Must Reach the Field**

Sweden has supported research capacity strengthening in developing countries since the 1970s. Tanzania is one of the largest recipients of Swedish aid with a volume of support to research of approximately USD 8 million/year. Since 2007 Sweden has emphasized the importance of science, technology and innovation (STI) in talks with Development Partners (DPs) and the Tanzanian government. Many development partners have programmes that support research in the region and in the country that are usually managed and co-ordinated from headquarters (HQ), but issues concerning STI are seldom raised and streamlined at country level. There are many, though scattered, initiatives to be harmonized and used in a more synergistic and effective way.

As a result of the Paris agenda of aid effectiveness, support through programmes and projects has shifted to general budget support (GBS). However, Tanzania's budget does not have yet a specified line for research which remains an orphan and un-identified sector. Fourteen DPs are providing GBS and, according to Tanzania's Joint Assistance Strategy, have narrowed their field of action to three to four sectors, none of them dedicated to research or ICT exclusively. Although Tanzania's poverty reduction strategy 2005-2010 recognizes the importance of STI for economic growth and the need to increase financing and expand higher education and technological innovation, implementation measures are not well defined and most emphasis is given to promotion of ICT as a cross-cutting issue.

STI is today at the core of many development agendas, the main issue is to move from recognition to implementation and results. A political dialogue is needed to ensure that STI activities are clearly incorporated in poverty reduction strategies and that results can be measured. In the face of immense common challenges a start could be made by providing clear guidelines and building support for field and programme officers.

Source: María Teresa Bejarano, First Secretary, Higher Education and Research, SIDA, Embassy of Sweden, Tanzania.

innovation can also work the other way. Low-cost "classmate computers" which were first sold in Nigeria are now available in Europe and the United States.

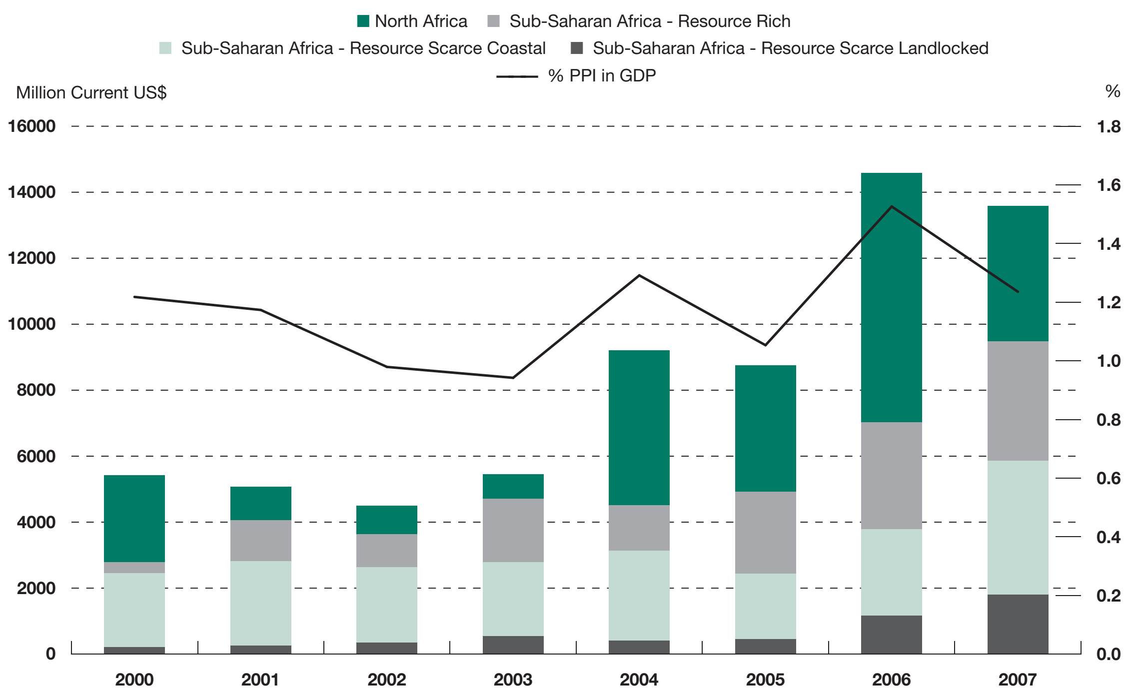
- New technology is improving government service efficiency and education quality, and cutting the cost of doing business. Under a NEPAD initiative, all primary and secondary schools are to become e-schools with computers, software and internet access by 2025. E-banking and e-agriculture, both building on indigenous practices, have reduced transaction costs and improved the balance of supply and demand in farmers' markets.

Technology Infrastructure and Services in Africa

The private sector has driven the expansion of information and communications technology in recent years. Figure 1 shows the rapid growth in investment with private participation in African telecommunications from 2000 to 2007. Resource scarce landlocked countries in Sub-Saharan Africa attract the lowest volume of investment. These countries have much lower levels of income, larger rural populations, and lower educational levels than other regions. Oil producer Nigeria has been increasing its dominance, and in 2007 accounted for well over half of total investment in resource rich countries. South Africa's contribution to the resource scarce coastal total has been falling. Between 2000 and 2003, South Africa accounted for 60 per cent of average investment. From 2004 to 2007 this decreased to 22 per cent. North African countries which have higher levels of income and a smaller rural population, accounted on average for 44 per cent of investment in Africa from 2004 to 2007.

Overall investment with private involvement represented an average 1.3 per cent of Africa's Gross Domestic Product (GDP) between 2004 and 2007. In absolute terms, in 2004-2007 Africa attracted on average

Figure 1 - **Telecommunications Investments with Private Participation (PPI) in Africa**



Source: World Bank PPI Database 2007.

StatLink http://dx.doi.org/10.1787/568243108636

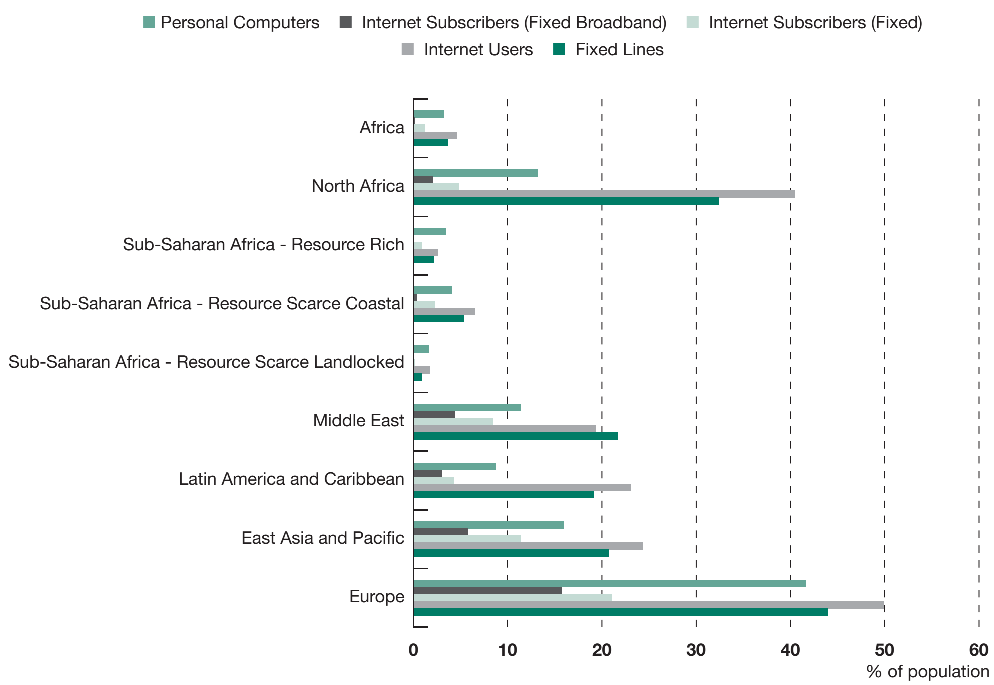
2004-2007 USD 11.5 billion, behind OECD and Central Asia with USD 19 billion and Latin America and Caribbean with USD 13.3 billion, and slightly ahead of South Asia with USD 10.8 billion. East Asia and Pacific countries lagged behind on USD 5.3 billion. Most African countries have extremely low rates of access to ICT services, however, compared to other world regions. According to the Networked Readiness Index 2007-2008 developed by the World Economic Forum and L'Institut Européen d'Administration des Affaires (INSEAD), Sub-Saharan African countries came bottom of the worldwide rankings. North African countries ranked higher, particularly Tunisia with Egypt and Morocco improving their scores. South Africa and Mauritius led the Sub-Saharan rankings.

Access to information technology: Africa in the world rankings

Africa has the lowest internet penetration rate in the world (see Figure 2). In Sub-Saharan African countries, for internet users the penetration rate is below 7 per cent and for broadband it is under 1 per cent. In Latin America and Caribbean, and East Asia and Pacific countries, the figure is around 20 per cent for internet users. North African countries are relatively better-off than Sub-Saharan counterparts with a rate of 40.4 per cent. However, even in North Africa the penetration rate for broadband subscribers is only 2 per cent. In Europe, in contrast broadband penetration is about 15 per cent. In Africa most internet is by low speed dial-up connections which are concentrated in Egypt, Kenya and South Africa. Faster speed broadband connections through Asymmetric Digital Subscriber Lines (ADSL) are found in South Africa, Egypt, Morocco and Algeria.

The penetration of fixed-line services varies significantly. In some North African countries there is a penetration rate of up to 32 per cent, while in Sub-Saharan Africa it can be as low as 3 per cent and this is a major cause of the current difficulties of fixed-line

Figure 2 - Internet in Africa through Fixed-Line



Source: International Telecommunication Union World Telecommunication/ICT Indicators 2008. Yearly averages for 2005-2007.

StatLink http://dx.doi.org/10.1787/568245266681

Figure 3 - **Market Penetration and Growth Rates for Mobile Telephony**

Source: Wireless Intelligence (www.wirelessintelligence.com).

StatLink http://dx.doi.org/10.1787/568250253710

operators. In other regions of the world, fixed-line operators had a strong base when mobile penetration arrived. In Africa, the low penetration rate and limited availability of fixed lines made it easier for new mobile entrants to make an impact.

Africa had the world's fastest growth in new mobile phones in 2008. In some Sub-Saharan countries there was growth of about 40 per cent yet overall penetration rates remain low. North African countries, on the other hand, are reaching mature levels with an average penetration rate of 93 per cent, so their average annual growth rate is down to 19 per cent. There are also significant differences between Sub-Saharan countries, with penetration rates in resource rich and resource scarce coastal countries at about 50 per cent, compared to 15 per cent in resource scarce landlocked countries.

Among the big coastal African nations, Nigeria (60 million), South Africa (47 million), Egypt (37 million), Algeria (31 million) and Morocco (24 million) had the biggest number of subscribers in 2008. Among the landlocked countries, Sudan, Congo and Uganda share the first three places with 10, 8 and 7 million subscribers respectively. With Tunisia's market of 9 million subscribers, four North African countries are among the largest mobile markets in Africa.

But when using market penetration as the measure, Libya, Cape Verde and Comoros have the highest coverage among coastal countries, having reached levels above 100 per cent in 2008. Similar levels have also been reached by Gabon, Algeria and Tunisia. In contrast, in the landlocked countries, the three best performing nations, Lesotho, Sudan and Mali, barely average penetration rates of 25 per cent. At the other end of the scale, Ethiopia, Eritrea and Somalia with a combined population of 92 million people have a penetration rate of just 3.4 per cent. Burundi, Central African Republic and Rwanda have between 5 and 10 per cent.

Box 3 - South-South Co-operation: Large Scale Broadband Wireless Network in Libya

To give customers a wide range of easy-to-use wireless broadband services, Libya's state-owned internet service provider is launching a large scale wireless network. ZTE Corporation of China announced in January 2008 its agreement with Libya Telecom to help build a commercial Worldwide Interoperability for Microwave Access (WiMAX) network. ZTE is one of China's largest manufacturers of telecommunications equipment and is quickly becoming one of the largest suppliers of WiMAX equipment. ZTE provides Internet Protocol (IP) WiMAX product solutions including compact and high-capacity base stations, access gateway, network management system, Multiprotocol Label Switching (MPLS) and IP Multimedia System (IMS).

The network is expected to cover 18 cities. By early 2009, it provided access to 300 000 business and residential subscribers. There are 51 000 broadband subscribers in Libya and about 170 000 consumers that depend on slow dial-up connections. The new service is expected to increase broadband take-up, though the USD 30 per month cost is twice current tariffs. These prices should fall as more customers join the service.

Source: Author.

Operators have concentrated investment on second generation networks in Africa and they will now probably recover this money before getting into third generation high speed networks, even if licences are being granted. As of early 2009 there were only 5 million subscribers — 2.3 per cent of the total subscribers in Africa — for services with Wideband Code Division Multiple Access (WCDMA) and WCDMA High Speed Packet Access (HSPA). The heaviest investment has been in South Africa. The country has three WCDMA and two WCDMA HSPA networks that in 2008 accounted for 45 per cent of third generation network connections in Africa. South Africa, Libya (see Box 3) and Egypt make up to 82 per cent of third generation connections in Africa.

Second generation Global System for Mobile (GSM) communications account for 96 per cent of subscriptions. Code Division Multiple Access (CDMA) technology is only used by 1.5 per cent, but some operators such as Expresso in Sudan have adopted CDMA because it requires less capital investments.

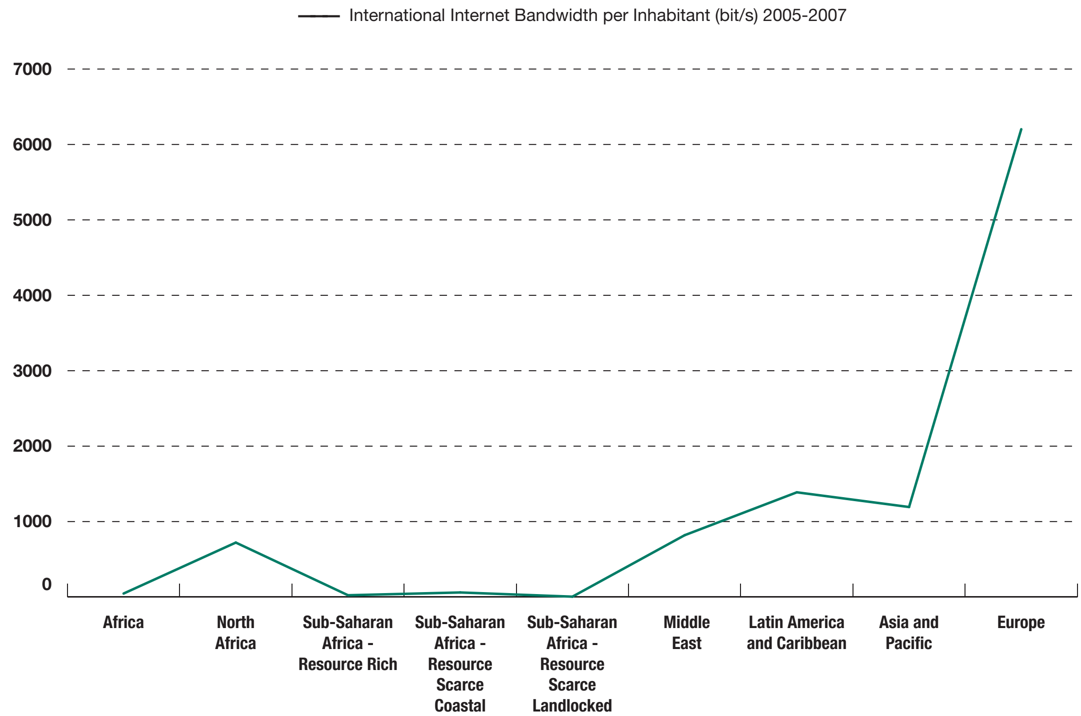
Connecting Africa to the World

Sub-Saharan Africa has the highest internet prices in the world. According to International Telecommunication Union (ITU) and World Bank estimates, the average price of a broadband connection in Sub-Saharan Africa is about USD 110 for 100 kilobit per second. In Europe and Central Asia the price was USD 20 while in Latin America and the Caribbean it was USD 7. Middle East and North African countries also pay below USD 30.

But there is huge potential demand. A 2006-2007 study of 16 Sub-Saharan countries found that in Cameroon, Kenya, Nigeria, Senegal and South Africa more than 10 per cent of the surveyed population use internet. There is a large potential for growth since internet awareness remains very low. In Burkina Faso, Tanzania, Ethiopia, Rwanda, Uganda and Mozambique, less than 10 per cent of the surveyed population knew what internet is. In Namibia, Ghana, Botswana, Benin and Côte d'Ivoire, less than 30 per cent knew what internet is. The telecommunications industry is investing in international bandwidth to meet this potential demand and has currently reached annual growth rates of 96 per cent, compared to a global average of 51 per cent, according to the Telegeography 2008 survey.

The low internet penetration rates and high tariffs stem mainly from a lack of high-capacity international networks (see Figure 4). This allows operators to charge prices far above the marginal cost of the service. There is currently only one submarine fibre optic cable off the West Africa coast, SAT-3, that provides a high quality international service and access is limited to members of the consortium which built the link in 2002. Since mid-2007 operators can purchase capacity at tariffs that have been as high as USD 25 000 per mega bit per second (MBPS) each month and now range between USD 2 000 and USD 10 000 MBPS per month as the cable operators anticipate new competition. Depending on the volume of traffic, South Africa´s wholesale prices are lower while Cameroon and Gabon pay the highest tariffs. Except for Ghana and Benin, it is often impossible to buy a link to SAT-3 and so it has unused capacity.

Figure 4 - **International Internet Bandwidth**



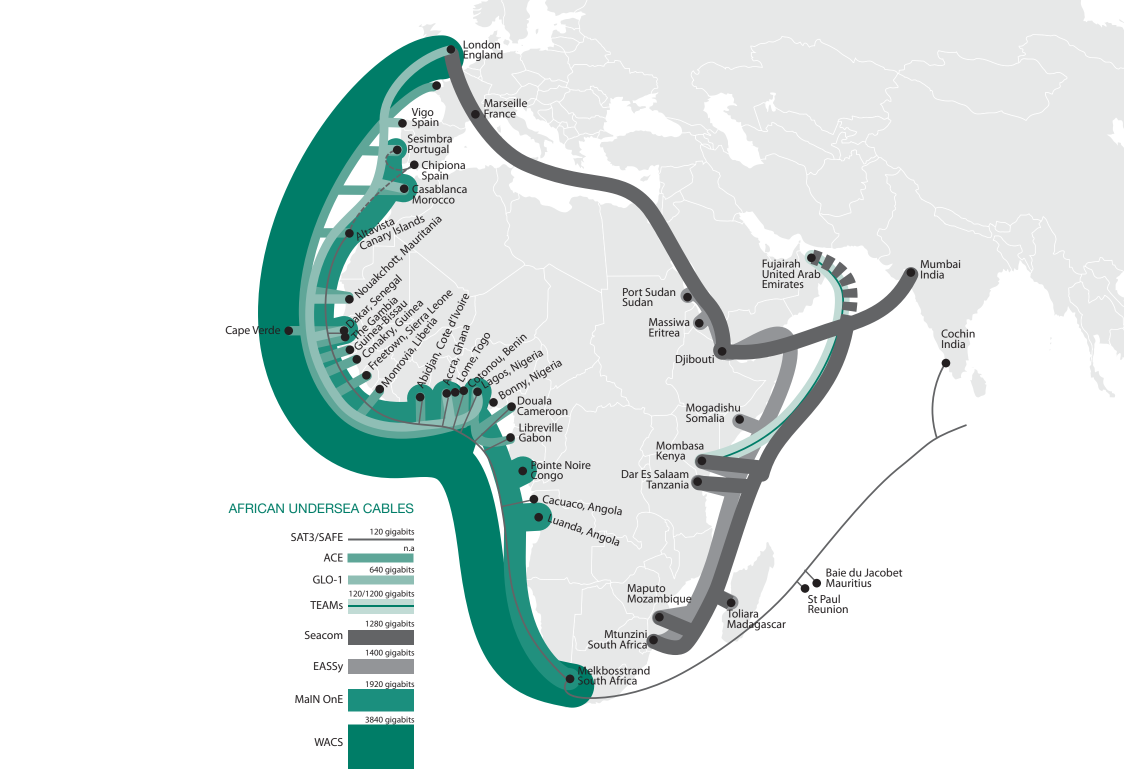
Source: International Telecommunication Union World Telecommunication/ICT Indicators 2008. Yearly averages.

StatLink http://dx.doi.org/10.1787/568251231514

Africa relies on satellites and Very Small Aperture Terminal (VSAT) earth stations for most of its connectivity. This results in high prices — though tariffs often of USD 3 000 – USD 5 000 are often lower than SAT-3 — and the applications are slow compared to other technologies. A web page request can take up to 16 seconds to complete. Intelsat, the world's largest commercial satellite service provider, provides full coverage in Africa. Thuraya, which has Middle East and North African telecommunications and investment companies as shareholders, gives coverage to North and Central Africa.

Moves are being made in west, east and southern Africa to increase the international networks (see Figure 5). But for now, East and Southern Africa relies on satellites and has just 0.07 per cent of the world's international bandwidth capacity. The 10 000 kilometer long East Africa Submarine Cable System (EASSy) was to connect 21 countries from South Africa to Sudan by 2008. Prices were expected to fall to USD 500 - USD 1 500 per Mbps/month under an open-access scheme where every service provider could purchase at the same price, whether or not they were investors. The USD 263 million project has suffered delays largely

Figure 5 - **Sub-Saharan Africa Undersea Cables Projected for 2011**



Source: Steven Song www.manypossibilities.net

StatLink http://dx.doi.org/10.1787/568260638546

due to disagreements over management of the consortium.

While EASSy has been delayed, other projects have advanced. Seacom is a 17 000 kilometer submarine fibre optic cable costing USD 650 million scheduled to launch in June 2009 and link South Africa with Mumbai in India, Marseille in France and London via Kenya, Tanzania, Mozambique and Madagascar (see Box 4). Kenya is also working with Etisalat to connect its coastal city of Mombasa to Fujairah in the United Arab Emirates. Alcatel-Lucent has been awarded USD 82 million to lay the 4 500 km fibre-optic cable for the East African Marine System (TEAMS). SEACOM and TEAMS will begin operations in Kenya in the second quarter of 2009 with an open access policy and prices of USD 500 -USD 1 000 per MBPS/month.

The World Bank has allotted USD 424 million to boosting regional networks in eastern and southern Africa under the Regional Communications Infrastructure Programme (RCIP) which it hopes will increase traffic by at least 36 per cent a year and cut bandwidth costs by one tenth. Kenya, Burundi and Madagascar are involved in the first phase of RCIP, involving USD 164.5 million. By the end of the programme, it is expected that all capitals and major cities in eastern and southern Africa would be linked to competitively priced high bandwidth. The RCIP accounts for more than 10 per cent of total World Bank support to Africa. The African Development Bank (AfDB) is also helping infrastructure development (see Box 6).

On the West coast, Ghana, Nigeria and Senegal have the most significant potential demand for international capacity. Up to seven investment groups have said they would add international capacity in the region but only a few will succeed. Globacom, the second oldest operator in Nigeria, is expected to lay a 9 500 km fibre

Box 4 - SEACOM: Private African Investment Running Ahead of Donor Funded Initiatives

SEACOM is a 1.28 Tbps capacity undersea cable linking South and East Africa to Europe and Asia via the Red Sea, Egypt and the Mediterranean. The EASSy undersea fibre optic cable project in comparison goes from South and East Africa to Sudan. SEACOM plans to deliver open access to capacity and landing infrastructure which is expected to drive international backbone prices down by 90 per cent. The main difference between these systems is that EASSy is a consortium structure for carriers and is funded by International Finance Corporation and other Development Financial Institutions and well as 20 telecommunications operators, while SEACOM is fully privately owned with a 76.25 per cent African ownership. SEACOM's African shareholders (Industrial Promotion Services, Venfin, Convergence Partners and Shanduka) are not telecommunications operators but have sector knowledge and relationships. Their international partner, Herakles Telecom has management expertise. Project finance is provided by Nedbank capital and Investec Bank. While EASSy has suffered from several delays in implementation due to the lack of consensus among parties, SEACOM's deployment is already underway with ships laying cable and cable stations under construction in January 2009. The Ready for Service date is the 27 June 2009.

Source: Author from SEACOM and EASSy Status Reports in December 2008 and January 2009.

Box 5 - Regional Integration in Landlocked Countries

If communication costs remain high, the price of financing trade and ultimately of goods is likely to remain high as well. Broadband networks support regional integration by stimulating cross-border trade and investment among neighbour countries and by strengthening institutional relationships. The World Bank and the AfDB are in the process of committing about USD 300 million for the establishment of a regional backbone project in Central Africa (10 countries involved), the Central African Backbone (CAB), which is expected to decrease the prohibitively high telecommunications costs in landlocked countries.

Source: Yann Burtin, Senior Operations Officer, Information and Communication Technologies Department, The World Bank Group.

Box 6 - AfDB's Support to ICT: African Capitals Connected by Fibre Optic in 2012

The potential contribution of ICTs to poverty reduction, economic growth, productivity and efficiency of public services is well recognized. However, Africa lags behind other regions in ICT penetration and according to the ITU (2009) their rankings on the national ICT Development Index (IDI) are still among the lowest in the world. Accordingly, between 1995 and 2005, the Bank invested USD 440 million in telecommunications infrastructure in Africa and USD 120 million on e-applications such as education, health, agriculture and rural development in order to help close the gap.

Subsequently, the Bank in the past two years has made significant steps towards getting more actively engaged in African ICT. Most notable are the commitment to realizing the Connect Africa Summit goals from Africa Head of State meeting that took place in Kigali in October 2007. The goals included the interconnection of African capitals through broadband links by year 2012 and promoting adequate policy and regulatory environments in order to encourage new ICT infrastructure investment. The Bank also contributes, alongside the AU and Regional Economic Communities, and through supporting efforts in policy harmonisation and infrastructure development, to the realisation of other regional and global initiatives. In this respect AfDB is one of the main actors in the implementation of the ICT policy and regulatory harmonisation framework that was endorsed by African ministers responsible for ICTs at a meeting held in Cairo in May 2008.

In order that the Bank strengthens its current position to deliver its commitments and make a valuable contribution towards the continental economic objectives, a focused ICT Operational Strategy was developed in 2008 and became operational in October 2008 after its approval by the Bank's Board of Directors. The objective of the ICT operations strategy is to make an important contribution to poverty reduction and economic growth of Regional Member Countries (RMCs) by increasing the Bank's role in extending access to ICT infrastructure, stimulating private sector investment and ultimately enhancing good governance through the efficient delivery of public services. The Strategy in the short run (first 24 months), would concentrate on two pillars – direct finance of broadband infrastructure and support to Africa's efforts to attract private financing flows through improvements of the policy and regulatory frameworks. The Bank has recently agreed a USD 14.5 million loan for the fibre optic submarine cable EASSy in the east coast and a USD 50 million loan for the satellite project RASCOM. The Bank is also financing feasibility studies for regional broadband networks. In the medium term, the Bank plans to work towards stimulation of the demand for ICT networks and services by promoting e-government and connectivity to schools, universities, health institutions and through customized response to the needs of Fragile States, Low and Middle Income Countries.

Source: African Development Bank ICT Operation Strategy.

optic link to Lagos in 2009 later going to Accra, Ghana and Dakar, Senegal. The GL01 project, costing USD 150 million, is risky as the operator's current traffic volume in Nigeria, Benin and Ghana does not justify the investment. MaIN One is another Nigerian project implemented by Mainstreet Technologies to link Portugal with Lagos and Accra by May 2010 with USD 200 MBPS/month wholesale prices. The link is ultimately expected to go on to South Africa and cost USD 865 million. The West African Cable System (WACS) is supported by the largest operators in South Africa, MTN, Neotel, Telkom and Vodacom, which have traffic along the West coast. Only landing stations in Lagos and Accra are planned.

The Africa Coast to Europe (ACE) project supported by France Telecom and 14 African operators is expected to connect France to Gabon by 2011. The cable will be built by a France Telecom-managed consortium. The Other Three billion (O3b) satellite, costing USD 750 million, is expected to be in service by 2010 with prices around USD 700 MBPS/month. It will be able to download web pages in 4 seconds (see Box 7). NEPAD's Uhurunet plan for an undersea fibre optic link around Africa does not have much support. Finally, Thales Alenia Space is constructing the first pan-African telecommunications satellite, Rascom. Originally planned for the 1990s, it is now only expected to provide services after 2010. The West African Festoon System (WAFS) aims to connect countries along the west coast from Nigeria to Namibia. It is expected to have the same governance structure as the SAT-3 cable and also be managed by Telkom SA so WAFS might not offer open access.

Some alternative networks operate with mixed success. More than six electricity companies have received a licence to sell capacity directly or through another company. A 2 000 km fibre optic cable is owned by Société Nationale d'Electricité (SNEL) in Democratic Republic of Congo. These have been badly hit by the country's war. The World Bank is spending USD 315 million in Democratic Republic of Congo, including USD 33 million on a fibre-optic cable

Box 7 - Connecting the Other 3 billion

For network operators in emerging markets, providing a user-friendly, cost-affordable internet service can be very challenging. The founder of O3b Networks, Greg Wyler, learned first-hand as he set out to build Terracom, and Internet Service Provider, in Rwanda in the 2003.

As Mr. Wyler quickly learned, "there was no shortage of last mile solutions available. The challenge was addressing the 'first five thousand miles' ". Located in Central Africa, Rwanda is landlocked and has no immediate access to the undersea fibre cable. For most other developing countries, they are simply bypassed.

Recognizing the lack of affordable connectivity options available for emerging market operators, Mr. Wyler formed O3b Networks placing a constellation of satellites in 2010 in a Medium Earth Orbit (MEO) at approximately 8 000km above the earth unlike a traditional GEO stationary satellite orbit which is located some 35 000km above the earth. Being in a MEO orbit means that travel delay round trip from an O3b satellite will be 130 ms which complies with the ITU standards for a voice grade network whereas a GEO orbit would induce a 400 ms delay. In terms of affordability, in October of 2008, O3b Networks announced services at USD 700 per Mbps/month whereas using GEO stationary satellite capacity had traditionally been in the USD 3 000 - USD 5 000 per Mbps/month price range.

Beyond providing a trunking solution to the global fibre infrastructure, the O3b network can also be used to help operators expand their wireless networks into remote regions. By providing cellular backhaul capacity, O3b allows operators the ability to make the internet and IP services ubiquitous throughout their service region.

Source: Mike Serrano, Director of Marketing, O3b Network.

network. This could be expanded to other members of a proposed Southern African Energy Pool. Escom in Malawi will soon have fibre-optic cable links to Mozambique and the Tanzania Electric Supply Company (Tanesco) says it will build a new national grid with spare capacity used for telecommunications.

Africa telecoms attract investors despite the financial crisis

The financial crisis is likely to speed up consolidation of telecommunications markets in Africa. While small operators struggle to finance network expansion, large cash-flush operators such as South Africa's MTN, Egypt's Orascom Telecom, Kuwait's Zain, France's Orange and UK's Vodafone will be able to move in to African markets. Zain has increased its capital by USD 4.49 billion and says it will spend up to USD 4 billion in Africa before 2010. Business is still being done despite the crisis such as the sale of Ghana Telecom in August 2008, ONATEL in Burkina Faso in December 2008 and SOTELMA in Mali in January 2009. Millicom's new licence in Rwanda was awarded in November 2008; Orange's new licence in Togo in November 2008 and in Uganda in October 2008, and Orascom Telecom purchased Cell One Namibia in January 2009.

Prospects for the future are uncertain however. The share price of mobile operators in Africa has fallen heavily: MTN by 20 per cent this year and Millicom by 66 per cent. With growth slowing for the past three years, price competition will increase, reducing the high profits that have sustained capital investment. This means third generation networks will be probably delayed.

Foreign Direct Investment (FDI) inflows into African telecommunications were not greatly affected by the

Figure 6 - Connection Growth Rates for Mobile Telephony in Africa

Source: Wireless Intelligence (www.wirelessintelligence.com). Q = quarter

StatLink http://dx.doi.org/10.1787/568284004572

Box 8 - Mobile Telephones in Africa: The Impact of the Crisis

Africa is the fastest growing cellular market in the world. It represents around 10 per cent of the total cellular connections worldwide with 450 million connections expected by end of 2009. However, despite the tremendous growth that most mobile operators are reporting in the region, the African telecom sector is not immune to the global economic downturn.

The majority of the fastest growing markets are located in Northern and Western Africa which represent altogether 63 per cent of the total connections in the region. Most of the highly competitive markets are in Nigeria, Zambia, Tanzania, Congo (Kinshasa), Kenya, Algeria, Tunisia, Ghana and South Africa. Those markets have been generating most of the growth and value in the region and are likely to be impacted by the global economic crisis.

The future of mobile operators in most markets depends on their ability to maintain capital (Capex) and operating expenditure (Opex) levels to meet their long term goals. Operators have to expand second generation GSM and third generation WCDMA network coverage, meet their marketing expenses and increase the number of points of sale and retailers. In most fast growing and highly competitive markets, capital expenditure can represent up to 50 per cent of total revenues generated by mobile operators and any sudden decrease in Capex will impact operators' competitive positioning in the long term. The same applies to operating expenditures in markets where operators need to launch innovative product offerings and tariffs including high-speed services.

Africa has attracted a high level of interest from overseas investors who are looking at the high growth potential in Africa to offset their slowing earnings growth in their saturated home markets. Last year, France Telecom-owned Orange launched an effort to become a mobile superpower in Africa. The majority of the African markets are now being contested between Vodafone, Orange, Zain and MTN - groups that benefit from larger economies of scale and substantial liquidity, enabling them to face short term challenges. Local operators are likely to face stronger cash flow pressures leading to more challenges from declining domestic consumption, currency fluctuations and inflation.

Between 2009 and 2010, some heavyweight players might consider expanding their overseas operations and acquire distressed assets in emerging markets. However, it seems that at present, major operator groups are aiming at maximizing profits from their existing operations, putting overseas expansion projects on hold. In Northern and Western African markets, mobile operators are estimated to have generated operating profit (EBITDA) margins in the range of 35-40 per cent in 2008. Although these look like healthy margins, the high level of capital expenditure is shrinking net incomes to around 10-15 per cent of total revenues. In most of those markets, GDP per capita is set on average around USD 1500 and mobile penetration rarely above 50 per cent. Despite the uncertainty behind the impact of the economic downturn, Africa is still likely to remain the fastest growing cellular region in the world.

Source: Joss Gillet, Senior Analyst, Wireless Intelligence (www.wirelessintelligence.com or e-mail: info@wirelessintelligence.com).

internet bubble burst in 2000-2001, though only a small number of firms account for a large share of investment. Between 1996 and 2006 France's Vivendi injected USD 6.1 billon, France Telecom USD 4.9 billion and Vodafone of the UK USD 3.4 billion. South-South investments came from Kuwait's Mobile Telecommunications Co. with USD 4.9 billion, South Africa's MTN with USD 4.5 billion and Egypt's Orascom with USD 3.7 billion. More recently, China has offered soft loans to state-owned telecommunications operators. Chinese equipments suppliers such as Huawei and ZTE are probably going to increase their presence in Africa.

The current crisis will probably have less impact on FDI for telecommunications because of Africa's large potential market and the relatively low impact of the crisis on consumers.

The Policy, Legal & Regulatory Lessons

African regulators need more muscle

Telecoms regulators who watch over market structure and the proliferation of new technology are now a fact of life around the world. In Africa, the number of countries with an ICT regulatory agency has grown from 26 in 2000, to 44 in 2007. As most investment comes from the private sector, governments should set the basic goals of telecommunications policy, the regulatory agency should implement and enforce them, and the courts should review them rather than other government branches. According to the International Telecommunication Union (ITU), 60 per cent of regulatory agencies in Africa have been granted autonomy from the executive and become 'independent'.

Some experts say Africa's regulatory agencies should have attracted more private investment. In Latin America and the Caribbean, private investment in telecommunications rose from USD 13.7 billion in 1991 to USD 47.1 billion in 1998 and then shrunk during nine years to USD 15.1 billion in 2007. While private investment in Africa has progressively risen from USD 5.4 billion in 2000 to USD 13.5 billion in 2007, some experts say this could have been higher with more appropriate regulatory frameworks.

There are a large number of cases where private participation in telecommunications in Africa has been affected by discriminatory regulatory decisions. Some agencies which claim to the ITU to be 'independent' of third parties do not act this way. In Mozambique, tariff regulation is essentially set by the fixed-line traditional operator. In South Africa, under the regulatory agency's policy, the fixed-line competitor to the established Telkom became operational only three years after Telkom's monopoly ended, and with only a limited range of services. In Kenya, Rwanda and Namibia, traditional fixed-line operators are protected by the agencies in line with government preferences.

On top of independence and good governance, accountability of political institutions is also needed to enhance the predictability of regulatory processes. All of this increases the incentive for investment. But political accountability is a bigger challenge in Africa than OECD countries.

The World Bank has normally included provisions in loan conditions to provide support for regulators against political interference. However, often the political environment has not supported the development of such institutions. As soon as a World Bank loan was closed, most regulators did not get support from governments, were side-lined or fell under the control of businesses they were meant to regulate. International development partners also have to work harder to improve political accountability as well as the training of regulators.

See Boxes 9 and 10 to find out more about the problem.

Box 9 - The Weight of Political Accountability on Regulatory Decisions

In their empirical analysis, Gasmi, Noumba Um and Recuero Virto (2009) explore the relationship between regulatory performance, proxied by telecommunications outcomes, and political accountability, captured by variables on corruption, bureaucracy, law and order, expropriation, currency risk, and checks and balances. The authors find a relatively weak effect of political accountability on the performance of regulation in developed countries, but a clearly strong effect in the case of developing countries where the greater the political accountability, the better the regulatory performance. These quantitative results suggest that in developed countries political accountability is already well established and practiced through the electoral process. The findings suggest that the focus in those countries should be on the governance structures of the regulatory institutions themselves. In developing countries, political accountability is at an early stage of development and hence this calls for additional means and resources from development partners to promote good governance which will in turn enhance the quality of regulation. Indeed, building regulatory institutions in developing countries should be part of a broader strategy of "good governance" and not only be considered, as it has been in the past years, as a sectoral matter. Consequently, international donors, including the World Bank, the Department for International Development, and others have been strong advocates for good governance since many years

Source: Gasmi, F., Noumba Um, P. and L. Recuero Virto (2009), "Political Accountability and Regulatory Performance in Infrastructure Industries: An Empirical Analysis," World Bank Economic Review 2591.

Box 10 - When Regulation Fails

In Senegal, a second cellular license was issued in the 199Os to Sentel, a subsidiary of the US company Millicom International. However, when a new government took over in 2000, the price paid by Sentel was considered too low and the license was unilaterally withdrawn without any renegotiation. The creation of the regulatory agency had been deliberately delayed and the "Direction de la Réglementation" that was acting as a regulator had no effective power. In Benin, the government also decided to retrospectively increase licence fees. In Cameroon, Research ICT Africa has found evidence that the granting of frequencies and licences is not transparent. In Namibia, the failure to pass the reform legislation through Parliament for more than seven years has left the country without a regulator. In Côte d'Ivoire, even though the regulatory agency is run by well-trained officials, political interference is widely present. In South Africa, political interference is present in licensing and regulatory processes and the Ministry of Communications has a veto on the regulator. This mechanism of control has been recently removed by the Electronic Communications Act.

Source: Gasmi, F. and L. Recuero Virto (2005), "Telecommunications Technologies Deployment in Developing Countries: Role of Markets and Institutions," Communications & Strategies, No. 58, and Esselaar, S., Gillwald, A. and C. Stork (2007), "Towards an Africa e-Index: Telecommunications Sector Performance in 16 African Countries", Research ICT Africa, www.researchICTafrica.net.

Where the muscle is needed

Research ICT Africa undertook a survey of industry leaders, regulators and civil society in 14 Sub-Saharan countries in 2006 which highlights the perceived inefficiency of the regulatory environment.

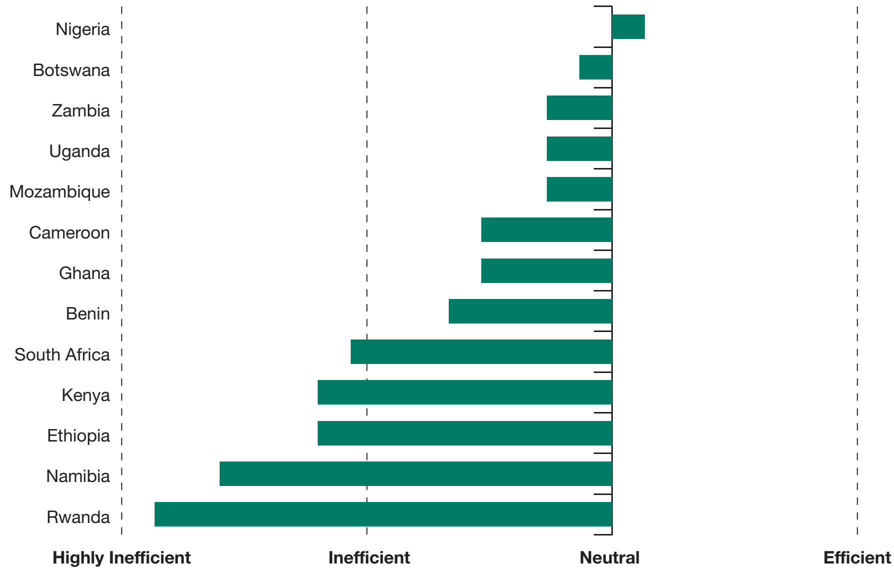
There is a high correlation between the Telecommunications Regulatory Environment (TRE) scores in Figure 7 and the extent of market reforms and performance. In countries where the TRE scores are higher, regulation encourages investment. Countries that are seen to be more inefficient, Rwanda, Namibia, Ethiopia and Kenya, have been slow to launch market reforms. Fixed-line traditional operators were still state-owned in Namibia and Ethiopia in 2007. In all four countries, the performance of the fixed-line operator is disappointing, with a penetration rate of less than 2 per cent of the population. In Ethiopia the mobile market remained under monopoly in 2008 and less than 2 per cent of the population had a cellphone. In Rwanda where a second mobile phone licence was granted only in late 2008, the penetration rate is only 8.3 per cent. In Kenya and Namibia, where the cellular penetration rates in 2008 were 38 per cent and 62 per cent respectively, the negative perceptions were associated with the strong interference of the fixed-line operator in Kenya and with stagnant reforms in Namibia.

In contrast, the most efficient countries in terms of regulatory environment, Nigeria and Côte d'Ivoire, have partially privatized fixed-line operators with penetration rates of about10 per cent in 2007 and have a large number of competitors in the mobile phone segment, 7 and 4, respectively, both with penetration rates of around 40 per cent in 2008. The case of Nigeria is quite exceptional since together with these mobile phone operators, two national carriers, 22 telephony operators, 52 VSAT operators and 36 internet service providers are present.

Fixing the fixed-line operators

Governments have been good at adopting the 'converged licensing regime' in a bid to rescue traditional fixed-line operators who have lost telephone and other communications traffic to mobile rivals. Under the old system a new licence had to be issued each time a new service or technology was developed. The new regime gives more flexibility. Under the technologically neutral licences, the operator chooses the technology to provide. Mobile operators can choose between GSM

Figure 7 - **Telecommunications Regulation Environment in 2007**



Source: Esselaar, S., Gillwald, A. and C. Stork (2007), "Towards an Africa e-Index: Telecommunications Sector Performance in 16 African Countries," Research ICT Africa, www.researchICTafrica.net.

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or CDMA wireless technologies. Under a service neutral licence, operators can select services that are in greater demand or are most cost effective. This new licence helps traditional fixed-line operators since they can get out of high-cost fixed-line connections and use wireless technologies instead. Fixed-line operators in Africa are increasingly turning to CDMA wireless technology for the final 'last mile' connection with customers. Fixed-line operators are pursuing mobile technology more aggressively to attack the now dominant position of mobile phone operators.

This neutral technology attitude by regulators is also helping the spread of universal service schemes in rural areas. Fixed-lines are not the best choice for low density, low income areas. In Uganda, the fixed-line operator, UTL, a technology neutral licensee, MTN and a mobile operator, Celtel, all bid for a competitive subsidy tender for universal service provision in rural areas. 'Neutral' technology and services are gaining ground across Africa, including in Botswana, Egypt, Mali, Mauritius, Morocco, Nigeria, Tanzania, Uganda and South Africa. Africa has a high share in the relatively small number of countries using converged licences. But Australia, the European Union, Japan, Malaysia, Pakistan and Singapore also use them.

Fixed-line operators also need regulatory help on call termination charges between fixed and mobile operators. The initially high 'termination charges' made from fixed-line operators to mobile networks were financing cellphone operators' investments and are still present even though mobile phone networks are now more widespread than fixed-line networks. In addition, call termination costs in mobile networks are decreasing as traffic increases so these tariffs need to be reformed to prevent the abuse of dominance of mobile markets that are becoming mature (see Box 11).

Taxing the upwardly mobile

With large informal sectors which in some countries reach more than 70 per cent of the population, African governments often rely on a narrow tax base, frequently businesses that are major exporters. Mobile companies get their revenues from an increasingly large mass of the population, giving fiscal authorities the opportunity to broaden their tax base. One study of 15 countries

Box 11 - Capacity Building for Interconnection Disputes between Fixed and Mobile Operators

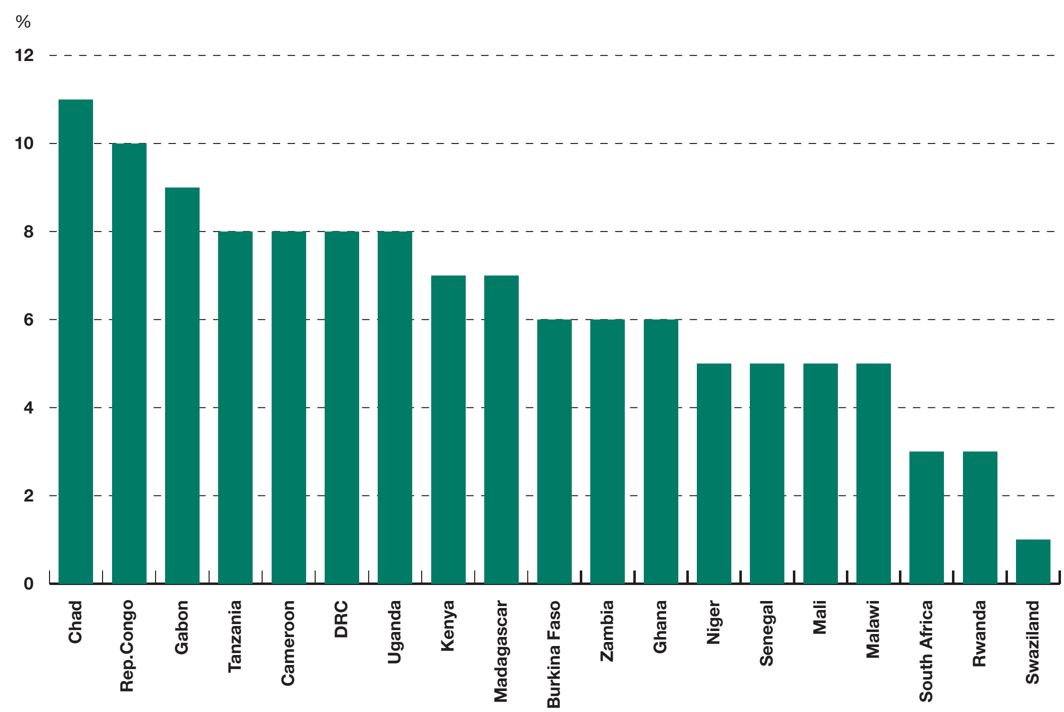
The liberalisation of telecommunications markets in Sub-Saharan Africa led to increased competition on the provision and pricing of communication services. But, due to the lack of appropriate regulatory tools, newly established regulators are poorly equipped to arbitrate increasing interconnection disputes between competing operators.

The World Bank has built a cost model, prepared to provide Sub-Saharan Africa regulators and operators with a sound regulatory tool allowing the determination of accurate interconnection costs, thus facilitating the settlement of lengthy and costly interconnection disputes between fixed and mobile operators.(*) Based on bottom-up Forward Looking – Long Run Incremental Costs (FL-LRIC) cost modelling, this tool has been used to set interconnection call termination prices between 2002-2007 in 6 African countries and has been used by 18 African regulatory agencies for skill upgrading.

(*) Gille, L., Noumba Um, P., C. Rudelle and L. Simon (2002), "A Model for Calculating Interconnection Costs in Telecommunications," The World Bank, Eds.

Source: Laurent Gille, Professor, Télécom ParisTech and Paul Noumba Um, Lead Economist, Economic Support Unit, Middle East and North Africa Region,World Bank Group.

Figure 8 - Mobile Operators' Contribution to Government Tax Revenues



Source: GSM World, 2006, "Taxation and Growth of Mobile Services in Sub-Saharan Africa."

StatLink http://dx.doi.org/10.1787/568380815516

(Figure 8) showed that mobile operators provided more than 8 per cent of government tax revenues in 7 of them.

Taxes represent on average 29.4 per cent of operators' revenue, but are as high as 53 per cent in Zambia, 45 per cent in Madagascar and 43 per cent in Tanzania and Gabon, and as low as 16 per cent in Democratic Republic of Congo. The GSMA association estimated that mobile operators in Africa in 2006 had contributed over USD 5 billion in taxes with about 77 per cent generated by operators in Nigeria and South Africa.

An analysis of the 15 Sub-Saharan countries surveyed in 2006 shows that the average tax on handsets is 31.1 per cent of their price, way above the average tax on network equipment (21.2 per cent), on connection and subscription (15.3 per cent) and on airtime (18.3 per cent). Handsets are often treated as luxury goods in tax classifications. There are hidden differences however. Uganda, Tanzania and Kenya apply the highest taxes on usage, more than 25 per cent of the prices charged by operators, while they are at the lower end for levies on handsets, with taxes below 20 per cent.

In some countries, taxes on handsets can be avoided because the second hand market is huge. However, airtime taxes cannot be bypassed and because mobile services expenditures represent a large percentage of average income in Africa, the sensitivity of demand to price is larger than in OECD countries. One concern is that the high price of mobile phone usage (including taxes) is slowing their penetration rates among informal small and medium enterprises (SMEs) (see Box 12).

Box 12 - **Mobile Phone Prices Penalise Informal SMEs in Africa**

According to a Link Centre survey, SMEs respondents in 17 countries in Sub-Saharan Africa state that mobile phones are either important or very important for their business. While the percentage of respondents supporting this argument is around 95 per cent across formal, semi-formal and informal businesses, the importance attributed to other ICT items such as fixed-lines, fax, computers and internet connection decreases significantly with the degree of informality. Interestingly, the main reason highlighted by informal SMEs (50.8 per cent of respondents) for not possessing ICT is the high price of mobile telephony. This percentage drops to 31.5 and 22.9 in semi-formal and formal businesses. Thus, any decreases in mobile phone prices would help informal businesses the most.

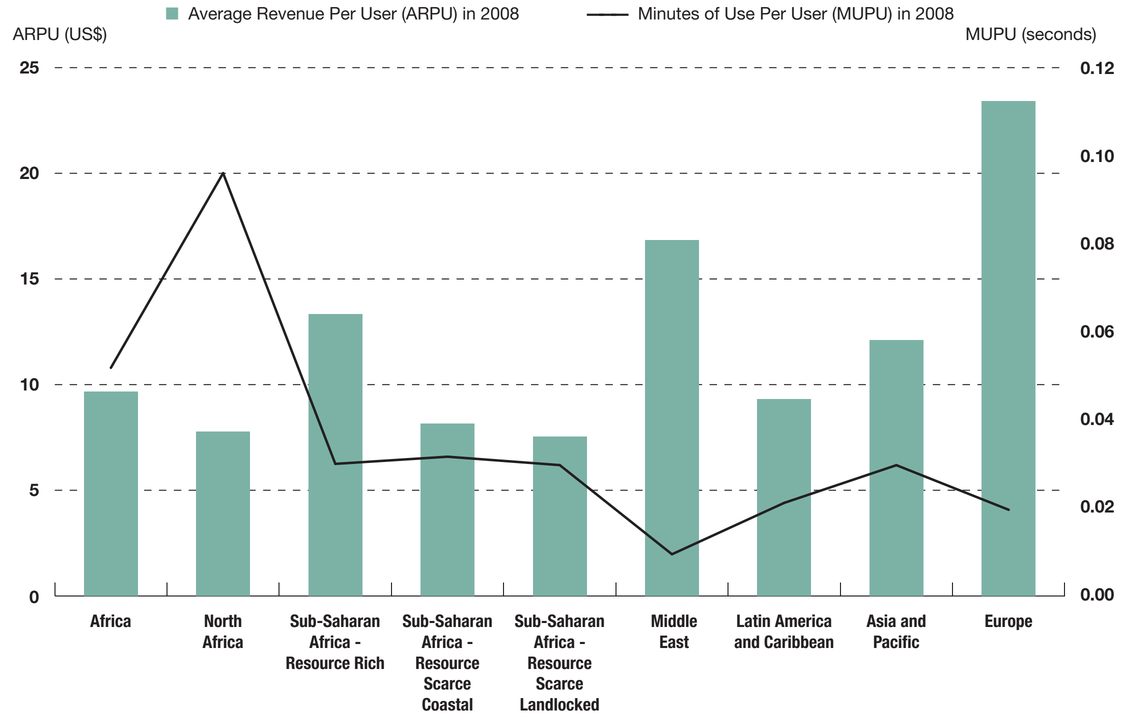
Source: Gillwald, A. and C. Stork (2008), "Towards Evidence-Based ICT Policy and Regulation: ICT Access and Usage in Africa," Vol. I, Policy Paper Two, Research ICT Africa, www.researchICTafrica.net.

Business Environment and Financing

Mobile Operators charge high tariffs

Subscribers in resource-scarce North African and Sub-Saharan countries generate the lowest Average Revenue Per User (ARPU), closely followed by Latin America and Caribbean customers (Figure 9). In contrast, subscribers in rich resource Sub-Saharan countries generate a large ARPU, around USD 13, more than in Latin America, the Caribbean and the Asia-Pacific region in 2008. ARPU is not determined solely by income levels since the average GDP per capita in Latin America, the Caribbean and the Asia-Pacific was around 4 times larger than in resource rich countries in Africa in 2007. Since minutes of use are fairly similar between these three regions, it is likely that ARPU is more due to higher tariffs. According to the ITU, in resource rich countries in Africa prices per 3 minute communications for peak hours are 0.9 USD, compared to USD 0.7 in Latin America and the Caribbean and USD 0.6 in Asia and Pacific. Another interesting feature of Figure 9 is the high number for minutes of use per user in North Africa, more than twice that of other regions.

Figure 9 - **Revenue and Usage per Mobile Phone User**



Source: Wireless Intelligence (www.wirelessintelligence.com).

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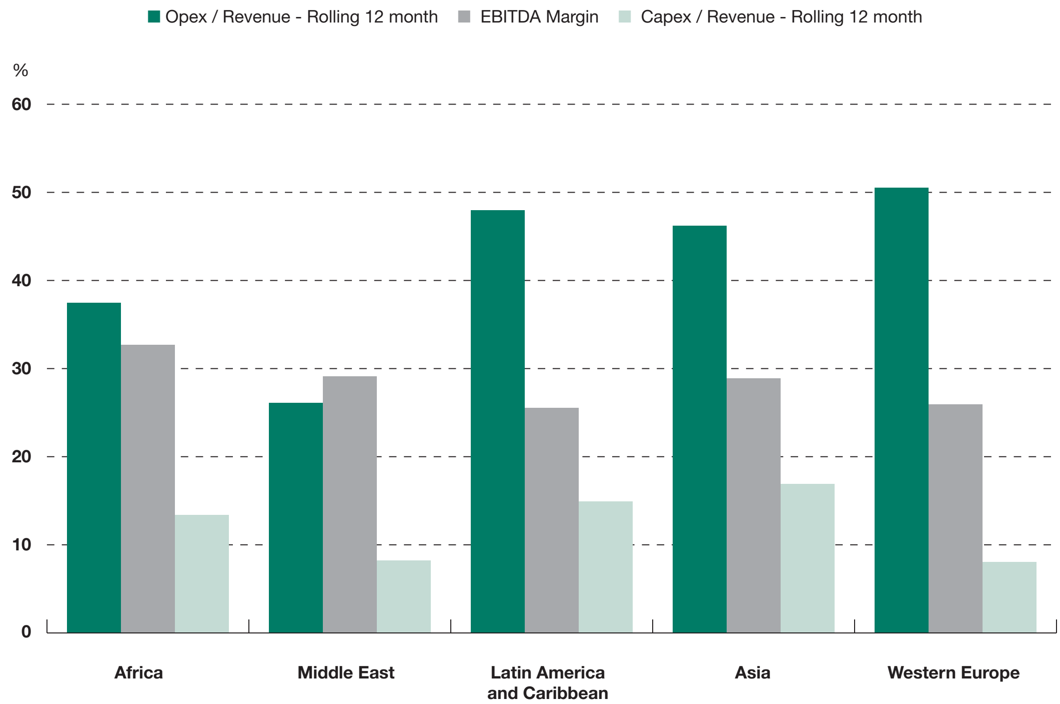
Even though the sample of countries is not large, there is evidence (Figure 10) that capital and operating expenditures in Africa are below those in Latin America, the Caribbean and Asia. At the same time, mobile operators in Africa perform well in terms of liquidity, with larger earnings than other regions. Returns on investment are attractive for investors in African networks even if there is increasing competition (see figure 11).

The Rise of the Pan-African Mobile Operator

Mobile networks have quickly spread in recent years into once unserved areas. This has been helped by Orange, Vodacom, Zain, MTN, Moov, and Tigo all becoming players in several countries. MTN is South African, Zain and Moov belong to Middle East investors and Orange, Vodafone and Tigo (Millicom) are European-based. Zain and Tigo are present in East, Central and West Africa, Orange is present in East and West Africa, Moov is mainly in West Africa and Vodafone in southern Africa. Their strategies concentrate on lowering prices to increase market share at a time when investment growth in network expansion is slowing due to the financial crisis. A key element of the African-style communications revolution has been reducing roaming charges — applying local charges to a network user even if the individual is located abroad. Regional integration will benefit as these strategies scale-up across operators and eventually erode price differences between countries.

These six operators accounted for 52 per cent of total subscriptions for mobile phones in Africa in 2008 (Figure 12). The average growth rate in Africa has been 41 per cent, but two entrants, Orange (68 per cent) and Tigo (82 per cent) were much better as were two established operators, Zain (52 per cent) and MTN (60 per cent). Vodafone and Zain have lower growth rates but are in more mature markets.

Figure 10 - **Mobile Operators' Profits and Expenditures**



Source: Wireless Intelligence (www.wirelessintelligence.com). Data for 2008.

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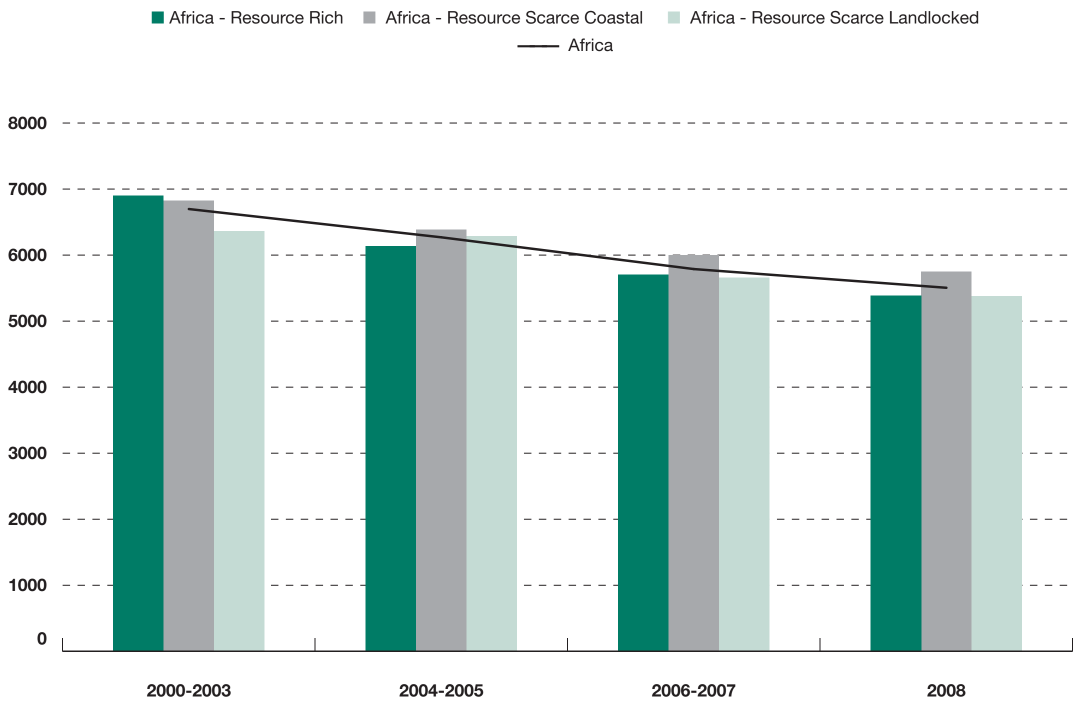
Even though competition is increasing among operators, the low penetration rates suggest considerable scope for strong growth. Orange is turning its attention to Africa after its abortive USD 40 billion bid for the Nordic operator, TeliaSonera. Orange invested in Kenya and Nigeria in 2008 where it is providing a package of mobile, fixed-line and internet services under the converged licensing regime. Orange also expects to cover 30 cities in Niger. It has a strategy of targeting markets with the potential to generate strong revenue growth with a bigger consumer base. In 2008, Orange mobile subscribers and revenue grew by 42.5 and 17 per cent respectively in Africa, compared to 28 per cent and 8.3 per cent for the Orange group worldwide. Tigo is expected to see substantially lower growth in 2009 because of the economic crisis. In 2008, it saw lower revenue growth in Senegal, Chad and Ghana.

In 2008, Zain invested in expanding network capacity and upgrading transmission capability, particularly in Ghana, Sudan, Malawi, Zambia and Nigeria. Most of its growth comes from Nigeria which accounts for 43 per cent of its subscriptions in Africa. Zain could build on its knowledge of third generation networks which it has deployed in Bahrain and Kuwait. Vodafone is also turning to Africa. In 2008, the group purchased 70 per cent of Ghana Telecom for USD 90 million. Vodafone is largely concentrated in South Africa which accounted for about 50 per cent of its consumer base in 2008. Vodafone South Africa is the largest mobile operator in Africa in terms of subscriptions per country. Both Zain and Vodafone are seeking to expand their consumer base by reducing prices. MTN has the largest number of subscribers in Africa and it seeks to consolidate this position by providing an attractive three-service package like Orange. In 2008, MTN acquired Arobase Telecom, the second fixed line operator, and an internet service provider, Afnet, in Côte d'Ivoire. MTN's largest mobile subscriber bases are in Nigeria and South Africa.

Figure 11 - **Degree of Competition (Herfindahl Index) in Mobile Markets in Africa**



Source: Gutierrez, L. H., S. Lee and L. Recuero Virto (2009), "Market Concentration and Performance in Mobile Markets in Africa and Latin America," OECD Development Centre (mimeo).

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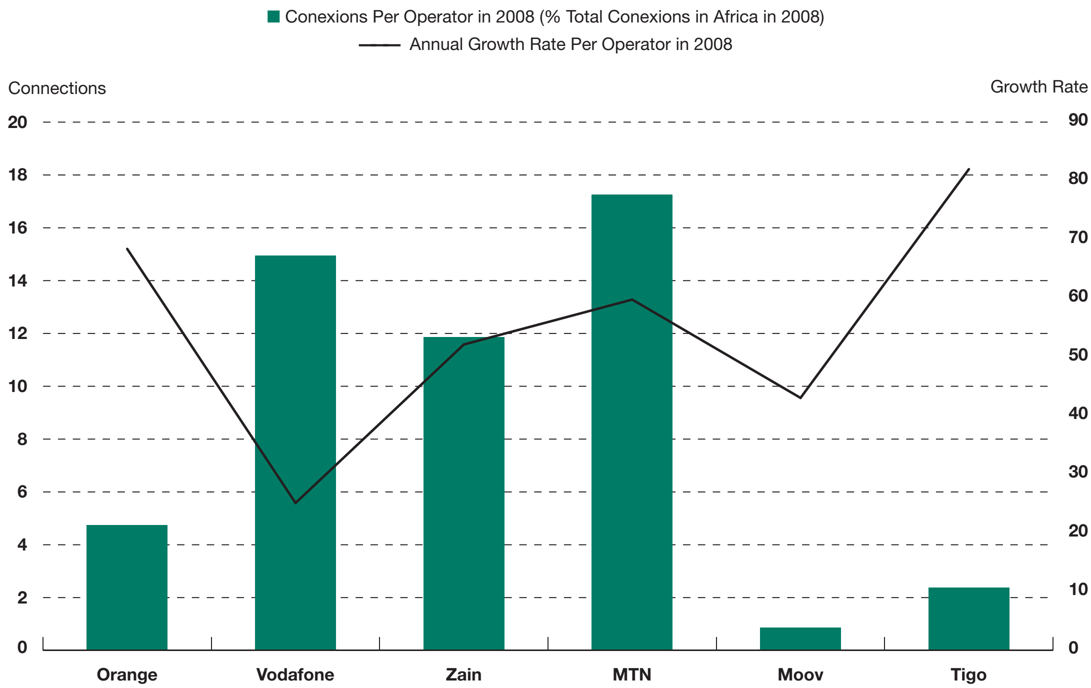
Operators that have larger subscriptions bases in Africa, such as Vodacom, Zain and MTN, are those that have higher average market shares in the countries where they operate (Figures 12 and 13). The three operators each have more than 11 per cent of total subscriptions in Africa. Vodacom and MTN each have an average market share of more than 50 per cent of subscriptions in countries where they operate. Zain is close behind with 46 per cent of market share per country. At the other end, Moov and Tigo both have a lower number of subscriptions, below 3 per cent, as well as lower average market share per country, around 20 per cent. Orange has a small share of subscriptions in Africa but a large market share per country. There is also a close relationship between an operator's average market share and the number of countries targeted. Operators present in a larger number of countries, tend to have larger subscription share in each market and larger economies of scale. The only exception is Vodafone which operates in a relatively small number of countries.

Zain is seeking larger potential markets (454 million people in 2007) by providing services in countries that have a lower per capita median GDP (USD 282 in 2007). Orange and MTN are concentrating on slightly smaller potential markets, with a per capita GDP median of about USD 450.

Vodafone has access to a larger potential market than Orange even if it is present in only six countries as compared to the French group's 14. All the countries where Vodafone is present, except Lesotho, have large populations. Vodafone is focusing on countries with a relatively high median per capita GDP (USD 452 in 2007) although this is not reflected in the average revenue per user in their networks which is USD 7.5 in 2008 as compared to Zain's USD 11.2 and MTN's USD 12.7.

Figure 12 - Penetration of Major Mobile Operators in Africa



Source: Gutierrez, L. H., S. Lee and L. Recuero Virto (2009), "Market Concentration and Performance in Mobile Markets in Africa and Latin America," OECD Development Centre (mimeo).

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Vodafone is pursuing an aggressive pricing policy to reach lower income households since 90 per cent of its consumer base use prepaid services. As Zain and MTN are in tight competition in Sudan, Uganda, Congo, Nigeria and Zambia prices are likely to fall in these markets. Zain is already offering innovative price schemes (see Innovative Business Models) in an effort to increase market share after reporting losses in two quarters of 2008. At the other extreme, Moov and Tigo, which are present in six and seven countries, respectively, have focused on middle size countries in terms of population and with median per capita GDP of about USD 270.

Table 1 - Market Positioning of Major Operators in Africa

Operator	Population (millions)[a]	GDP per Capita (median)[a] - USD	GDP per Capita (mean)[a] - USD	Presence in Resource scarce Coastal Countries: Presence in African Countries[b]
Orange	184	431	1 535	6 out of 14
Vodafone	249	452	1 146	4 out of 6
Zain	454	282	629	3 out of 15
MTN	355	500	813	4 out of 12
Moov	70	260	887	3 out of 7
Tigo	119	283	293	3 out of 6

Note: GDP per capita in 2000 usa. a. 2007 data, b. 2008 data.
Source: Gutierrez, L. H., S. Lee and L. Recuero Virto (2009), "Market Concentration and Performance in Mobile Markets in Africa and Latin America," OECD Development Centre (mimeo).

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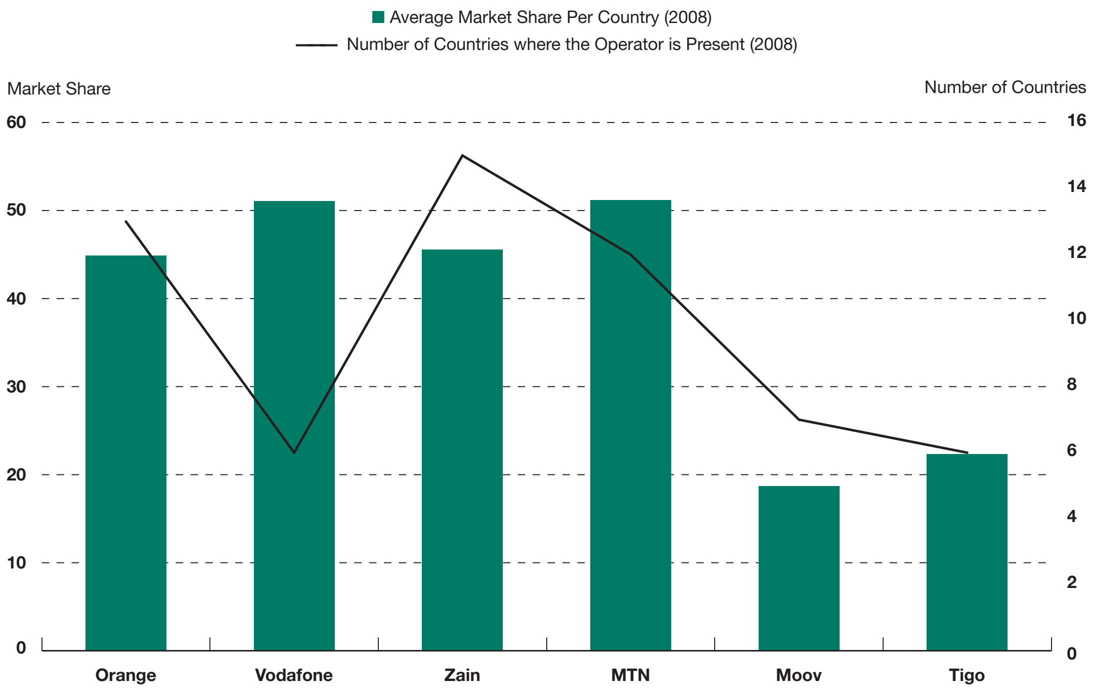
Figure 13 - **Market Concentration of Major Operators in Africa**



Source: Gutierrez, L.H., S. Lee and L. Recuero Virto (2009), "Market Concentration and Performance in Mobile Markets in Africa and Latin America," OECD Development Centre (mimeo).

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The domination of mobiles hits fixed line operators

Over the past decade telephone traffic has switched dramatically from fixed-line phones to mobiles. Mobiles account for 64 per cent of total telephone revenues and Africa is the only region in the world where mobiles outstrip fixed lines. Small fixed-line networks are suffering as a result in terms of their cost structure. Mobile network per minute costs are fast decreasing while those of fixed-line rivals are increasing as their traffic goes down (Figure 14).

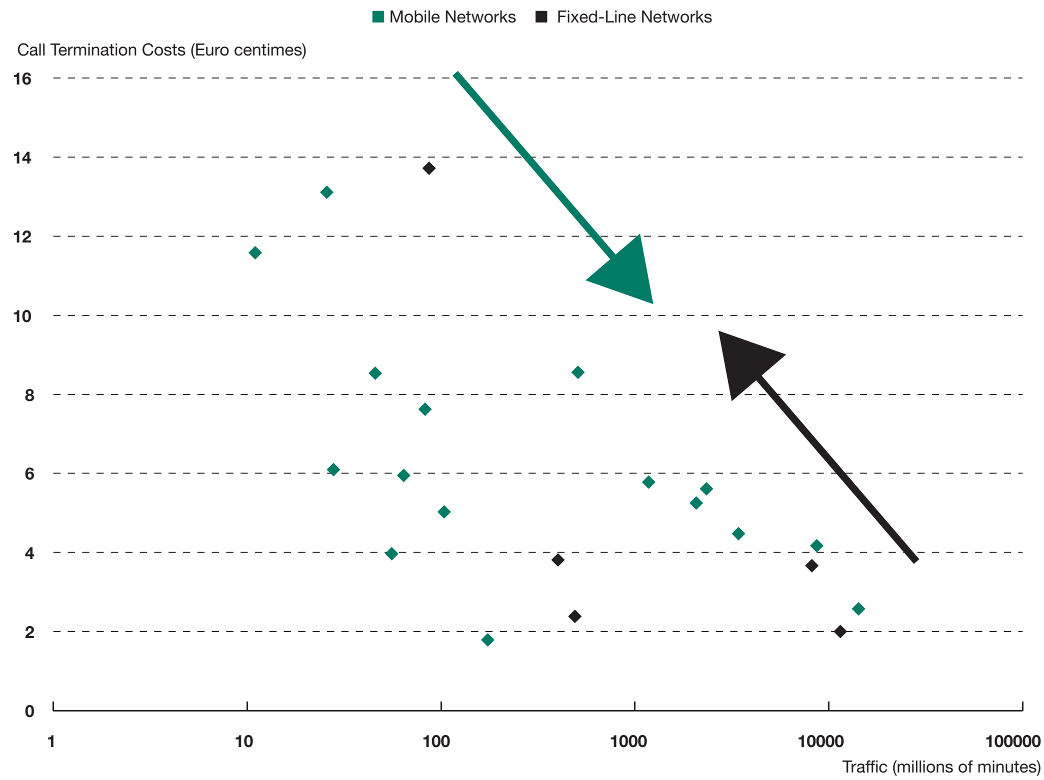
Mobile phone networks are constituted by transmission towers which make up to 70 per cent of total capital costs. Each transmission tower has seven transceivers. While the number of transceivers increases linearly with the traffic, Figure 15 shows how total network investment per transceiver decreases very fast with the traffic increases.

Because of the increasing volumes, mobile phone charges could fall if the lower variable costs were passed on to consumers. The current per minute cost of a mobile call is still four times higher than fixed-line calls (Figure 16). In Africa, a fall in the price of mobile calls would probably lead to a significant increase in traffic and further cut costs, while fixed line costs are likely to keep rising. But taking into account that OECD countries, which benefit from substantial economies of scale with high mobile penetration rates, have prices comparable to those in Africa, it is not clear that mobile prices in Africa will fall as networks build up.

Price and choice in national networks

In 2007, there were 508 000 km of terrestrial backbone infrastructure in Sub-Saharan Africa. Of this, only 32 per cent was owned by fixed-line operators, while 68 per cent was owned by mobile operators.

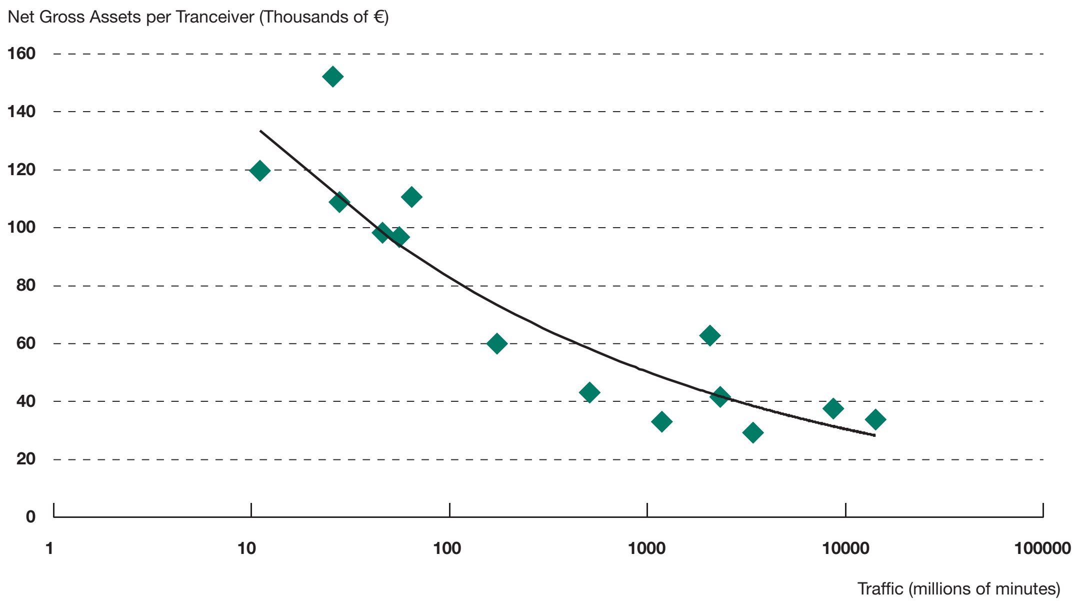
Figure 14 - **Variable Network Costs for 21 African operators**



Source: Field work based on Gille, L., Noumba Um, P., C. Rudelle and L. Simon (2002), "A Model for Calculating Interconnection Costs in Telecommunications," The World Bank Eds.

StatLink http://dx.doi.org/10.1787/568451462288

Figure 15 - **Mobile Network Costs for 14 African Operators**



Source: Field work based on Gille, L., Noumba Um, P., C. Rudelle and L. Simon (2002), "A Model for Calculating Interconnection Costs in Telecommunications," The World Bank Eds.

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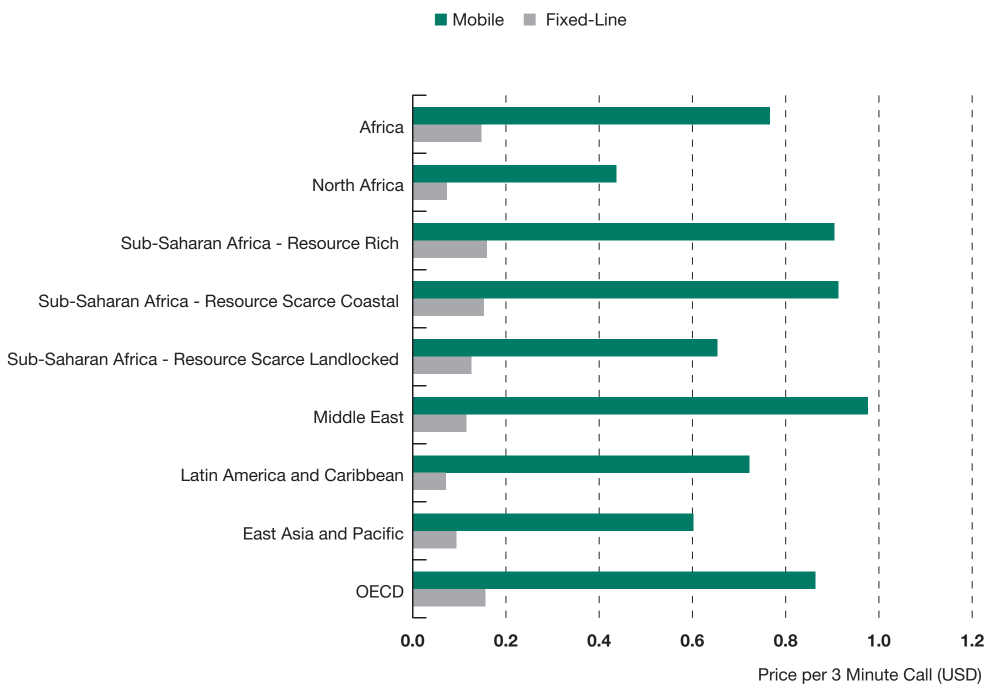
Figure 16 - Comparison between Fixed-Line (local) and Mobile per Minute Prices



Data for 2006, in constant 2000 USD. Mobile prices for prepaid, on-net.
Source: International Telecommunication Union World Telecommunication/ICT Indicators 2008.

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Almost all the satellite-based backbone infrastructure is also operated by mobile operators. In the past, fixed-line operators did not meet the demands of mobile operators for high-capacity transmission so the mobile operators launched their own terrestrial backbone networks to connect their transmission towers to the rest of their own network. Ninety-nine per cent of the backbone network length run by mobile operators in Sub-Saharan Africa is microwave technology which can be easily upgraded, only 1 per cent is fibre optic. On average, transmission accounts for less than 10 per cent of the total mobile costs.

Fixed-line operators use fibre optic technology for 40 per cent of their backbone networks. Only the costs of transmission equipment depend on the traffic and these are less than 10 per cent of the total. Between 60 per cent and 80 per cent of the cost of the fibre optic network is fixed and related to the cost of laying the cables. Since the fibre optic choice only becomes optimal when the traffic volume rises above 2 000 Mbps and it becomes cheaper than microwave technology, fixed-line operators must invest ahead of demand and so need long-term financing. Mobile networks only invest in new capacity when projected revenues are large enough to quickly pay back the investment.

Most fixed-line networks in Africa were designed only for voice services and now need major upgrading to carry data. Fixed-line operators' staff also need to be trained for the shift from analogue to digital technology. Some small operators such as Kasapa in Ghana are outsourcing this task. Neotel, the second fixed-line operator in South Africa, is a rare operator with a 100 per cent digital network. Compared to analogue, a digital network is 30 to 50 per cent less expensive in terms of investment and 30 per cent less expensive in terms of operating costs. Traditional fixed-line operators are therefore penalised, compared to mobile firms and newcomers in the fixed-line segment, unless regulators let them raise private capital and increase customer prices to cover their operating and capital costs.

Box 13 - **Rwanda: Regional ICT Hub**

Rwanda government plans to lay 2 300 km of fibre optic cable between February and September 2009 to deploy a national backbone network connecting 35 nodes across the country and 350 sites. Rwanda currently accesses internet through satellite connections at USD 3 000 Mbps/month. The price is expected to drop to USD 25 Mbps/month once the national grid is connected with the future submarine fibre optic cables on the east coast. A 135 km network has already been deployed in Kigali at a cost of USD 5 million. Private sector operators are also contributing to ICT development. The development of Kigali ICT Park, which comprises three components, namely: Established ICT companies, Incubated companies (ICT startups) and a Multi-disciplinary Centre of Excellence in ICT (MCE-ICT), is one such example. Rwanda is expecting to position itself as a regional ICT hub.

Source: Rwanda's 2009 *African Economic Outlook* country note and author.

With fixed-line operators experiencing financing difficulties in Africa, high retail tariffs for backbone networks are still common, a result of cross subsidisation between local and long distance and international communications. While tariffs are changing, this has mainly been through an increase in local tariffs for voice (see Box 14). Indeed, local voice tariffs in Africa are close to those applied in OECD countries. Long distance voice calls and internet services (which should have fallen) remain expensive. There is also a wide difference in price between members of the same consortium, such as the SAT-3 submarine cable off western Africa, where retail prices can vary between USD 1 316 charged by Senegalese incumbent Sonatel to the USD 11 000 by Telkom South Africa. With international backbones soon offering wholesale prices of about USD 500 for bringing traffic from the other side of the world, it will become increasingly difficult for African fixed-line operators to justify high retail prices for low distance national links. Even if international backbone capacity is accessible at low wholesale prices, African consumers will only benefit if fixed-line operators pass on these lower tariffs or use their profits to expand capacity and improve service.

Box 14 - **The Impact of the Privatisation of Traditional Fixed-Line Operators**

In theory, whether the privatisation of fixed-line telecommunication operator leads to improvements in network expansion or quality depends on the institutional and political context in which it is applied. Governments have often perceived full privatization as a trade-off between benefiting from one shot licence fees while abandoning the future stream of revenues generated by the operator[1]. In any case, privatisation typically leads to higher local tariffs to fully cover costs including a rate of return on investment. Recently, Gasmi, Noumba Um and Recuero Virto (2009) reported on the main findings of an analysis of 1985-1999 data across different world regions classified by geography and wealth[2]. The developed countries included in the sample had all partially or totally privatized their historical state-owned operator during the period considered. As to the developing countries, 15 from Latin America and 13 from Africa had privatized during the period. Hence, 60 per cent of the Latin American countries in the sample had privatised their operators;

1. Wallsten, S., 2004, "Telecommunications Privatization in Developing Countries: The Real Effects of Exclusivity Periods" *Journal of Regulatory Economics*, 26(3).

2. Gasmi, F., P. Noumba Um and L. Recuero Virto (2009), "Privatisation of Fixed-Line Incumbents: Regional Differences" OECD Development Centre (mimeo).

this figure comes down to 30 per cent for the African countries. African countries were therefore at their early stages of privatisation during the period under study.

The difference in the results between the developed and the developing countries mainly reflect the extent to which there was excess supply in developed countries and hence no perceptible effect on network expansion in the former. The existence of unmet demand in developing countries, instead did lead to network expansion and greater labour productivity. The network expansion in developing countries followed increases in local tariffs. Indeed, the population in developing countries is willing to pay a price for communications that is often reported to be higher than state-owned subsidised prices. However, privatisation of the fixed-line operator in developed countries lead to decreases in the prices of fixed-line services due to increased competition in well supplied markets.

Once the developing countries sample is disaggregated interesting regional differences were found. Latin American and African resource scarce coastal countries show very similar results to those of the overall developing countries sample, with increases in both output and prices. In contrast, in African resource scarce landlocked countries, privatisation was associated with increases in tariffs which did not translate into network expansion. In these countries, privatisation was also associated with lower labour efficiency. In African resource rich countries, privatisation has no impact on any performance measure.

The extent to which these results can be explained by institutional quality is subject to further research. For the time being, according to the ICRG indices, while Latin American and African resource scarce coastal countries in the sample have very similar institutional endowments, African resource scarce landlocked and resource rich countries both lag behind.

Source: Farid Gasmi, Professor, Toulouse School of Economics and author.

High retail prices often result from countries allowing national transmission monopolies. An operator with a transmission monopoly in Sub-Saharan Africa can get 65 per cent of its revenue from international traffic. In Zambia the liberalisation of international traffic transmission is being continuously delayed. Some countries seem to prefer a monopoly over international facilities even at the expense of letting in new entrants to develop domestic markets.

To maintain benefits from international traffic, some delegations at International Telecommunication Union (ITU) meetings have argued for a premium on international traffic exchange[3]. An ITU-T recommendation was passed at the World Telecommunication Standardisation Assembly (WTSA) in October 2008 to analyse whether such a premium should be paid for traffic passing between operators in developed and developing countries. The so-called 'network externality premium' is only feasible in markets where there is a transmission monopoly and no incentive to expand network access. The increase in net outpayments and incoming international traffic to Africa from developed countries suggests that the premium is not needed (see Box 15).

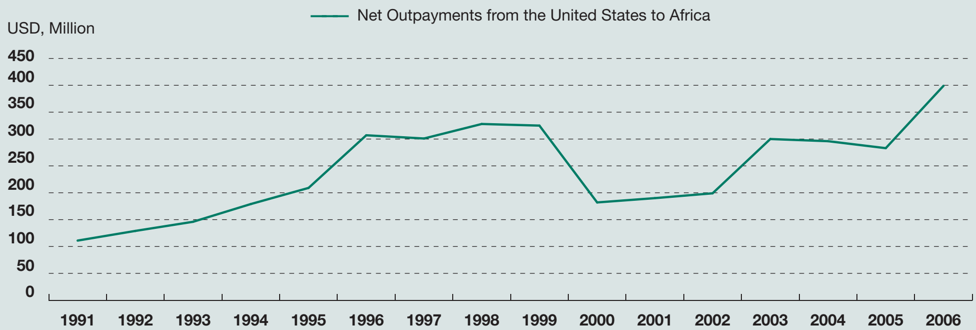
There is a big difference in interconnection rates from fixed to mobile networks in Africa. In 2006, Kenya, Benin and South Africa's rates were almost 200 per cent higher than in Rwanda, Senegal and Uganda. These charges make fixed line subscribers increasingly attracted by mobile phone networks which bypass these charges.

3. OECD, 2009, "Network Externality Premiums and International Telecommunications Traffic Exchange," DSTI/ICCP/CISP(2008)4.

Box 15 - Boost in International Net Outpayments and Incoming Traffic to Africa

With international traffic exchange based on termination charges under a liberalised environment, many operators generate greater termination revenues than they did in the past when this exchange was based on accounting rates between countries' monopoly telephone companies. Net outpayments from operators, based in the United States, to African counterparts, for example, are frequently greater today than they were under the accounting rate system. In total, operators in African countries received payments of around USD100 million greater in 2006, than they did in 1996, and more than USD200 million greater than 1994. In fact, the total net outpayments from the United States to Africa were the highest ever recorded in 2006, the latest year for which data are available (see Figure 17).

Figure 17 - Net Outpayments from the United States to Africa

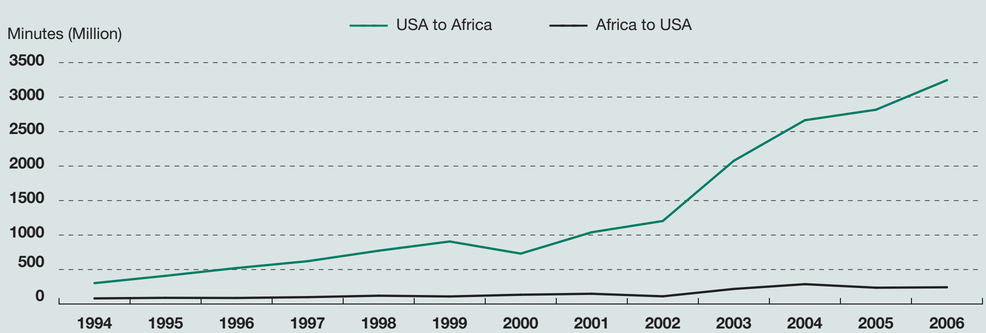


Source: OECD based on FCC.

StatLink http://dx.doi.org/10.1787/568485764447

One reason for this increase, in aggregate revenue at the national level, is that although interconnection between networks has become more cost-oriented, the volume of international traffic has increased enormously over recent years. Between 2000 and 2006 outgoing traffic from the United States to Africa increased by 344 per cent (see Figure 18). Traffic in the opposite direction increased 80 per cent. The primary reason for this increase is that accounting rates kept the prices for international telephony artificially high to the point of being prohibitive for many users to make calls. It is also the case that network expansion, as a result of liberalisation, has created many more calling opportunities. As such the increase in traffic volume is the result of lower prices for international calls and network expansion.

Figure 18 - Telephone Traffic between the United States and Africa

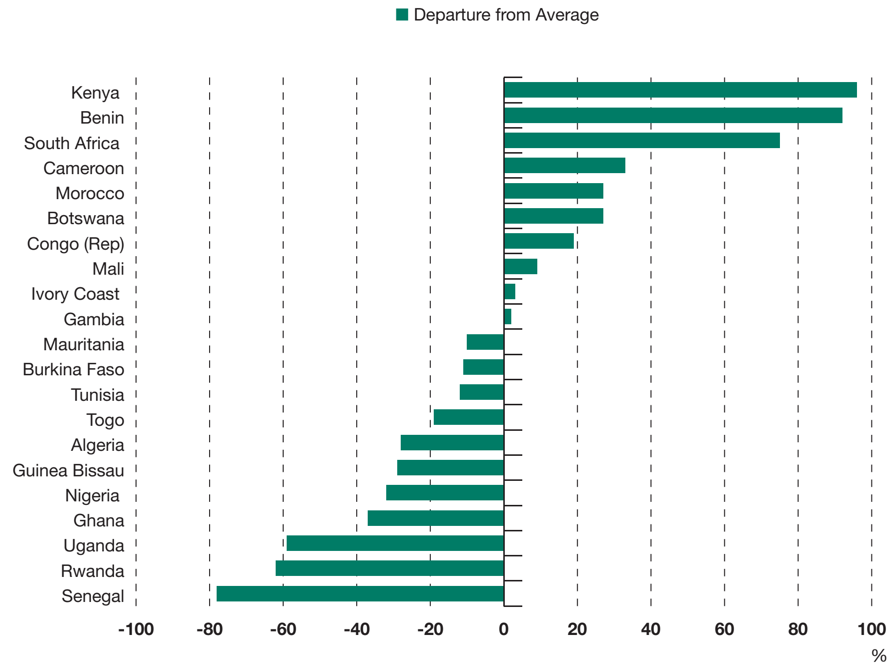


Source: OECD based on FCC.

StatLink http://dx.doi.org/10.1787/568513105087

Source: Sam Paltridge, Principal Administrator, Directorate for Science, Technology and Industry, OECD.

Figure 19 - **Interconnection Rates from Fixed-Line to Mobile Networks**



Source: Esselaar, S., Gillwald, A. and C. Stork (2007), "Towards an Africa e-Index: Telecommunications Sector Performance in 16 African Countries," Research ICT Africa, www.researchICTafrica.net.

StatLink http://dx.doi.org/10.1787/568518126306

Faced with ever tougher competition from mobile operators, many fixed-line networks plan to offer broadband services to add value and attract consumers. Although fixed-line networks have a comparative advantage over wireless in terms of broadband capacity, there are doubts whether fixed-line operators will find a large enough market in Africa.

Business models for low incomes

Operators are having to come up with new ideas to keep services affordable for a region dominated by low income households. According to surveys in 16 countries in Sub-Saharan Africa in 2006 and 2007 done by Research ICT Africa, people who do not have mobile phones will only be brought into the market through offers of cheap calls[4]. People who did not have a mobile phone or SIM card in Côte d'Ivoire, Ghana, Nigeria and Uganda were only ready to pay between USD 5 and USD 10 a month and in Ethiopia below USD 2.

The same study indicated that people in seven countries did not want to spend more than USD 10 for a handset. Only two countries, Côte d'Ivoire and Namibia, signalled a willingness to spend up to USD 30 for a cellphone. The average cost in the countries is between USD 16 and USD 27.

Low cost handsets can be easily obtained on the second hand market. But the survey indicates that a small reduction in the cost of equipment and services could bring increased uptake and a significant growth in revenue for operators. Charges for call time in peak hours are also coming under pressure in places like South Africa where Virgin Mobile has recently begun offering the same flat rates to consumers for peak and off-peak hours for data and SMS. In Kenya, Zain has

4. Gillwald, A. and C. Stork (2007), "Towards an African e-Index: ICT access and usage across 16 African countries," LINK Centre, Witwatersrand University.

Box 16 - Evidence on Mobile Phone Price Elasticity's: The Cost of Alternatives

Using a Vodacom cross-sectional data set on 6 936 individuals collected in May 2005 in South Africa, Gasmi, Invaldi and Recuero Virto (2008) develop a structural demand-and-supply structural model based on the multinomial specification that investigates voice and SMS prepaid communications. Their findings reveal high price elasticity's in the range of -2 to -6, typically higher than those found in developed countries. All consumers attach the largest valuation to peak hours (or working hours) but since these hours are highly priced, demand for peak hours is significantly more elastic than for off-peak hours (or leisure time). Indeed, both for urban and rural consumers and for voice and SMS, price elasticities for off-peak hours are on average -1, while for peak hours, this number is on average -3. At the time of the survey Vodacom's prepaid prices for peak voice and SMS communications more than doubled those applied during off-peak hours.

At first sight, price cuts on prepaid services could be rewarding both for consumers and for the firm (peak hours). For rural areas networks, close to full capacity, it would be necessary to verify that the increase in revenues would be sufficient to cover incremental investments on base stations. In addition, this research suggests that reducing the gap between urban and rural economies, calls for investment in networks in rural areas since the usage in these regions appears to support economic activity with high value and relative low elasticity attached to working hours. This can be explained through the cost of alternatives in rural areas. A Vodafone study on cellular users in Tanzania and South Africa illustrates this idea, where 50 per cent to 70 per cent of respondents claimed that their cellular phones led to large savings in travel time and cost.

Source: Gasmi, F. and Ivaldi, M. and Recuero Virto, L., 2008, "An Empirical Analysis of Cellular Demand in South Africa," IDEI Working Papers 531, Institut d'Économie Industrielle (IDEI), Toulouse.

also begun offering the same flat rates for both peak and off-peak hours.

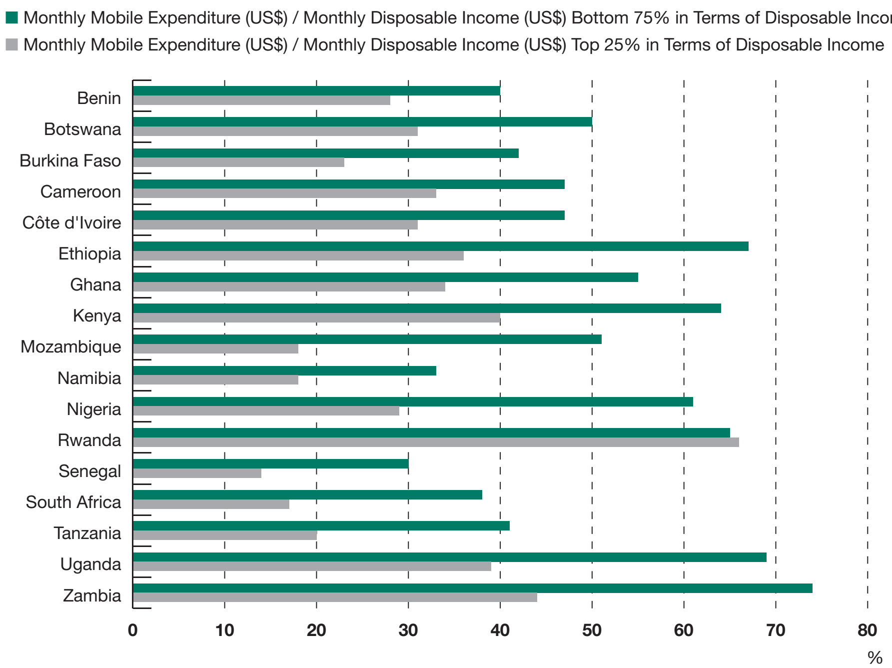
The reluctance to pay for mobile equipment and services can be understood from figures from 17 countries on the average monthly mobile expenditures of subscribers as a percentage of monthly disposable income (Figure 20). For the top 25 per cent income earners in Zambia and Rwanda, the percentage exceeds 40 per cent. In another seven countries, the percentage was between 30 and 40 per cent. Turning to the bottom 75 per cent earners, the percentages are larger – in six countries it was between 60 and 80 per cent. This explains why market penetration rates remain low — only a small fraction of households can afford these services – and why pre-paid phone deals are preferred.

Banana Cellular introduced prepaid mobile phone services in the United States in 1993. By 2008, 71 per cent of mobile subscribers throughout the world were using this kind of service, in Africa it was 96 per cent. This 'pay as you go' service has also been adopted by electricity and water utilities, notably in South Africa. After new meters have been installed in a home, credit can be purchased by phone or internet. The consumer is given a code which can be used on a meter.

Other ideas to tempt lower income households in Africa include micropayment accounts — consumers can use SMS to put a few cents on their accounts — microfinance funding for handsets and subscriptions and phone sharing (see Box 17).

SMS messages that were intended by their inventor to enable communications between operators' staff were soon to alert people to a voice mail message with the first commercial service launched in Sweden in 1993. To adapt to the lower incomes in Africa, a mobile instant messaging service, MXit, is set to expand across the continent with the cost of sending an SMS falling below a fraction of one cent (ZAR) (see Box 18).

Figure 20 - Monthly Mobile Expenditure as Percentage of Income Quartiles



Source: Gillwald, A. and C. Stork (2008), "Towards Evidence-Based ICT Policy and Regulation: ICT Access and Usage in Africa," Vol. I, Policy Paper Two, Research ICT Africa, www.researchICTafrica.net.

StatLink http://dx.doi.org/10.1787/568542055713

Box 17 - New Business Models to Reach Low Income Deciles

Nokia Siemens Networks is developing new business models for African consumers (see Figure 21). Beyond the well known postpaid and prepaid options, the following solutions are incorporated:

- With microprepayment consumers can load electronically (by SMS) some cents onto their accounts. In the past operators have used vouchers (e.g. USD 10)[5]. However, in emerging markets, even this is a large sum to spend. Reducing the value of the voucher was difficult for operators, as the small value and distribution costs of the voucher were above the potential revenue. Nokia Siemens Networks was a pioneer in developing SMS-based solutions by which any amount could be uploaded to a prepaid account. Micropayment is also a very common way of recharging in Africa.

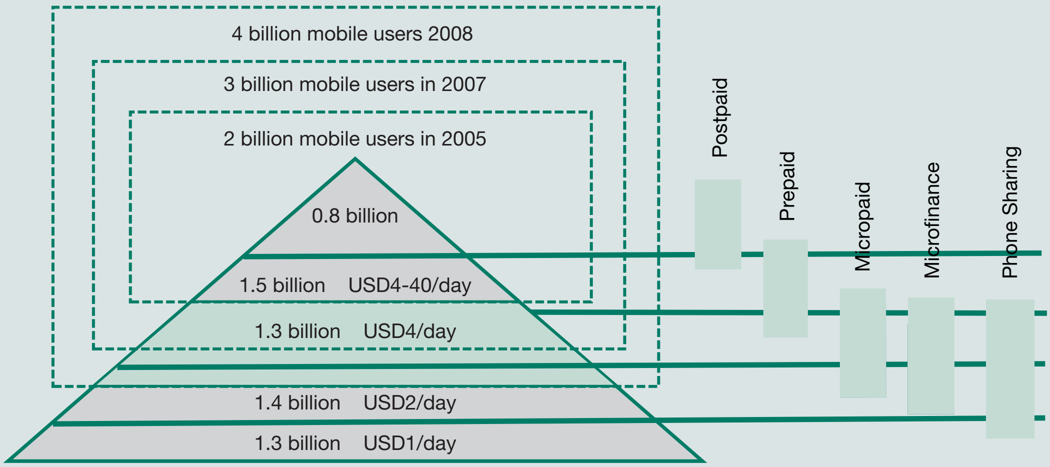
- Microfinance is funding support to enable hard-up consumers to purchase a handset and subscription. The loan is paid back in installments. The most famous case can be found in Bangladesh, where GrameenPhone launched the "Village Phones" programme. It has since been used in Uganda and Rwanda. In Rwanda, Village Phone aims to create over 3 000 new small businesses within the next three years. Five thousand new businesses have been created in Uganda since 2003. The Grameen Foundation and Nokia are looking into replicating the model in other countries.

5. The mobile operator Orange for example, is offering prepaid cards for USD 10 cents at much lower tariffs than in France where the lowest price is EUR 10.

A microfinance loan of approximately USD 200 allows the Village Phone operator to purchase a mobile phone kit. The kit comprises a Nokia handset, a SIM card preloaded with prepaid airtime, an external antenna set (including a booster antenna, a coupler, and a cable), and marketing materials. The loan is usually for up to nine months, at an interest rate of not more than 4 per cent. Village Phone operators are typically able to repay their loan within six months, from their revenues.

- Phone sharing is widely used in the low income segment. A phone is shared within a family or among friends, whoever uses the phone and has some small change available pays to upload the prepaid account.

Figure 21 – The Global Income Pyramid



Source: Frank Oehler, Head of Business Development, New Growth Markets, Nokia Siemens Networks.

StatLink http://dx.doi.org/10.1787/568545403552

Box 18 - **Below one cent price for a message (SMS)**

MXit which was originally an acronym for "message exchange" is a free instant messaging software application developed in South Africa that runs on internet enabled (GPRS/3G) mobile phones. MXit allows the user to send and receive text and multimedia messages to and from phones and PCs connected to the Internet. These messages are sent and received via the Internet, rather than with standard SMS technology. MXit does not charge for sending and receiving messages but some mobile operators do charge for GPRS/3G data although this is much cheaper than traditional SMS messages, a fraction of 1 cent (ZAR) per message compared to the normal SMS rates of approximately 75 cents (ZAR). For the price of one SMS, MXIt users can send several thousand messages.

MXit has now more than 11 million registered subscribers, of whom 9 million are located in South Africa. There are more than 1 million subscribers in more than 150 countries. On a typical day, MXit receives about 25 000 new subscribers and more than 250 million messages have been transmitted over its network. Its servers, located in Mauritius, Cape Town and Frankfurt, receive 25Gigabytes of data and transmit 145 Gigabytes of data per day.

Source: Herman Heunis, founder and CEO, MXit.

With such small amounts of money spent on phone calls, Africa has become a leader in advanced mobile advertising. Vodacom in South Africa has launched one service aimed at the high-end market, "Vodafone Live!", and two services for low income consumers, "Ad-Me" and "Please Call Me Back". The "Vodafone Live!" site has about 20 million page impressions per month and has about 1.5 million customers per month, making it the largest digital advertising property in South Africa. In addition to running banner ads, Vodacom offers branded content. In its "Ad-Me" service, a subscriber signs up, provides limited amounts of personal information and then receives targeted advertising messages. In return for receiving advertisements, discount vouchers, free competitions, special offers and give-aways are offered. The most successful service has been "Please Call Me Back" with 20 million messages a day in a country of 48 million people (see Box 19).

Box 19 - Ad-Funded Mobile Service Fulfilling Consumer Needs

In South Africa, when people had low call credit they would phone parents or friends, let the phone ring twice and then get a return call. This was a way of keeping in touch but consumed network time without spending. In response, Vodacom, set up the ad funded targeted at pre-paid subscribers, "Please Call Me Back". The message is sponsored by advertising and users set up an SMS which is free to send and the receiver gets an advert of up to 115 characters with the message. This allows the recipient to call back for free. Vodacom avoids the cost of missed calls and created an opportunity for advertising revenue.

Source: Vodacom.

The roaming phone war

Roaming allows customers to use their mobile phones while outside their home network. This is made possible through agreements between the customer's phone service provider and at least one network provider in the country visited. Now several operators in Africa are providing free roaming services. Celtel, which was founded by the Sudanese Mo Ibrahim, launched the world's first borderless network across East Africa in September 2006 (see Box 20). Under this initiative, customers can make and receive calls and send SMS messages at local rates, they can also use recharge cards bought in any of those countries. Prices are still not the same in each country. It still costs twice as much to call a Celtel customer in Tanzania

Box 20 - Regional Integration: World's First Borderless Network

In September 2006 after Celtel was acquired by Zain of Kuwait it launched "One Network", the world's first borderless network in East Africa (Uganda, Kenya and Tanzania). Celtel expanded this in November 2007 to a further nine African countries. Democratic Republic of Congo, Republic of Congo, Gabon, Burkina Faso, Chad, Malawi, Niger and Nigeria became connected offering over 400 million people in 12 countries the opportunity to communicate freely across geographical borders without roaming call surcharges.

On 14 April 2008, Zain extended the service to Bahrain, Iraq, Jordan and Sudan where more than 14 million Zain customers now have the same benefits. Zain has linked the Middle East to the 12 African One Network countries. The service is now available to more that 63 million Zain Group customers in 17 countries spread across Africa and the Middle East. Another three Middle East and three African countries were recently added.

Source: Mamadou Kolade, Director, Regulatory Affairs, Zain.

or to send an SMS from Tanzania compared to Uganda. But new initiatives are coming. Zain has launched a strategy in Kenya with the same price for local peak and off-peak calls and for local communications to subscribers of all networks. The 'Vuka' tariff undercuts the competition by 68 per cent for a local call to another network. Zain is applying a preferential rate for international calls to Zain subscribers in East Africa, and a slightly less advantageous rate for non Zain subscribers in East Africa.

Zain's model is being copied by competitors. In East Africa, Vodacom Tanzania, MTN Uganda and Safaricom Kenya established reciprocal free roaming agreements in 2007. But as of 2008, Vodacom prepaid consumers had only restricted access to roaming. MTN Rwanda recently joined this roaming agreement, which now covers 15 million subscribers on four networks. MTN is scaling up the offer by providing a free-roaming service, 'MTN One World', in all 21 countries where it is present in Africa and the Middle East. It has already started in Cameroon, Ghana, Nigeria and Benin.

With these free-roaming agreements, Africa is showing technological and business innovation. It is also an example of how telecommunications operators and regulatory authorities can work together to develop cost-effective solutions. Regulation concerns have prevented similar arrangements in the European Union, when for example Vodafone and Mannesman sought

Box 21 - **Solar Panel Energy: Distribution through Microfranchising**

The use of kerosene for lighting in developing countries causes serious health, environmental, educational and income problems for poor communities. SolarAid, a new and fast-growing non-profit organisation, estimates that there are 200 million kerosene lamps in Africa, with each one generating approximately a tonne of CO_2 over 10 years. It wants to replace all of them with solar lamps by 2020, either through its own operations or in partnership with others.

Sunny Money is SolarAid's new micro-franchise brand that applies the proven marketing and operational concepts of traditional franchising to small businesses in the developing world, and allows the rapid creation of distribution networks in rural and urban areas.

Sunny Money is recruiting a large network of micro-franchisees from poor communities in East Africa to sell solar lamps and replace kerosene. It works with local communities to recruit and train micro-franchisees, with strict training and sales targets. Sunny Money supports them with new product development, manufacturing, marketing and branding.

Results are surpassing expectations, promising huge potential for scale-up. Micro-franchisees show a high success rate and customer feedback is overwhelmingly positive. The plan is to scale this up across Africa and then into OECD markets too.

As well as microsolar entrepreneurship, SolarAid installs larger solar systems at schools, health clinics and community centres, carries out educational work on solar power and climate change in schools in the UK and East Africa, and is building the capacity of the East African solar industry through the construction of a Solar Academy in Lusaka, Zambia. It is also starting a pilot project in South America with indigenous communities.

Source: Nicolas Sireau, Executive Director, Solar Aid (www.solar-aid.org).

a merger in 2000. It was approved on the condition that the merging parties provide roaming tariffs to affiliated and unaffiliated mobile operators. As a result, the new entity had no incentive to offer pan-European services with low or zero roaming charges. The fact that African operators are present in a large number of countries and that regulatory intervention is limited has enabled the expansion of these pan-African networks tariffs.

Renewable Energy Phones

Solar panels are increasingly being used in Africa to power telecommunication networks. Orange has used this to extend affordable coverage to remote areas. Traditional fuels had to be brought by trucks, often over huge distances. Fossil fuels are expensive and unreliable, since there can be blackouts when supplies run out. Orange has substituted traditional power by solar panels at 200 radio stations in Africa where there is no electricity grid. Energy costs account for up to 25 per cent of total costs. Solar radio stations have two generators, one permanent and the other on backup. Solar base stations do not need air-conditioning and consume little. Batteries to stock solar energy can last up to four days. These radio stations are currently producing excess energy eleven months of the year and it is given to local communities to recharge mobile phones. About 1 000 solar radio stations are planned for 2009 in Africa in line with Orange's target to have 25 per cent of its energy based on solar technology by 2015 and to attain 20 per cent reduction in its CO_2 emissions by 2020.

Pro-Development Innovative Applications

E- Banking for Africa

In the absence of collateral to secure loans from banks, extended families in Africa create their own 'family pot" of money. There are also a revolving credit schemes called "susu" in Ghana, "esusus" in Yoruba, "tontines" or "chilembe" in Cameroon and "stokvel" in South Africa. In a typical scheme, each member of a group of perhaps 10 people agree to contribute USD 100 to a fund. When the fund reaches a threshold, say USD 1 000, it is lent to one member. As soon as the money is repaid it can be lent to another member. This funding, which requires a lot of trust, is often the primary source of capital in the informal sector and generally works well because of peer pressure. According to an Research ICT Africa survey in 2007/2008, around 30 per cent of respondents in 17 Sub-Saharan countries, borrow from family and friends[6]. The bill of exchange, which is a Western Union type of service, is also largely used in Africa to make remote payments from one individual to another.

Digital technology is helping traditional banking and payment practices in Africa. The Sente service is an informal practice in Uganda to send money from one individual to another using mobile technology. A person who wishes to send money buys a mobile top-up voucher from a local seller. This person charges the mobile of a local village middleman who passes an agreed amount of cash to someone else living in a different area. The middleman retains a commission on his phone in the form of pre-paid minutes that he sells to other villagers, becoming also a small-scale service provider. The M-Pesa service in Kenya formalises the Sente service by allowing its customers to transfer money using their Safaricom mobile phones. M-Pesa users do not need a bank account – only about 26 per cent of the population had a bank account in 2007, according to a household survey[7]. M-Pesa has attracted 5 million customers, about 13 per cent of the population in less than two years.

The M-Pesa model is being copied in different forms across Africa. The technologies and business models used vary considerably. SMS, voice or Interactive Voice

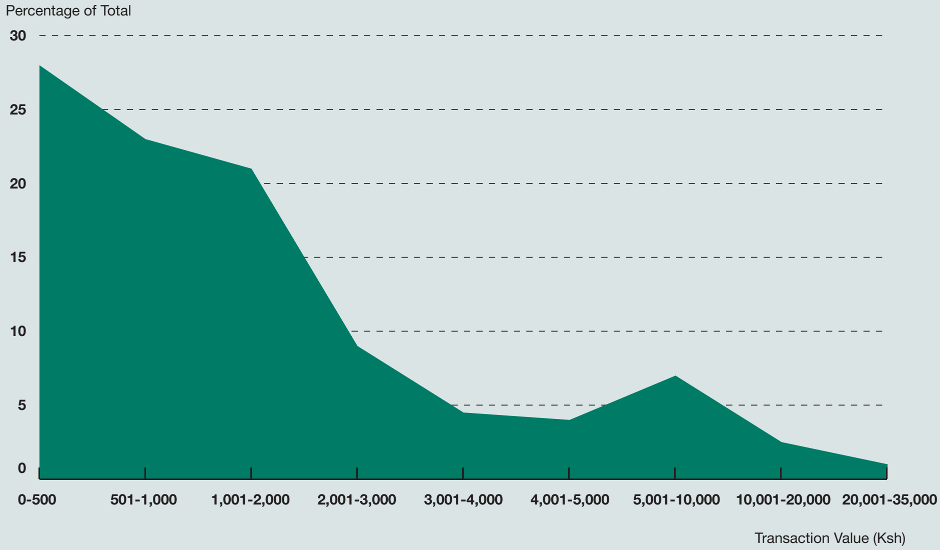
6. Gillwald, A. and C. Stork (2007), "Towards and African e-Index: ICT Access and Usage across 16 African countries," LINK Centre, Witwatersrand University.

7. Gillwald, A. and C. Stork (2008), "Towards Evidence-based ICT Policy and Regulation: ICT Access and Usage in Africa," *Vol. I, Policy Paper Two, Research ICT Africa*, www.researchICTafrica.net.

Box 22 - M-Pesa leads Mobile-Payments in Kenya

M-Pesa was launched in March 2007 in Kenya, where it has reached 5 million customers. Money is transferred from one individual to another by SMS with any mobile phone that has a SIM-enabled card. Individuals can register at any agent kiosk by showing an identity card and pay no registration fees. Individuals buy airtime that is transferred to the mobile phone account of the recipient who can cash out at another agent kiosk. Most transactions are below KSH 2 000.

Figure 22 - Transactions with M-Pesa in Kenya



Source: Vodafone.

StatLink http://dx.doi.org/10.1787/568575565355

M-Pesa has been successful because it relies on traditional practices and structures and modernises these features. It is indeed a model based on indigenous payment practices, extended mobile phone networks and a large distribution network. The distribution network is based on agents who were already present in markets. Agents receive basic training from M-Pesa. Only three months after the launch of M-Pesa, the service had 400 agents, compared to 450 bank branches and 600 ATMs in Kenya. By 2009 M-Pesa had 3 400 agents. It is simple and quick, taking less than 30 seconds to carry out a transfer.

Another important aspect of M-Pesa is its adaptability to local specificities. It recently started in Afghanistan, instead of using the Kenyan SIM toolkit menu on the mobile, the provider is delivering a user interface model based on voice recognition that is adapted to the low literacy levels in the country. In Kenya, M-Pesa plans eventually to include bill payments and international remittances.

Source: Vodafone Status Reports in December 2008 and author.

Response (IVR), Unstructured Supplementary Services Data (USSD) and SIM toolkits can be used on standard mobile phones typically present on a large scale in Africa. SMS, voice and USSD are used in South Africa by Wizzit, First National Bank (FNB) and Amalgamated Banks of South Africa (ABSA). These are open systems independent of the mobile network operator. SIM toolkits are used by M-Pesa in Kenya and MTN Banking in South Africa. These use proprietary systems where only members can transfer funds.

Box 23 - WIZZIT: First Entity to Offer Mobile-Banking to the Unbanked

WIZZIT targets 13 to 16 million people who do not have bank accounts or do not use accounts they have. WIZZIT is the first entity to offer a mobile phone based bank account.

- The WIZZIT is a fully functional bank account against which you can set up debit orders and have your salary deposited electronically from any bank.
- Through the use of secure technology, clients can conduct financial transactions, remit money, pay accounts, buy airtime, and get their balance all through their mobile phone 24 hours a day.
- Account opening takes about two minutes and only requires a copy of an identity document.
- Accounts have affordable transaction fees, no monthly fees and no minimum balance.
- The technology works on any cell phone and across all networks.
- Payments can be made to any bank account or be received from any account.
- An alternative to the high costs, security and inconvenience of accessing and storing cash.
- A way to avoid long queues, travel costs, time and inconvenience.

WIZZIT has, through relationships with the South African Post Office - 2800 outlets- and ABSA -800 outlets-. (WIZZIT is a recently launched Division of The South African Bank of Athens Limited.)

Source: Brian Richardson, Founding Director, Wizzit.

More advanced technologies such as Wireless Application Protocol (WAP) and HTTPS are being used by NedBank, FNB and ABSA in South Africa. These are only accessible to those who have enabled handsets. Payments are also being facilitated by Near Sound Data Transfers (NSDT) software developed by Tag Attitude which is compatible with standard mobile phones. NSDT is being tested in Zambia, South Africa, the Republic of Congo, and Democratic Republic of Congo and is about to be launched in Ghana, Nigeria and Mali.

The African business models provide new channels for payment and banking. When the services have the support of banks, they comply with banking regulations. Wizzit in South Africa belongs to the Bank of Athens and can be used by any mobile phone operator (see Box 23). A joint venture MTN Banking in South Africa between the mobile phone operator MTN and Standard Bank is another example.

There is a regulatory gap with banking services provided by mobile phone operators. While mobile phone operators are accountable to telecommunications authorities, the scope of intervention of financial regulation is often undefined. Central banks responsible for monetary and fiscal policy in Africa have not started looking at e-payments, e-banking and other services. There is presently no mention of electronic transactions and e-currency in regulatory frameworks. M-Pesa in Kenya belongs to the telecommunications operator Safaricom and is not supported by any bank. M-Pesa was only able to start after lengthy discussions with local authorities. M-Pesa argued that it was transferring money, not taking deposits and so remains out of the scope of financial regulation.

However, the difference between a payment and a deposit is merely defined by the time the money remains in the system. Frontiers between telecommunications and financial services are easily blurred. And as African banks rely heavily on revenues from transaction fees, M-Pesa represents a strong competitor and has made a strong impact in its two years of operation. However, when the company announced in December 2008 that it would expand into initiating and receiving international remittances from the UK through an arrangement with Western Union, Kenya's Ministry of Finance announced plans to audit M-Pesa arguing there was a risk to customers. It appears that much of the pressure for the audit originated from the 48 commercial banks in Kenya. Last year Kenya received approximately USD 1.6 billion in international remittances which is around 5 per cent of GDP. At an estimated amount of USD 283 billion in 2008 according to the World Bank, global remittances attract much interest. Inward remittances are larger than ODA flows (excluding debt) in countries such as Botswana, Ghana and Kenya, six times larger in Nigeria and three times in South Africa in 2007[8]. Orange, Zain and MTN are already exploring the possibility of launching this service.

Mobile-payments and banking are quick and easy to use. This could enable rapid take up by unbanked population. According to the 2007/2008 Research ICT Africa survey the main reason people do not have a bank account is because they do not have enough regular income. Zero transaction costs were highlighted by many respondents as a reason for sending air-time instead of cash. M-Pesa for example, is particularly attractive for small transactions. In order to send KSH 1 000, Western Union would charge a fee of KSH 500 while M-Pesa would ask 30 KES if the money is sent to M-Pesa users and 75 KES if it is sent to non users[9]. The technology could eventually be used to collect the transaction history of customers, enabling them to obtain a favourable credit rating.

Recent entrants planning to expand or begin providing similar services are CelPay in Democratic Republic of Congo and Zambia, Orascom in Algeria, Tunisia, Egypt and Zimbabwe, Monitise in Uganda, Burundi, Democratic Republic of Congo, Ethiopia, Kenya, Rwanda, Tanzania and Zambia, Globacom in Nigeria, Zain in Kenya, Tanzania and Uganda, Orange in Mali, Côte d'Ivoire, Kenya and Egypt and the Cooperative Bank of Kenya in Kenya. With only 19.8 per cent of individuals keeping their money in a bank account in a sample of 17 African countries, and more than 30 per cent worried about being robbed or losing the cash, the potential for developing mobile-banking seems high.

Sunny future for E-Agriculture

Market information is difficult to obtain in Africa and costly because of the poor state of telecommunications and transport. Market Information Systems (MIS) have long been established to collect data on prices and sometimes quantities of widely traded agricultural products. This is sent to farmers, traders, government officials and consumers through message boards, radio and print media.

ICT-based systems have started to emerge in Africa, providing a fast and relatively affordable flow of information on agriculture and fisheries. There are two major initiatives in East Africa. In Kenya, SMS Sokini provides agricultural information through SMS text messages for a fee. The project is run by a partnership between the Kenyan Agricultural Commodities Exchange (KACE) and mobile operator Safaricom. Information kiosks are located near where agricultural commodity buyers and sellers meet, providing low cost access to farmers. KACE workers collect the information from the kiosks and send it to farmers, buyers and exporters on text messages. In 2005, in Uganda, the Women of Uganda Network (WOUGNET) started to send SMS texts with market prices to 400 rural farmers with financial support from the Technical Centre for Agricultural and Rural Cooperation ACP-EU (CTA). Workers collect information from markets and data is posted on the Busoga Rural Open Source Development Initiative (BROSDI) website. Other workers translate the information to Luo, a local language, and send it to farmers by SMS. Farmers can request more information by replying to the SMS. WOUGNET is providing free mobile phones and free access to this service.

8. Comninos, A., S. Esselaar, A. Ndiwalana and C. Stork (2009), "Mobile Payment Systems: Unlocking Africa's Development Potential," *Towards Evidence Based ICT Policy and Regulation in Africa, Volume 1, Policy paper 4, ISSN: 20730845.*

9. Comninos, A., S. Esselaar, A. Ndiwalana and C. Stork (2009), "Mobile Payment Systems: Unlocking Africa's Development Potential," *Towards Evidence Based ICT Policy and Regulation in Africa, Volume 1, Policy paper 4, ISSN: 20730845.*

Box 24 - Manobi: African Innovation for Smallholder Farming

Since 2002, Manobi a company based in Senegal, brings farmers services to fill their market linkage gaps:

- In Niayes, a farmer checks market prices in real time on his/her mobile phone to negotiate with the wholesaler and obtain the best prices.
- In Tambacounda, Senegal, groups of Sterculia gum growers use their mobile phone to inform their contract buyers about their inventory.
- In Sikasso, Mali, mango growers record information on every step of the process to trace their products for export markets in compliance with Global Gap requirements.

These examples show how Manobi uses mobile phone technology to help small scale farmers play a more active role in the product value chain. An innovative business model developed by Manobi supports the delivery of the services while creating a sustainable ecosystem for the farmers and all the value chain operators.

This model is going to be extended in West and Central Africa in partnership with international organisations and private foundations which have joined Manobi aiming to reach 650 000 farmers by 2011. Mobile operators and suppliers also support the project which makes rural communities much more attractive by transforming the mobile phone into a business tool.

Source: Daniel Annerose, CEO, Manobi.

In West Africa, two initiatives are expanding. Xam Marsé ("Know your market" in Wolof) in Senegal established by the Manobi Development Foundation provides commodity prices information for farmers (see Box 24). This was launched on 2002 after two year of research. It allows farmers in their fields to access market prices which are collected by specialists. For a small fee farmers can receive market information for selected crops, mainly vegetables. Farmers can access information on their crops and the prices in markets where they normally sell as well as in other distant markets. Xam Marsé makes use of all currently available communication channels on mobile phones — SMS text messages, Multimedia Messaging Service (MMS) that includes images, video and audio and the Wireless Application Protocol (WAP) that enables access to internet on a mobile phone.

Esoko Networks (known previously as TradeNet) was started in 2004 by the Ghanian software company BusyLab. Esoko has a website where more than 800 000 prices from hundreds of markets are quoted, with a focus on Sub-Saharan Africa. Because only a small percentage of users are active on the internet, Esoko has relied on an SMS platform. Users can sign up to receive weekly SMS alerts on commodities for a fee and the cost of the SMS. Users can also upload offers to buy and sell products via mobile phone and make precise price requests on commodities in a country receiving the information by SMS.

The SMS messages enable farmers to access accurate information at an affordable price, typically 1/7th of the cost of a call and up to an estimated 1/10th of the travel cost in some cases. The information has increased the bargaining power of farmers, who in the past had little alternative but to sell their goods to the wholesalers located nearest to them.

There are several obstacles to the wider use of e-agriculture technology however. Even though 39.1 per cent of the African population owned a mobile phone in 2008, many unprofitable rural areas are not covered by mobile services. E-agriculture cannot anyway answer all of farmers' problems such as poor transport.

Box 25 - **Esoko: Large Scale Market for Agricultural Products in West Africa**

Far from consumer zones in northern Ghana, where infrastructure is notoriously lacking and production is seasonal, Kujo Asumah is a smallholder farmer cultivating groundnuts, soya and maize. Like many farmers on a small wage, knowing the price of his crop in numerous markets is essential to his livelihood. Recently, his producer co-operative registered him for Esoko's price alerts for all major markets in Ghana. When he was offered GHS 320 for his product in Tamale, he knew he could get much more 700 km away. With the information received on his mobile phone, he decided to ship the groundnuts to Accra and sold the crop for a higher price, doubling the income earned.

Agriculture in developing countries is one of the final frontiers to benefit from the technology revolution of the last two decades, and Esoko's web and mobile based market information system (MIS) is on the forefront. Esoko seeks to improve incomes and build healthier, more efficient markets by disseminating market information via mobile. Built by Ghanaian software company BusyLab, Esoko began in 2004 as a platform used to collect and distribute price information using SMS and email. Since then, various partners have used the software and helped Esoko evolve and respond to the realities and opportunities in the field. Currently in ten countries, projects range from establishing a regional MIS covering three value chains for USAID's Agribusiness and Trade Promotion (ATP) project in four West African countries to helping a Ghanaian animal feed company better manage its local supply chain for maize.

With Esoko's suite of tools, farmers and traders can receive targeted, scheduled text messages on prices for different commodities, offers, or weather. Scout, a new feature to be released later in 2009, includes an automated polling system to track and monitor crop activities among suppliers or inventory among distributors; responses are sent by SMS and displayed on GIS maps. Esoko's platform also helps businesses and associations market their services by creating websites and publishing SMS messages to thousands of users profiled on the system. Partner organisations can license Esoko — as a small business; a large association or project; or a franchise rolling out a country-wide program — and also benefit from Esoko's training and support services to assist with the design and implementation of a successful and sustainable market information system.

Source: Sarah Bartlett and Laura Drewett, Esoko Communication Director and Partner Director.

The information systems are difficult to sustain. In Ghana, TradeNet has had to hire and train agents to collect information, which anyway can be easily pirated. Manobi subsidises the collection of market data. Esoko has been subsidising SMS alerts for individuals, but most people prepay for their text messages, so it is now only subsidising SMS alerts for individuals in Ghana. The challenge is to provide information that farmers feel they have to pay for. Farmers and traders are not using radio-based MIS in Sub-Saharan Africa because the information does not meet their needs so the providers will have to tailor their services more to the needs of users.

Capacity building, even literacy programmes for farmers, is also important for the internet and SMS usage. But e-farming is continuing to evolve and not just in Africa. In Cambodia, the Canada Agricultural Market Information Project (CAMIP) is developing an SMS system that enables farmers to access commodity price information. The difference with respect to existing initiatives in Africa is that in this case farmers are trained through Farmer Marketing Schools (FMS) not only to use the system but also to improve their operations by focusing on packaging, bargaining, post harvest quality and peer networking.

Box 26 - **Bringing People and Markets Together: The Impact of ICT on Grain Markets in Niger**

The majority of the population in Niger are rural subsistence farmers. Grains (primarily millet) are dietary staples, accounting for over 75 per cent of rural households' caloric consumption. These are transported from farmers to consumers through an extensive system of markets that run the length of the country, which is roughly three times the size of California.

As grain markets occur only once per week, traders and farmers have historically travelled long distances to markets to obtain market information. This not only requires the cost of travel, but also the opportunity costs of traders' time. Between 2001 and 2006, however, cell phone service was phased in throughout the country, providing an alternative and cheaper search technology to grain traders, farmers and consumers.

Aker (2008) shows that the introduction of cell phone towers in Niger reduced differences in grain prices across markets by 20 per cent and the intra-annual variation of grain prices by 12 per cent. Cell phones had a greater impact on price dispersion for markets that are farther away, and for those that are linked by poor-quality roads. This effect also intensified over time: the reduction in inter-market price dispersion increased as a higher percentage of markets have cell phone coverage, suggesting that ICT is more useful as a greater percentage of people have coverage.

The reduction in price differences seems to be linked to a reduction in search costs: Since cell phones reduced traders' search costs by 50 per cent, they were able to change their marketing behaviour. Grain traders operating in cell phone markets searched over a greater number of markets, had more market contacts and sold in more markets as compared to their non-cell phone counterparts. This suggests that traders in cell phone markets were better able to respond to surpluses and shortages, thereby allocating grains more efficiently across markets and dampening the price differences.

Cell phones have not only helped traders in Niger. Between 2001-2006, cell phones were associated with a 3.5 per cent reduction in average consumer grain prices, as well as an increase in traders' profits. Holding all else equal, this would have enabled rural households to purchase an additional 5-10 days' worth of grain per year. In 2005, the year that Niger experienced a severe food crisis, cell phone markets in food crisis regions had relatively lower consumer grain prices. This suggests that the presence of cell phone towers could have averted a worse food crisis. Since a majority of rural households in Niger are net consumers, lower consumer prices suggest that people were better off. In sum, the experience in Niger provides powerful evidence of the potential impacts of information – and in particular ICT – on agricultural markets and producers', traders' and consumers' welfare.

Source: Jenny C. Aker, Visiting Fellow (Centre for Global Development) and Tufts University.

E-Education's steep learning curve

The adoption of ICT technologies in education is moving from small projects to national government programmes. With the exception of South Africa and Mauritius, ICT educational policies have only been developed in the last five years. By 2007, 39 countries had ICT education policies in place or under implementation. While in North Africa and countries such as Mauritius, Ghana and Botswana, ICT education programmes have made significant progress, in the rest of Africa the lack of accessibility to a mainstream

Box 27 - Mistowa: Capacity Building for e-Agriculture

The USAID Market Information Systems and Trader's Organizations in West Africa (MISTOWA) partnered with a private company, BusyLab, by helping to establish over 100 "Agribusiness Information Points" (ABIPs) in 13 countries throughout West Africa. The ABIP managers were trained in the use of Tradenet and the collection of data to feed into the system, and in turn trained producers and traders to use the system. While the MISTOWA project has ended, TradeNet (now rebranded "Esoko") continues in widespread use.

Source: Judith E. Payne, e-Business Advisor and AFR ICT Coordinator, US Agency for International Development.

network and the shortage of trained staff are acute and threaten the implementation.

National ICT educational policies in 53 countries surveyed by the World Bank in 2007, highlighted that beyond the need for connectivity and skills, technology training for teachers, development of digital content and increasing access to ICT tools are key factors to be reinforced[10]. There are important regional initiatives on teacher training. The Teacher Training Initiative for Sub-Saharan Africa (TTISSA) is a 2006-2015 programme co-ordinated by UNESCO that aims to increase the quantity and quality of teachers in 46 Sub-Saharan countries. Concentrating on mathematics and science, the African Virtual University teacher ICT education project has since 2006 involved 10 countries in partnership with the AfDB and NEPAD. The NEPAD e-schools initiative will focus on ICT training under its Teacher Professional Development and Training framework (see Box 28). Schoolnet Africa and World Links are also involved in ICT teacher development in 41 African countries. South Africa plans to introduce an Advanced Certificate for Education on ICT Integration that will be compulsory for school principals.

Among interesting initiatives, the Virtual University for Small States of the Commonwealth (VUSSC) was set up to create post-secondary skills courses. Botswana, Comoros, Gambia, Lesotho, Namibia, Seychelles, Sierra Leone and Swaziland are taking part. The courses were created with WikiEducator which enables materials to be adapted to local demands. Staff from universities are being trained to develop course content. The African Academy of Languages has been supported by the African Union to promote the use of African languages in internet, with education as a special axis. Intel is developing the skools.com project to provide e-learning. Edubuntu, Learnthings and Mindset Network organisations are also promoting local digital content in Africa.

Second hand and refurbished computers are widely used. Computer Aid International collects old computers from UK companies which are data-wiped, refurbished and tested. Non profit organisations can apply for refurbished computers and are charged a 39 pound sterling (GBP) handling fee plus shipping. More than 80 000 computers have been distributed in Eritrea, Kenya, Tanzania, Uganda and Zambia. The UK based charity Computers for African Schools (CFAS) has similarly distributed 13 000 donated computers mostly in Zambia, Zimbabwe, Malawi and Zanzibar. Digital Links, another UK-based entity, has distributed 50 000 refurbished computers. The US-based World Computer Exchange has sent more than 42 shipments of second-hand computers to 25 countries. The NGO SchoolNet Africa has distributed second-hand computers in Cameroon, Mali, Mozambique, Namibia, Nigeria, Senegal, Swaziland, Zambia and Zimbabwe. Importantly, SchoolNet Namibia, Mozambique, Nigeria and Uganda, Computers for Schools Kenya and World

10. Farell, G. and S. Isaacs (2007), "Survey of ICT and Education in Africa: A Summary Report, Based on 53 Country Surveys," Washington, DC: infodev/World Bank.

Box 28 - E-Schools NEPAD's Initiative: Africa's Schools Connect to the 21st Century

First announced in 2003 at the Africa Summit of the World Economic Forum in Durban, the NEPAD e-Schools Project focuses on providing end-to-end ICT solutions that will transform schools across Africa into NEPAD e-Schools and connect them to the Internet. The solution also includes the provision of content and learning material and the establishment of health points at schools. In each country, the programme aims to assist African governments to transform 50 per cent of their secondary schools into NEPAD e-Schools by 2015 and all primary and secondary schools within a further ten years of this date. In total more than 600 000 schools across the continent will enjoy the benefits of ICT and connectivity to the Internet upon completion of the project.

Five consortia consisting of private sector companies and non-governmental organisations led by AMD, HP, Oracle, Microsoft, and Cisco Systems sponsored the demonstration project, which aims to implement six NEPAD e-Schools in each of the 16 participating countries during a 12 month period. The Demo aims to accrue a body of knowledge about implementing ICT in schools across the African continent in based on real life experiences, in order to inform the massive rollout of the NEPAD e-Schools Initiative. Participating countries are Algeria, Burkina Faso, Cameroon, Egypt, Gabon, Ghana, Kenya, Lesotho, Mali, Mauritius, Mozambique, Nigeria, Rwanda, Senegal, South Africa and Uganda. Ten countries have already launched NEPAD e-Schools in their countries, equipment has been installed, teachers have been trained and pupils have been exposed to the wonders of new technology in more than 80 community schools in Africa.

Source: Dr. Katherine W. Getao, NEPAD e-Schools: Project Manager.

Links Zimbabwe are creating computer refurbishment centres that support the installation and maintenance of projects. The shipment of refurbished and second hand computers to Africa is nevertheless raising increasing environmental concerns since a high rate of imported devises are out of use and are improperly disposed of.

There are three large initiatives on new low-cost computers. The One Laptop per Child non-for-profit project distributes a low-power computer for USD 188. 31 000 devises are already present in Ethiopia, Ghana and Rwanda. It targets poor children and uses free and open source software, but the results have been disappointing. Education ministries in India and China saw the teaching materials as a challenge to their authority and cultural systems. Unlike Linux, the project did not develop innovative ways to attract independent developers to build up open source software. In addition, the companies financing the project, Google, AMD, Qanta, Marvell and Red Hat are suffering from the crisis and 50 per cent of One Laptop per Child workers will be fired in 2009. The project aims at creating now an educational hub in Sub-Saharan Africa. ClassMate PC is another initiative where low cost USD 230 - USD 300 computers are being sold to Africa with greater success (see Box 29). The Indian Institute of Technology and the Indian Institute of Science were developing a USD 10 laptop, claiming that the One Laptop per Child USD 100 was still unaffordable for the population, but by 2008 the price was already at USD 100.

Almost all African countries are making use of open source and proprietary software. Despite a lack of qualified personnel, some initiatives such as the Free and Open Source Software Foundation for Africa (FOSSFA), Bokjang Bokjef in Senegal and LinuxChix Africa are still promoting the use of open source in Africa. The NGO SchoolNet has been a pioneer in promoting open source software through its OpenLab model in Namibia, soon to be copied in Mozambique.

Box 29 - ClassMate Project: South – North Innovation

The Intel-powered classmate PC is Intel's low cost personal computer developed for children in developing countries. The model launched in 2006 and a new convertible design (an addition to the Intel-powered classmate PC family, joining the successful clamshell design), has been designed to promote inventiveness, interactiveness and conviviality at schools through the results of more than two year period ethnographic studies. Initially designed in Mexico and Egypt and implemented in Nigeria (first pilot), the computer is quickly expanding to Europe and US. The price and functionalities of this computer (light, hard, water-resistant keyboard, with touchscreen, virtual keyboard, electronic blackboard, 180° screen rotation, built-in microphone, speakers and wireless) have indeed attracted consumers in OECD countries. In Portugal, the government has put in place a programme "Magalhães Initiative" to provide PCs to all elementary school children via the local computer manufacturer and telecom service providers. Same locally build schemes have been developed through Axioo and Zyrex (Indonesia), HCL Infosystems Mileap-X (India), CMS Computers (UK), and MPC, M&A technology and Computer Technology Link (US). Intel-powered classmate PC allows open source and proprietary software and OS.

Source: Isabelle Flory, Institutional Relations, INTEL.

Catching up on e-Government

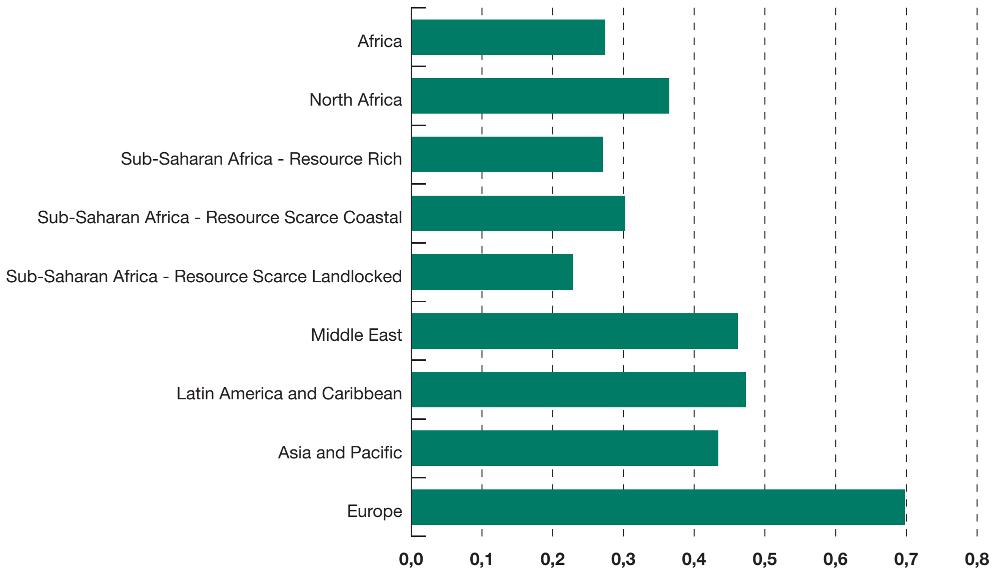
E-governance is intended to improve government services but it has not yet got a big foothold in Africa. The United Nations has developed an e-government indicator that marks governments on their online presence, telecommunications infrastructure and human capital. The survey shows that Africa is lagging behind other regions with less than two thirds of the average scores obtained by the Americas, Asia and Oceania and with less than half of the score obtained by Europe. There is a large gap between North Africa and Sub-Saharan Africa resource poor landlocked countries as can be seen in Figure 23.

Some attempts are being made to advance government through the web however. In Cape Verde, all government services are being integrated through a one-stop-shop which can be accessed physically, by mobile phone or internet. One of the major challenges, as acknowledged by the Operational Centre for the Information Society in Cape Verde, was to eliminate bureaucratic barriers to create a single front office. It required a lot of political will to create a portal that service-oriented rather than directly referring to the various government branches. The key element to support the transfer of powers and competences in this reduction of intermediation was strong political will.

A wide range of services are available, including electronic payments through mobile phones and the internet through a system developed with the Interbanking Society for Payment Systems, in which all commercial banks in the country are shareholders. All forms are available in electronic format. Birth, marriage and other certificates can be requested online and through mobile phones in a system that many OECD countries cannot match for the degree to which paperwork is cut out. All state systems are integrated through a unified information system. Individuals can now create a firm in 60 minutes, where in the past it took 63 days by visiting several offices and filling in many forms. A unified document for car registration is also accessible online.

The government says it no longer uses paper format for any internal activity within or between ministries. Information is exchanged online through a unified system that integrates all activities, including registration, health and education, notarial, electoral and municipal services. The principle is to record information once and then consult it as necessary through the information

Figure 23 - **UN E-Readiness Indicator 2008**



Source: United Nations (2008), "The United Nations E-Government Survey 2008: From E-Government to Connected Governance," United Nations Press.

StatLink http://dx.doi.org/10.1787/568585134470

system. A database has been created with biometric information that is used by passport, security and criminal justice services. A new biometric identification card is being issued to citizens. E-government has also changed budget management (see Box 30).

The third Annual African E-Government forum held in Rwanda in March 2009 highlighted the growing interest in e-government services. In Nigeria, the government aims to use telephones and computers to automate government paper services. In the region around the capital, Abuja, authorities are starting to build a website so citizens can access information and send messages to the government. In Burkina Faso, the government is computerising accounting services so officials can check how much money has been collected and how much government departments need each day. In Rwanda and Ghana, the World Bank is supporting e-government applications to improve efficiency and transparency. South Africa is developing a paper-free tax declaration and payment programme (see Box 31) and Ethiopia in revenue management (see Box 32).

Despite the initial success of e-government services, the performance depends a lot on a country's institutional capacity and will to adapt to new ways, the transparency of processes seen as threatening jobs and cultural resistance to broad change in many societies. A lack of power, low literacy rates, the high cost of telecommunications and the shortage of broadband networks can also hamper e-government. In Cape Verde, the government has sought to maximise the use of mobile phones for e-government services since the penetration rate for mobile subscribers is 40 per cent, compared to 11.5 per cent for computer usage, 6 per cent for the internet and 0.35 per cent for broadband. In addition, the government is creating special centres for service delivery. Private telecentres can also provide certain services. The wide range of services available electronically is likely to create business opportunities helping people who lack access and/or skills.

E-reforms are needed for e-trade

E-government applications should also transform customs clearance, an area in crucial need of attention

Box 30 - Cape Verde's Financial Management System: Recent Developments

The aim of Cape Verde Government is to transform the archipelago into a "modern, competitive country, with social cohesion and justice, and environmental quality"(*). Consequently, the development of Information and Communication Technologies to establish an Information and Knowledge Society was defined as a strategic option and Electronic Government, in particular, was identified as a key pillar. Two main strategic orientations were defined for the E-Government platform:

i) Improve the performance and the efficiency of the Public Administration and;
ii) Re-engineer, streamline and automate processes to improve quality and reduce public service delivery time.

The financial management system also known as "SIGOF" integrates tax revenue, the federal government budget, the Controller's Office, and the Treasury. The system is being enhanced to incorporate monitoring and evaluation, increase security, and integrate with a Geographical Information System.

The Budget Office has reaped most gains in efficiency. The process of auditing and approving budgets for each State Department, which used to take one to three months, has now been shortened to just four days. The government is now also able to provide financial information more quickly and efficiently to foreign aid donors.

This transformational process has increased transparency, increasing the openness of government processes and procedures while reducing intermediaries and public service delivery time. Furthermore, it has enhanced tax collection, and reduced opportunities for fraud and corruption.

(*) Message by H.E., The Prime Minister of Cape Verde, Dr.Jose Maria Neves, Information Society Strategic Program, pg 15.

Source: Jorge Lopes, General Manager, Operational Centre for the Information Society, Cape Verde.

in Africa. The EU and United States are about to move to completely paperless trade and all exports from the EU will have to comply with paperless legislation by July 2009. EU importers will go paperless by January 2011, which could increase non-tariff trade barriers for African products, underscoring the need for African countries to accelerate the conversion to e-trade.

E-trade is present across the entire exporter-importer chain, from the time a product is bought and shipped, until it has been paid for and received. But there are also different customs procedures and regulations to comply with. A transaction typically involves 27 to 30 different parties, 40 documents for export, 90 per cent of which are currently done on paper. In addition, each transaction requires 200 data elements, 30 of which are repeated 30 times at least, and the re-writing of 60 to 70 per cent of the data at least once. As a result, 10 per cent of the value of all goods shipped worldwide in 2008 was spent on administration, an estimated USD 550 billion. To reduce these costs there are several initiatives promoting e-trade such as the United Nations Electronic Documents (UNeDocs), the European Fiscalis Program on Customs 2013, the US Customs and Border Protection and Canada's and Australia's Paperless Trade Adoption. These promote the development of a single window where data is available in any way that a regulator wishes to view it.

Box 31 - **South Africa: Paperless Tax Procedures**

In early 2007, the South African Revenue Service (SARS) embarked on an ambitious programme to maximize tax payer compliance through the use of ICT. The greatest improvements have been obtained so far in the individual income tax return process where a complex, paper-based, labour intensive process was simplified and automated through an electronic format.

The 2008/2009 Employers Tax season has been a huge success with the receipt of more than 250 000 submissions representing 15.5 million employee tax certificates, up from 11.7 million in 2007. More than 90 per cent of submissions were received electronically using a new electronic channel, branded e@syFile. Employees no longer needed to complete blank tax returns. For the first time no blank tax forms were dispatched to tax payers, which saved SARS considerable printing and postal charges. The SARS electronic internet platform (e-Filing) is growing rapidly with more than 2 million tax payers registered by 2009. This e-Filing system has shown the greatest gains. The number of returns submitted electronically by the deadline has increased from 580 852 in 2007 to 1 376 702 in 2008, an increase of 137 per cent.

One of the key challenges faced in 2008 was the accuracy of personal information on employee tax certificates, which affected the ability of SARS to match certificates and tax payers. Some tax payers requesting returns electronically also faced uncertainty of which fields to fill in, indicating that further enhancements and education were still required. The next wave of modernisation will focus on other forms of income tax, such as Corporate Income Tax, and modernizing customs.

Under the auspices of the India-Brazil-South Africa (IBSA) Dialogue Forum, the three heads of Revenue Administration have agreed to share information on tax and customs matters, especially abusive tax avoidance and on common positions for trade facilitation, which is soon to go paperless in a large number of economies.

Table 2 – Comparative Statistics for Tax Season 2007 and 2008

Measure	As at deadline 2007	As at deadline 2008	Per cent change
Income Tax returns received	2 930 641	3 020 910	+3.08
Income Tax returns submitted manually	1 922 528	410 548	-78.65
Income Tax returns submitted electronically via branch	655 180	944 082	+44.10
Income Tax returns submitted via e-Filing	580 852	1 376 702	+137.01
Income Tax returns assessed	1 658 112	2 492 683	+50.33
Per cent of Income Tax returns assessed within 24 hours	10.1 per cent	76.1 per cent	+532.87

Source: International Relations Office, South African Revenue Service (SARS).

StatLink http://dx.doi.org/10.1787/574554881606

Paperless trade in Africa could decrease the time and costs of commercial exchanges. While South Asia is the worst performer in terms of the number of documents for export/import activities, Sub-Saharan Africa leads in terms of the time and cost of exports and imports: on average 75.8 days and USD 4 157 per container, according to the World Bank Doing Business 2009 report. These costs are twice as high as for OECD countries, Latin American and North African countries. In North Africa, import and export transactions on average require 35.25 days and cost USD 1 881 per container. These burdens on Sub-Saharan trade,

Box 32 - Fully Automated Services in Revenue Management in Addis Ababa

The Integrated Revenue Management System project in Ethiopia has fully automated services to over 300 000 customers of the Revenue Agency of the Addis Ababa City Administration, including new taxpayer registration, assessment of different tax types based on the relevant regulations, payment and collection, and clearance certificate generation. It has enabled the Tax Authority to collect more revenue as the system has facilities for tracking unsettled liabilities which in turn helps to track unsettled liabilities for further legal enforcement. The project has been fully operational since the 2003/2004-budget year.

Source: UNECA (www.aarevenue.net).

highlight the potential benefits of developing cross-frontier collaborative innovation (see Box 33). The extent to which SMEs can benefit from e-trade is not clear however. According to a recent survey undertaken by UNECA, small and medium companies in Kenya, Egypt, South Africa, Ghana, Senegal and Ethiopia have very varied levels of e-readiness and so their ability to integrate e-trade activities is compromised.

Another related issue is that of the health requirements of importing countries to prevent the spread of diseases. International food safety and food hygiene regulations now require all food be traceable from source. Radio frequency identification (RFID) tracking systems are being used in Africa to comply with these regulations. In Botswana there is one of the world's largest RFID livestock tracking, monitoring and management systems, involving every cow in the country, 3 million in 2008. This Livestock Identification Trace-back System (LITS) has a database on the production, processing and sale of meat. Although this project was set up to comply with EU regulations, it also allows livestock operators to optimise feeding regimes and to meet reporting requirements to health authorities. In Namibia, authorities are increasing the use of RFID to every cow in the country. In Kenya, a pilot RFID programme is being developed for cows (see Box 33). In South Africa, sheep and ostrich farmers use RFID systems.

The traceability of agricultural products is a new requirement in international trade and there is a global shortage of experienced agricultural supply chain traceability analysts. In addition, new standards such as the Global Partnership for Good Agricultural Practice (GlobalGap) and the Hazard Analysis Critical Control Point System (HACCP), are still evolving which makes it difficult to develop a computerised application. Traceability also has to accommodate the needs of different government departments and private companies, increasing the cost for businesses. Experience in Kenya shows that the cost of certification and meeting other requirements lead to smallholders dropping out. Community sites operated in Kenya and Senegal show that costs for external certification can be reduced significantly. A successful example of community group certification is the Fresh Food Trace web platform of the fruit-and-vegetable export company FRUILEMA GIE in Mali set up with Manobi and IICD on February 2008. This helps mango exporters in Mali to enhance the traceability of their products and to maintain GlobalGap certification standards. Farmers can use mobile phones to provide updates on their activities, information that is integrated in a system that can be accessed by buyers.

ICT could be cleaner

While ICTs account for 2.5 per cent of total greenhouse gas emissions, according to the International Telecommunication Union, their potential to reduce their own emissions and those who account for the other 97.5 per cent is large[12]. The impact on Africa is not yet clear however. New generation devises usually

12. International Telecommunication Union (2008), "ICTs and Climate Change: ITU Background Paper".

Box 33 - ICT to Overstep North-South Trade Barriers

Information and Communication Technology (ICT) enables people and organisations to work better across distances, to co-ordinate more closely and to bring together multiples sources of information on a common platform. These advantages are increasingly relevant in international trade to facilitate complex import and export procedures.

Over the past 10 years, developing countries have also become more engaged in international trade. Africa traded USD424 billion in 2007 – an increase of 16 per cent from 2006 – providing a significant source of income and economic growth to the continent. Microsoft believes that encouraging greater access to technology in the developing world provides an opportunity to facilitate trade, emulate best practices and overcome North/South barriers.

For example, in Senegal, the local ICT company Gainde2000 developed ORBUS, a paperless electronic single window solution based on Microsoft technology to facilitate preclearance formalities by linking multiple Government agencies, banks and importers and exporters. By putting in place the best available infrastructure from the outset, Senegal has been able to provide a full end-to-end secure paperless customs platform that enables the country to trade more effectively with the rest of the world. The solution is also being implemented in Kenya.

Another Microsoft partner, TradeFacilitate, developed an electronic platform that updates existing customs systems, including ASYCUDA (Automated SYstem for CUstoms DAta system implemented by the UNCTAD in the 1970s), to the latest technology standards for paperless trade – leapfrogging gradual improvements in infrastructure. This platform has specifically targeted small and medium enterprises (SMEs) in developing countries throughout Africa, Latin America and South East Asia so that they can benefit from the latest technology and meet paperless trade requirements from the US and EU. An African and APEC program will be rolled out in 2009 with the EU CP3 Group on Import/Export Electronic Trade for SMEs, with an initial pilot project launched in April 2008 for Ethiopian exporters. It is estimated by CP3 that the time elapsed between the initial transmission of data by an exporter and the receipt of permission to export will become minutes rather than the current paper-based 30 days through the use of the TradeFacilitate platform. CP3 warns that Ethiopian exports of USD923 million could be in jeopardy by 2011 and that 400 Ethiopian exporters are expected to benefit from access to the solution by 1 July 2009. Other countries currently in discussion to use the platform are Taiwan, Vietnam and Thailand.

As technology skills develop globally, innovative applications are increasingly being created locally to address the specific needs of developing countries thus benefiting them directly and enabling the North to learn from the South. In Kenya, Microsoft partner Virtual City Ltd. built a unique radio frequency identification (RFID) tracking solution to help Kenya's cattle farmers keep track of data on the medical history and whereabouts of each cow destined for the export market. By inserting a low-cost tracking device in cows' stomachs and digitizing the relevant data, cattle farmers in Kenya now meet EU food traceability regulations, thus reopening a market that had been closed in the past. The system can also easily be adapted for use in other countries.

As global trading systems change, large trading partners (US and EU) are increasingly imposing more stringent requirements on imports. Technology will help developing countries meet these requirements, ensuring continued market access and the ability to remain competitive in the long-run

Source: Frank McCosker, Managing Director, Global Strategic Accounts, Microsoft.

consume more energy for operating and cooling (for example third generation mobile phones) though environment-friendly innovations are increasingly being developed so that temperature requirements and adaptative power needs are less demanding. ICTs could have most impact in Africa by reducing the need for travel, which accounts for 14 per cent of the total worldwide greenhouse gas emissions. There will also be a key role in supporting early-warning, climate change mitigation and relief systems in Africa. According to the Intergovernamental Panel on Climate Change (IPCC), temperatures are could increase by an average of 1.4 to 5.8°C worldwide by 2100 in the absence of policies to stabilise and eventually reduce emissions, which will increase Sub-Saharan Africa's desertification. Countries most at risk due to climate change are Malawi, Ethiopia,

Box 34 - **Technological Innovation for Climate Change Patterns in the Sahel Region**

The Sahel region of West Africa experiences marked variability in rainfall associated with changes in atmospheric circulation and in tropical sea surface temperature patterns in the Pacific, Indian and Atlantic Basins. In particular, the decreasing rainfall in the Sahel region is among the largest effects of climate change worldwide. Since the 1990s, a variety of government and non-government organisations in The Sahel have worked with community-based structures to develop early warning systems (CEWS) for data on rainfall and food security. The major constraints for the sustainability of these traditional systems was the cost collecting and disseminating the information through monthly or bi-monthly meetings at local, regional and national levels. ICT-based CEWS are being increasingly implemented to assemble, analyze, and disseminate information that can mitigate the impact of crisis periods of drought. Taking into account that, according to the UN Emergency Relief, every USD 1 spent on preventing disasters saves between USD 4 and USD 7 in humanitarian emergency after a disaster, the use of ICTs on early warning systems is crucial

The Famine Early Warning Systems Network (FEWS NET) USAID-funded activity collaborates with international (for example, NASA), regional and national partners to provide timely and rigorous early warning and vulnerability information on emerging and evolving food security issues. With this system, professionals in US and Africa monitor various information including remotely sensed and ground-based metereological and crop data, as indicators of potential threats to food security. This is fundamental taking into account that according to the Human Development Report 2007/2008, Sub-Saharan Africa has the lowest density of meteorological stations in the world.

On another project between UNEP and Google, up to 120 environmental hotspots have been identified currently in the "UNEP Altas of our Changing Environment" publications. With images such as the forest fires in Sub-Saharan Africa and the decline of the Lake Chad, this application helps the environmental community to keep pace with recent changes. The TIGER Initiative is another project launched by the European Space Agency to focus on water resource management in Africa with the use of space technology. Their current projects in the Sahel include the tele-detection of humid areas, the evaluation and management of water resources, methods of groundwater development to remedy the inadequate natural recharge systems of the aquifers in the Chad Bassin in North Eastern Nigeria, and the development of integrated resource management policies in the Gash basin of the Sudan, Eritrea and Ethiopia which can serve as reference basin.

Radar Technologies France/USGS/UNESCO Watex, has identified an aquifer potential in Central Darfur over an area of 135 000 km². Such identification was made possible using new radar remote sensing technologies. The study has revealed vast stretches of land in central Darfur hosting enough ground water reserves to sustain 33 million people year round with 15 litres of water per day. These aquifers are renewable and easily accessible within a depth ranging from subsurface to 50 meters in unconsolidated sediments easy to drill. In an area which hosts 2.5 million people in Internally Displaced Persons (IDP) champs, this is a major achievement to ensure water supply.

In another initiative, Canada's International Development Research Centre (IDRC) has sponsored the Cyber Shepherd Initiative to enable Sahelian pastoralists to access accurate information on the status of grazing lands in order to help them co-ordinate their movements. Project members are working closely with communities to identify innovative ways in which ICTs can be used to harness traditional knowledge on natural resource management. In another project, the Food Insecurity and Vulnerability Information and Mapping Systems (FIVIMS) in collaboration with the Food and Agricultural Organisation (FAO) are working on building in Niger a more integrated food insecurity and vulnerability information system at national and sub-national levels to provide timely information to the policy-makers and members of civil society.

Source: International Telecommunication Union (ITU).

Zimbabwe, Mozambique, Niger, Mauritania, Eritrea, Sudan, Chad and Kenya (drought), Mozambique and Benin (floods) and Egypt, Tunisia, Mauritania and Senegal which have low lying coasts (see Box 34).

Information and communications technology can however have a negative environmental impact through e-waste, the biggest and fastest growing segment of manufacturing waste with between 20 million and 50 million tonnes generated worldwide each year, according to the UN Environment Programme. E-waste has been increasing in Africa since 2006, following dumps in China, India and Pakistan. Nigeria is becoming one of the fastest growing computer dumping grounds. At the port of Lagos trade in used computers is flourishing with 500 40-foot containers per month, 75 per cent of which are not repairable or resalable, according to the Basel Action Network (BAN), an environmental non government organisation. In addition, despite the growth of its ICT industries, Nigeria does not have the infrastructure for electronics recycling. So in shipyards, unprotected workers, many of them children, dismantle computers and televisions to find the copper, iron and other metals that can be sold. Workers earn about USD 2 a day this way. The remaining plastic, cables and casings are burned or dumped. Agbobloshie dump site in Accra, Ghana, is another bad example. According to research by the environmental journalist Mike Anane, only 10 per cent of imported computers are put into use, while the 90 per cent remain dumped at the site.

The Nigeria's University of Ibadan has found evidence of excess heavy metals in the soil, plants and vegetables near dumps. In Ghana, Green Peace found toxic metals 100 times above regular levels. The organisation also found chemicals such as phthalates which interfere with sexual reproduction and chlorinated dioxins that promote cancer. Even though the Basel Convention, a United Nations treaty, has banned the transfer of hazardous waste from developed to less developed countries since 1992, it has proven difficult to enforce. A 1995 Basel Ban Amendment prohibits the export of hazardous waste even for recycling.

In Ghana, European computer imports are often labelled "refurbished" or "usable second-hand goods", even if they prove to be of no use. According to the Nigerian Environmental Ministry, most of the 500 tonnes of electronic equipment imported each day is accompanied by unclear documentation. Since measures set by Nigerian authorities to halt imports of old computers, telephones and other material are not sufficient, the government is setting up a national committee. In South Africa, though levels or e-waste are not recorded, the Information Technology Association has partnered with the Swiss government to develop an e-waste model. African countries need to strengthen their own regulatory regimes to protect human health and the environment and donors are willing to help.

According to the US National Safety Council, in the United States alone there are more than 300 million obsolete computers, so policies that restrict hazardous materials in computers and stronger controls on re-exporting have to be pushed. Manufacturers must have recycling programmes that cover the entire lifecycle of their products. The European Union recently adopted a directive to restrict the use of certain hazardous substances in electrical and electronic equipment sold in the EU. There are a lot of programmes aimed at promoting the use of refurbished computers in Africa, which raises many questions especially when low cost new computers are becoming more available.

Human Capacity Building in ICT and Innovation Skills

Efforts to improve educational levels are crucial and are already being carried out by companies and organisations to fill critical skilled shortages in Africa. Several expanding ICT companies are unable to find adequately trained personnel. Microsoft's South African Innovation Centres and the International Youth Foundation promote the Student2Business job enablement programme that aims to place 10 000 graduates in jobs by 2010. IBM is setting up an Innovation Centre in Johannesburg to help companies develop ICT skills and workers meet business challenges. The centre will give access to 38 innovation centres and 60 R&D laboratories that IBM has worldwide. MTN is investing in skills development to deal with South Africa's human resources shortage. CISCO is also investing in skills development with the Global Talent Acceleration Program in South Africa.

The AfDB is investing in information and technology skills at two regional Centres of Excellence in ICT in Tunisia and Rwanda and in a High Tech Centre in ICT in Mali. These centres train senior level managers, entrepreneurs, government and private sector employees, and university students pursuing advanced ICT studies. The International Telecommunication Union (ITU) is promoting a scholarship for ICT studies, a Youth Education Scheme (YES), and an internship to develop ICT professional skills, the Youth Incentive Scheme (YIS). Applications for YES can be 12 times higher than for scholarships. Only Alcatel-Lucent and Thales Communications are participating on YIS by offering training, but taking into account the large number of ICT companies in Africa, more should be involved[13]. The ITU is also promoting a project aiming to raise ICT awareness in indigenous communities. The UN Conference on Trade and Development (UNCTAD) is providing custom training for engineers and technicians from least developed African countries under its Connect Africa project. Lesotho is the first pilot project and gets 220 computers and open source software. UNCTAD is also working on courses that concentrate on biotechnology and ICTs. Nine courses were held between 2006 and 2008 in China, Egypt, India, South Africa, Tanzania and Tunisia. There are three times more applications than there are places. (See Box 35)

To help the staff of regulatory agency personnel, the World Bank and InfoDev are working with the ITU on an ICT in Regulation Toolkit. The World Bank Institute has since 2001 worked with the Centre d'Études de Politiques pour le Développement (CEPOD) in Senegal, to create the first francophone platform for training on infrastructure regulation. Between 2001 and 2005, CEPOD organised 21 seminars and has trained 736 students from 22 countries. The World Bank Institute has also supported a research centre on infrastructure regulation, the Centre de Recherche Micro-économiques du Développement (CREMIDE) in Côte d'Ivoire. The centre has trained a large number of economists who were later hired by operators and regulators. There is a masters in Telecommunications Regulation organised by the World Bank, Télécom ParisTech and regulatory authorities in France, Burkina Faso and Senegal, that seeks to upgrade skills in regulatory agencies, ministries, and operators in francophone Africa.

13. For further information see URL: http://www.itu.int/ITU-D/youth/YouthIncentiveScheme/index.html.

Box 35 - The Pan-African E-Network: South-South Capacity Building

The Pan-African E-Network African Union initiative estimated at INR5429 million envisages setting up a network connecting Indian institutions with the 53 African countries, through satellite and fibre optic links (http://www.panafricanenetwork.com/). The network is designed to have 169 VSAT terminals, with 3 VSAT terminals in each country to provide e-education, e-health and Heads of State connectivity with a satellite hub in Senegal.

The e-education services will be provided from 7 reputed universities in India and 5 leading universities in Africa. The e-health services for specialist healthcare services in Africa will be provided through 12 hospitals in India and 5 in Africa. The project is conceived as a mechanism triggering e-education and e-health services that should be sustainable in Africa. African countries should be able to carry on with their own services after 5 years.

The pilot project in Ethiopia has been successful. 40 students in Addis Ababa and Haramaya universities are taking the MBA course from IGNOU at New Delhi through tele-education. The Black Lion and the Nekempte hospitals are receiving online medical consultation from medical specialists of CARE Hospital in Hyderabad in India. It is expected to scale up quickly. By 2009, 32 African countries have signed agreements with Telecommunications Consultants India Limited to implement the Pan-African E-Network. ICT has been estimated to be the main growth area in India-Africa trade relations.

Source: Telecommunications Consultants India Limited (TCIL).

Incubating African business

Africa is mainly an importer of information and communications technology. The NEPAD initiative has sought to promoting technical change and innovation by building skills in local software R&D. The project will be implemented through the African Virtual Open Initiatives and Resources (AVOIR) programme that currently works in Kenya, Mozambique, Senegal, South Africa, Tanzania and Uganda. To support and promoting access to scientific knowledge for African scientists, decision makers, students and researchers, UNECA has launched the "Access to Scientific Knowledge in Africa (ASKIA)" initiative seeking to provide ways for African scientists to tap into global scientific knowledge and develop indigenous knowledge that supports economic and industrial growth.

Microsoft has opened the Innovation Laboratory in Cairo with cutting edge technology. To promote business and social values in local cultures, efforts are made to measure, analyse and enhance Web searches in Arabic and to digitalise books in Arabic by using images instead of the optical character recognition used for the Latin alphabet and others. The laboratory is trying to make it easier to browse and search multimedia content through platforms with limited connectivity such as mobile phones. Microsoft's 3 innovation centres in South Africa promote software innovation and help open source solution builders test software on Microsoft to ensure compatibility. Other Innovation Centres are going to be launched in Morocco, Nigeria, Uganda and Rwanda.

Compared to other regions of the world, new business incubation is in its infancy in Africa and the opportunities for innovation and entrepreneurial networking are not as developed as in Eastern Europe, Central Asia and Latin America. There are still some interesting initiatives. The World Bank is developing InfoDev's Business Incubator Initiative in Africa to work on more than 26 ideas, with a special focus on micro and small and

Box 36 - Business Process Outsourcing in Ghana: The Bangalore of West Africa?

Ghana Cyber City is a technology cluster on a 36 acre technology park being built in Accra. It is setting the stage for work between SMEs to encourage outsourcing to come to Africa. According to Gartner, Business Process Outsourcing (BPO) was a USD 128.8 billion market in 2005 and is forecasted at USD 191.3 billion market by 2010 with the offshore ICT industry growing at 21 per cent. Ghana´s BPO could create 37 000 jobs with revenues of USD 750 million over 5 years.

According to the AT Kearney´s Global Services Location Index, Ghana scored better than India and China in financial attractiveness in 2007 and had a similar business environment. The volume of talent pool is however half that of China and India. The government is seeking stronger training. Ghana is competitive in low-skill, low-margin areas such as transcription services, account activation, surveys and basic consumer care. Major Indian players are moving towards higher-value work such as transaction processing and analysis of consumer behaviour.

Source: Author.

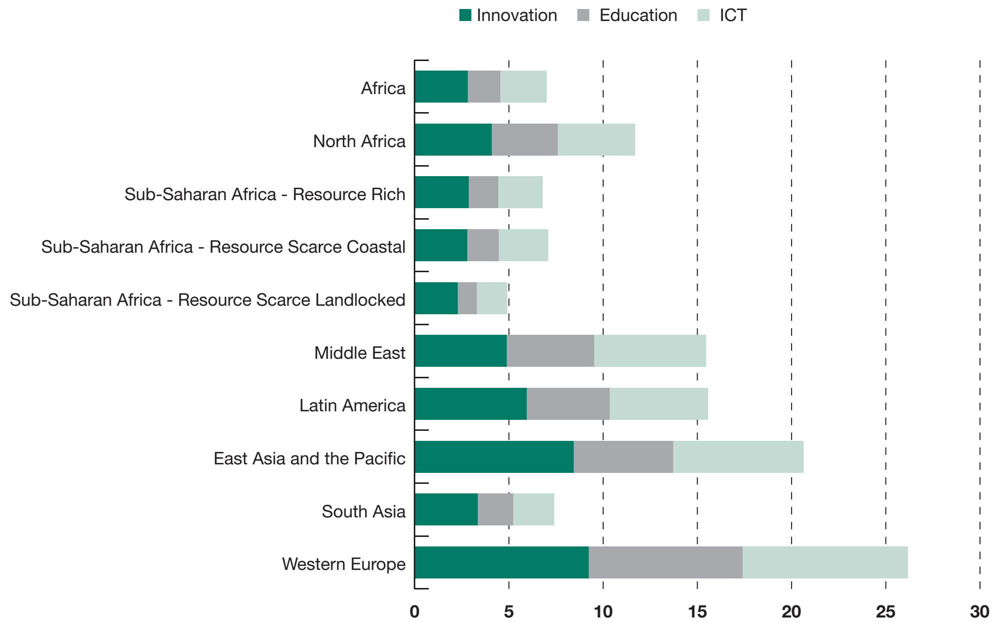
medium sized companies. This financial and technical assistance aims to help entrepreneurs to leverage ICT on a global level. Knowledge sharing is a key element promoted across Africa through the pan-African network on business incubation (ANI) launched in 2006. Seeking to work with Asia, Eastern Europe and Central Asia, Latin America and the Caribbean and Middle East, infoDev has its Incubator Support Centre (iDISC). This is a virtual platform seeking the technology to help entrepreneurs and new business creation in developing countries.

Several InfoDev incubators are being developed in North Africa. The Elgazala Park of Communications Technologies is the first of 24 incubators in Tunisia, the Casablanca Technology Park, Al Akhawayn University Incubator and Morocco Incubation and Spin-off Network are being developed in Morocco and the Biotechnology and Engineering Technology in Libya. In Sub-Saharan Africa, BusyInternet in Ghana was created in 2001 and has already seen 11 ICT companies set up. In Nigeria, InfoDev's first privately owned and managed incubator, Nextzon Business Incubator, has brought on 15 companies. In Uganda, the Industrial Research Industry offers training to rural companies that turn raw products into semi-finished or processed commodities. Other examples can be found in Angola, Kenya, Mozambique, Rwanda, Senegal and South Africa.

Measuring Africa's technology progress

There is no doubt that Africa is making strides in technological and scientific development and innovation. But indicators are crucial to formulate policies. The ITU, OECD, UNCTAD, UNESCO Institute for Statistics, the UN Regional Commissions, the World Bank and EUROSTAT all took part in the development of indicators for ICT for Development in 2004. It was an important attempt to compare experience across several countries, but does not fully account for the continent's innovation. NEPAD is going to develop a pan-African Science, Technology and Innovation Indicator (STII) and an African Science, Technology and Innovation Observatory that will prepare an African Innovation Outlook. These are expected to be developed with the OECD, Eurostat and UNESCO. The African Ministerial Council on Science and Technology recently confirmed the decision of the first inter-government meeting on STII in Maputo in 2007 to adopt the Frascati and Oslo manuals for collecting statistics on Africa. There is widespread agreement between the OECD, EU and Africa on the definition of innovation in Africa.

Figure 24 - **Knowledge Economy Indicator**



Source: World Bank Knowledge Assessment Methodology (www.worldbank.org/kam).

StatLink http://dx.doi.org/10.1787/568604734845

The World Bank uses a knowledge economy indicator (KEI) composed of ICT, education and innovation parameters that can be seen in Figure 24. Fifteen countries are missing but the data still gives good preliminary evidence[14]. Africa's knowledge information indicator lags behind the Middle East, Latin America, East Asia, the Pacific and Western Europe. Sub-Saharan countries, especially resource scarce landlocked countries, are the worst African performers and they are closely followed on the world scale by South Asia. The score of North African countries is between Sub-Saharan and Middle East and Latin American nations. While the educational sub-index is smaller in all developing regions than in Western Europe, this component is particularly low in Sub-Saharan Africa. This indicator might not be the best way of measuring innovation, but it indicates the scarcity of education in Sub-Saharan Africa to build innovation-based economies.

14. There are no innovation surveys in Africa with the exception of South Africa. This indicator includes inputs to innovation such as patents granted by USPTO per 1 000 people on average for 2002-2006 and scientific and technical journal articles per 1 000 People in 2005. The indicator also includes total royalty payments and receipts in USD per population in 2006.

Part Three

Statistical Annex

List of Tables

Methodology

When used, the oil exporting countries group refers to Algeria, Angola, Cameroon, Chad, Congo Dem.Rep, Congo Rep., Cote d'Ivoire, Egypt, Equatorial Guinea, Gabon, Libya, Nigeria, Sudan

Tables 1 to 6.

Where indicated, the figures are reported on a fiscal-year basis. Figures for Egypt, Ethiopia, Kenya, Lesotho, Liberia, Malawi, Mauritius, Tanzania, and Uganda are from July to June in the reference year. For South Africa, Namibia and Botswana, fiscal year 2007 is from April 2007 to March 2008.

Table 7. Exports, 2007

The table is based on exports disaggregated at 6 digit level (following the Harmonised System, rev.1)

Table 8. Diversification and Competitiveness

The diversification indicator measures the extent to which exports are diversified. It is constructed as the inverse of a Herfindahl index, using disaggregated exports at 4 digits (following the Harmonised System, rev.1). A higher index indicates more export diversification. The competitiveness indicator has two aspects: the sectoral effect and the global competitivity effect. In order to compute both competitiveness indicators, we decompose the growth of exports into three components: the growth rate of total international trade over the reference period (2003-2007) (not reported); the contribution to a country's export growth of the dynamics of the sectoral markets where the country sells its products, assuming that its sectoral market shares are constant (a weighted average of the differences between the sectoral export growth rates –measured at the world level – and total international trade growth, the weights being the shares of the corresponding products in the country's total exports); the competitiveness effect, or the balance (export growth minus world growth and sector effect), measuring the contribution of changes in sectoral market shares to a country's export growth.

Table 10. Foreign Direct Investment, 2002-07

The UNCTAD Inward Potential Index is based on 12 economic and structural variables measured by their respective scores on a range of 0-1 (raw data are available on: www.unctad.org/wir). It is the unweighted average of scores of: GDP per capita, the rate of growth of GDP, the share of exports in GDP, telecom infrastructure (the average number of telephone lines per 1 000 inhabitants, and number of mobile phones per 1 000 inhabitants), commercial energy use per capita, share of R&D expenditures in gross national income, share of tertiary students in the population, country risk, exports of natural resources as a percentage of the world total, imports of parts and components of electronics and automobiles as a percentage of the world total, and inward FDI stock as a percentage of the world total (Source: UNCTAD, *World Investment Report* 2008).

Table 11. Aid Flows, 2002-07

The DAC countries are: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom, United States and the Commission of the European Communities.

Table 13. Demographic Indicators

Infant mortality rate: under one-year-old child deaths per live birth per year.

Total fertility rate: average number of children per woman.

Mortality under age 5: probability that a newborn infant would die before the age of 5.

Table 14. Poverty and Income Distribution Indicators

National poverty line: absolute poverty line corresponding to the value of consumption necessary to satisfy minimum subsistence needs. International poverty line: absolute poverty line corresponding to a level of income or consumption of $1 or $2 a day.

Gini index: index measuring the intensity of inequality in income or consumption expenditure distribution. Perfect equality leads to a Gini index of zero and maximum inequality to a Gini index of 100. Share of consumption: share of total consumption for a decile of the population ranked by level of consumption.

Table 15. Access to Services

The Sanitation coverage is the percentage of the population with access to improved sanitation technologies (connection to a public sewer, connection to septic system, pour-flush latrine, simple pit latrine or ventilated improved pit latrine). The water supply coverage is the percentage of the population with access to improved water supply (household connection, public standpipe, borehole, protected dug well and protected spring or rainwater collection).

Table 16. Basic Health Indicators

Life expectancy at birth is the average number of years a newborn infant would live under the hypothesis that, during its life, the conditions of mortality remain the same as observed at its birth. Life expectancy at birth with AIDS is the estimated average number of years a newborn infant would live under the hypothesis that, during its life, the conditions of mortality remain the same as observed at its birth in particular the characteristics of AIDS epidemic. Life expectancy at birth without AIDS is the estimated number of years a newborn infant would live under the hypothesis of absence of AIDS during its life. Under nourishment prevalence is the proportion of the population that is suffering insufficient food intake to meet dietary energy requirements continuously. Food availability is the available nutritious food for human consumption expressed in kilo-calories per person per day (note that the recommended daily caloric intake for an active healthy life is 2 100 calories). Public share of total health expenditure is calculated by defining public health expenditure as current and capital outlays of government, compulsory social security schemes, extra-budgetary funds dedicated to health services delivery or financing and grants and loans provided by international agencies, other national authorities and commercial banks. Private share of total health expenditure is calculated by defining private expenditure as private insurance schemes and prepaid medical care plans, services delivered or financed by enterprises, outlays by non-governmental organisations and non-profit institutions serving mainly households, out-of-pocket payments, and other privately funded schemes not elsewhere classified, including investment outlays.

Table 17. Major Diseases

Healthy life expectancy at birth is the average equivalent number of years in full health a newborn infant would live under the hypothesis that, during its life, the conditions of mortality and ill-health remain the same as observed at its birth.

People living with HIV/AIDS is estimated whether or not they have developed symptoms of AIDS.

HIV/AIDS adult prevalence is the estimate of the adult population (15-49) living with HIV/AIDS. Malaria notified cases are cases of malaria reported from the different local case detection and reporting systems. These figures should be considered with caution because of the diversity of sources and probable underestimation. The Measles incidence is the number of new cases of measles reported during the reference year.

MCV: Measles Containing Vaccine.

DTP3: Third dose of Diphtheria and Tetanus toxoids and Pertussis vaccine.

Table 19. School Enrolment

Gross enrolment ratio: population enrolled in a specific level of education, regardless of age, expressed as a percentage of the official school-age pupils enrolled in that level. Net enrolment ratio: official school-age population enrolled in a specific level of education expressed as a percentage of the total population enrolled in that level.

Table 20. Employment and Remittances

Participation rate: measure of the proportion of a country's working-age population that engages actively in the labour market, either by working or looking for work. It provides an indication of the relative size of the supply of labour available to engage in the production of goods and services.

Total unemployment: proportion of the labour force that does not have a job and is actively looking for work.

Inactivity rate: percentage of the population that is neither working nor seeking work (that is, not in the labour force).

Table 21. Corruption Perception Index, 2002-08

The Corruption Perception Index (CPI) is a composite indicator based on surveys of business people and assessments of country analysts. A background paper presenting the methodology and validity of the CPI is available on the Transparency International website:
http://www.transparency.org/policy_research/surveys_indices/cpi/2008/methodology

Table 22 to 24. Political Indicators

The political indicators were built on information taken from the weekly newspaper *Marchés Tropicaux et Méditerranéens* according to a methodology first proposed by Dessus, Lafay and Morrisson[1]. Since 2008, the source used toccalculate the indicators has changed, now being Agence France Presse. This introduces a break in the series and comparison of 2008 indicator with past values must be done with caution. The qualitative information is either computed as 0-1 variables with 0 being the non-occurrence of the event and 1 its occurrence or as 4-value indicators (with 0: non-occurrence, 1: occurrence but weak intensity, 2: medium intensity and 3: strong intensity). From these indicators, three main political indexes are constructed: an index of conflicts, a measure of the softening of the political regime and one of its hardening. The annual aggregation method has been improved in 2008, and applied to all the series. The average value across quarters is now taken and computed according to the following formula:

$$PI_i = (I_i - min_i)/(max_i - min_i)$$

Where PI_i is the political indicator for country *i*, I is the average indicator across quarters, min_i is the minimum quarterly value for country *i*, and max_i is the maximum quarterly value for country *i*.

In 2008/09 AEO report, the names of political troubles and hardening of the regime indicator were changed in Civil Tensions and State Pressure over Civil Liberties.

Table 22. Civil Tensions

- **Strikes**

0 = non-occurrence,
1 = 1 strike or number of strikers lower than 1 000 (inclusive),
2 = 2 strikes or number of strikers between 1 000 and 5 000 (inclusive),
3 = 3 strikes or number of strikers higher than 5 000.

- **Unrest and violence (number of dead and injured)**

1. Dessus. S., D. Lafay and C. Morrisson (1994), "A Politico-economic Model for Stabilisation in Africa", *Journal of African Economies*.

Dead
0 = none,
1 = between 1 and 10 (non inclusive),
2 = between 10 and 100 (non inclusive),
3 = higher than 100.

Injured
0 = none,
1 = between 1 and 50 (non inclusive) or if the number of dead is between 1 and 10,
2 = between 50 and 500 (non inclusive) or if the number of dead is between 10 and 100,
3 = higher than 500 or if the number of dead exceeds 100.

- **Demonstrations**

0 = non-occurrence,
1 = 1 demonstration or number of strikers lower than 5 000 (non inclusive),
2 = 2 demonstrations or number of strikers between 5 000 and 10 000 (non inclusive),
3 = 3 demonstrations or number of strikers higher than 10 000.

- **Coup d'état and attempted coups d'état**

Table 23. Softening of the Regime

- **Lifting of state of emergency**
- **Releases of political prisoners**
- **Measures in favour of human rights**
- **Improvement of political governance (fight against corruption…)**
- **Relinquishment of political persecution, rehabilitation, return from exile**
- **Political opening (measures in favour of democracy)**

1 = Discussion with the opposition,
2 = Entry of the opposition to power,
3 = Opening of a regime to elections.

- **Lifting of bans on strikes or demonstration**
- **Lifting of bans on press or public debates**

Table 24. State Pressure over Civil Liberties

- **State of emergency**
- **Arrests, incarcerations**

0 = non-occurrence,
1 = between 1 and 10 (non inclusive),
2 = between 10 and 100 (non inclusive),
3 = higher than 100.

- **Additional resources for the police, propaganda or censorship**
- **Toughening of the political environment (expulsions, dismissals, curfew, and dissolution of political parties)**
- **Violence perpetuated by the police (number of dead and injured)**

Dead
0 = none,
1 = between 1 and 10 (non inclusive),
2 = between 10 and 100 (non inclusive),
3 = higher or equal to 100.

Injured
0 = none,
1 = between 1 and 50 (non inclusive),
2 = between 50 and 500 (non inclusive),
3 = higher or equal to 500.

- **Prosecutions, executions**
- **Bans on strikes and demonstrations**
- **Bans on press or public debates**
- **Closing of schools**
- **Obligatory demonstrations**

A principal component analysis was undertaken in order to determine a relevant weight for each qualitative variable within the synthetic indexes.

Weights in "Civil Tensions"

	Weights
Strike	0.286
Dead	0.950
Injured	0.958
Demonstration	0.543
Coups d'état and attempts	0.059

Weights in "Softening of the Regime"

	Weights
Lifting of state of emergency	0.282
Release of political prisoners	0.709
Measures in favour of human rights	0.373
Improvement of political governance	0.089
Relinquishment of political persecution	0.502
Political opening	0.373
Lifting of bans on strikes	0.323
Lifting of bans on public debates	0.522

Weights in "State Pressure over Civil Liberties"

	Weights
State of emergency	0.631
Violence perpetuated by the police: Dead	0.261
Injured	0.423
Arrests	0.402
Additional resources for the police	0.603
Toughening of the political environment	0.253
Prosecutions, executions	0.583
Bans on strikes	0.383
Bans on demonstrations	0.292
Closing of schools	0.092

Tables

Table 1 - **Basic Indicators, 2008**

	Population (thousands)	Land area (thousands of km²)	Population Density (pop/km²)	GDP (PPP valuation, USD million)	GDP per Capita (PPP valuation, USD)	Annual real GDP growth (average over 2000-2008)
Algeria	**34 373**	**2 382**	**14**	**208 113**	**6 054**	**3,8**
Angola	**18 021**	**1 247**	**14**	**134 722**	**7 699**	**12,4**
Benin	**8 662**	**111**	**82**	**12 521**	**1 345**	**4,3**
Botswana	**1 921**	**567**	**3**	**24 673**	**12 948**	**5,1**
Burkina Faso	**15 234**	**274**	**54**	**18 478**	**1 215**	**5,2**
Burundi	**8 074**	**26**	**331**	**2 997**	**338**	**2,4**
Cameroon	**19 088**	**465**	**40**	**44 167**	**2 334**	**3,7**
Cape Verde	**499**	**4**	**132**	**1 971**	**3 634**	**6,4**
Central Afr. Rep.	**4 339**	**623**	**7**	**3 866**	**874**	**1,9**
Chad	**10 914**	**1 259**	**9**	**11 697**	**1 055**	**8,4**
Comoros	661	2	336	785	913	1,9
Congo	**3 615**	**342**	**11**	**16 071**	**4 177**	**4,4**
Congo, Dem. Rep.	**20 591**	**2 267**	**28**	**21 264**	**329**	**3,6**
Côte d'Ivoire	**64 257**	**318**	**61**	**34 863**	**1 777**	**0,0**
Djibouti	**849**	**23**	**36**	**1 980**	**2 336**	**3,4**
Egypt *	**81 527**	**995**	**76**	**454 460**	**5 914**	**5,0**
Equatorial Guinea	**659**	**28**	**18**	**17 462**	**33 600**	**20,3**
Eritrea	4 927	101	48	3 743	748	0,3
Ethiopia*	**80 713**	**1 000**	**79**	**68 307**	**802**	**6,8**
Gabon	**1 448**	**258**	**5**	**23 454**	**17 371**	**2,1**
Gambia	**1 660**	**10**	**171**	**1 587**	**905**	**5,1**
Ghana	**23 351**	**228**	**103**	**29 965**	**1 251**	**5,4**
Guinea	**9 833**	**246**	**38**	**10 691**	**1 117**	**3,0**
Guinea Bissau	1 575	28	60	905	519	1,4
Kenya	**38 765**	**569**	**66**	**81 832**	**2 123**	**3,9**
Lesotho	**2 049**	**30**	**66**	**2 862**	**1 417**	**4,0**
Liberia	**3 793**	**96**	**39**	**1 948**	**494**	**3,7**

Table 1 - Basic Indicators, 2008 *(cont.)*

	Population (thousands)	Land area (thousands of km²)	Population Density (pop/km²)	GDP (PPP valuation, USD million)	GDP per Capita (PPP valuation, USD)	Annual real GDP growth (average over 2000-2008)
Libya	**6 294**	**1 760**	**3**	**73 923**	**11 765**	**5,1**
Madagascar	**19 111**	**582**	**34**	**16 951**	**839**	**4,0**
Malawi	**14 846**	**94**	**148**	**8 602**	**602**	**3,8**
Mali	**12 706**	**1 220**	**10**	**14 649**	**1 152**	**4,6**
Mauritania	**3 215**	**1 031**	**3**	**6 488**	**2 025**	**4,4**
Mauritius	**1 280**	**2**	**622**	**16 069**	**12 637**	**3,6**
Morocco	**31 606**	**446**	**69**	**139 852**	**4 425**	**4,8**
Mozambique	**22 383**	**786**	**27**	**27 563**	**1 264**	**7,5**
Namibia	**2 130**	**823**	**3**	**12 869**	**6 122**	**4,8**
Niger	**14 704**	**1 267**	**11**	**9 795**	**665**	**4,4**
Nigeria	**151 212**	**911**	**162**	**315 823**	**2 085**	**8,4**
Rwanda	**9 721**	**25**	**395**	**8 837**	**883**	**6,8**
São Tomé and Principe	160	1	165	257	1 605	5,7
Senegal	**12 211**	**193**	**64**	**21 048**	**1 659**	**4,2**
Seychelles	**84**	**0,5**	**185**	**1 817**	**20 881**	**3,0**
Sierra Leone	**5 560**	**72**	**82**	**5 194**	**870**	**10,3**
Somalia	8 926	627	14	…	…	…
South Africa	**49 668**	**1 214**	**39**	**461 767**	**9 456**	**4,1**
Sudan	**41 348**	**2 376**	**16**	**87 020**	**2 206**	**7,6**
Swaziland	**1 168**	**17**	**67**	**5 397**	**4 700**	**2,5**
Tanzania	**42 484**	**886**	**46**	**48 229**	**1 163**	**6,8**
Togo	**6 459**	**54**	**121**	**4 884**	**722**	**1,3**
Tunisia	**10 169**	**155**	**66**	**91 264**	**8 742**	**4,9**
Uganda	**31 657**	**197**	**157**	**43 739**	**1 371**	**7,0**
Zambia	**12 620**	**743**	**16**	**17 374**	**1 429**	**5,0**
Zimbabwe	12 463	387	35	…	…	-5,5
Africa	**987 092**	**29 367**	**85**	**2 675 993**	**2 777**	**5,3**

Note: * Fiscal year July (n-1)/June (n)
Sources: United Nations, Department of Economic and Social Affairs, Population Division, World Population Prospects, The 2008 Revision. Special extract.
For GDP data, authors' estimates, IMF *World Economic Outlook* (October 2008), World Bank *World Development Indicators* (March 2009).

Table 2 - Real GDP Growth Rates, 2000-2010

	2000	2001	2002	2003	2004	2005	2006	2007	2008 (e)	2009 (p)	2010 (p)
Algeria	2.2	2.1	4.7	6.9	5.2	5.1	2.0	3.0	3.3	0.2	3.7
Angola	3.0	3.1	14.5	3.3	11.2	20.6	18.6	21.0	15.8	-7.2	9.3
Benin	4.9	6.2	4.4	3.9	3.1	2.9	3.8	4.6	5.0	5.3	5.6
Botswana	5.9	3.6	8.8	6.3	6.0	1.6	5.1	4.4	3.9	2.6	2.9
Burkina Faso	1.9	7.1	4.7	8.0	4.6	7.1	5.5	3.6	4.2	6.0	4.2
Burundi	-0.9	2.1	4.5	-1.2	4.4	0.9	5.5	3.6	3.2	2.9	3.0
Cameroon	4.2	4.5	4.0	4.0	3.7	2.3	3.2	3.4	4.1	3.1	3.4
Cape Verde	7.3	6.1	5.3	4.7	4.4	5.8	10.8	6.9	6.1	3.6	4.6
Central Afr. Rep.	1.3	2.7	0.3	-4.6	3.5	3.0	4.3	4.2	2.6	3.2	5.0
Chad	-0.5	11.5	8.5	14.3	33.7	7.9	0.2	0.1	0.2	-0.7	2.7
Comoros	1.4	3.3	4.1	2.5	-0.2	4.2	1.2	0.5	0.5	1.7	2.5
Congo	7.6	3.8	4.6	0.8	3.5	7.8	6.2	-1.6	7.0	7.7	5.2
Congo Dem. Rep.	-6.9	-2.1	3.5	5.8	6.6	7.9	5.6	6.3	5.7	-0.6	2.7
Côte d'Ivoire	-3.7	0.0	-1.4	-1.6	1.8	1.2	-0.3	1.8	2.3	3.8	4.1
Djibouti	0.5	2.0	2.6	3.2	3.0	3.2	4.8	5.3	5.9	6.5	6.8
Egypt *	5.4	3.5	3.2	3.2	4.1	4.5	6.8	7.1	7.2	4.3	4.0
Equatorial Guinea	13.1	67.8	20.4	14.4	32.7	8.8	5.3	10.3	9.9	3.7	2.9
Eritrea	-12.4	8.8	3.0	-2.7	1.5	2.6	-1.0	1.3	1.2	2.0	6.0
Ethiopia*	5.9	7.7	1.2	-3.5	12.3	8.7	5.4	11.5	11.6	6.5	7.0
Gabon	-1.9	2.1	-0.3	2.5	1.4	3.0	1.2	5.6	5.5	4.0	4.6
Gambia	5.5	5.8	-3.2	6.9	7.0	5.1	6.5	6.3	5.7	5.0	5.0
Ghana	3.7	4.2	4.5	5.2	5.6	5.9	6.4	6.3	6.4	5.8	6.1
Guinea	2.5	3.7	5.2	1.2	2.3	3.0	2.5	1.8	4.7	3.8	4.4
Guinea Bissau	7.5	0.2	-7.1	-0.6	2.2	3.2	1.8	2.5	3.2	3.1	3.3
Kenya	0.5	4.5	0.5	2.9	5.1	5.8	6.4	7.0	2.6	5.0	4.3
Lesotho	4.5	3.0	1.6	3.9	4.6	0.7	8.1	5.1	4.2	3.8	5.3
Liberia	25.7	2.9	3.7	-31.3	2.6	5.3	7.8	9.5	7.3	10.8	11.2

Table 2 - **Real GDP Growth Rates, 2000-2010** *(cont.)*

	2000	2001	2002	2003	2004	2005	2006	2007	2008 (e)	2009 (p)	2010 (p)
Libya	3.7	-4.3	-1.3	13.0	4.4	10.3	6.7	6.8	6.5	3.4	3.7
Madagascar	4.5	6.0	-12.4	9.8	5.3	4.6	5.0	6.2	7.0	4.8	7.6
Malawi	0.8	-4.1	1.9	4.2	5.0	2.3	8.2	7.9	8.4	6.5	5.4
Mali	-3.1	11.2	4.4	7.7	2.8	6.1	5.3	3.2	3.6	4.2	5.1
Mauritania	1.9	2.9	1.1	5.6	5.2	5.4	11.4	1.0	5.2	3.4	4.5
Mauritius	2.6	2.6	1.9	4.3	5.8	1.2	3.9	5.4	4.8	3.0	3.3
Morocco	1.8	7.6	3.3	6.1	4.8	3.0	7.8	2.7	5.7	5.4	5.4
Mozambique	1.5	12.3	9.2	6.5	7.9	8.4	8.7	7.0	6.2	4.0	5.2
Namibia	3.5	1.2	4.8	4.2	12.3	2.5	7.1	4.1	3.4	2.7	3.1
Niger	-2.6	7.4	5.3	7.7	-0.8	7.2	4.8	5.7	4.8	1.8	5.7
Nigeria	5.3	8.2	21.2	9.6	6.6	6.5	6.0	6.2	6.1	4.0	4.4
Rwanda	8.1	6.7	9.4	0.9	5.3	7.2	7.3	7.9	8.5	6.6	5.7
São Tomé and Principe	0.4	3.1	11.6	5.4	6.6	5.7	6.7	6.0	5.8	6.0	6.0
Senegal	3.2	4.6	0.7	6.7	5.9	5.6	2.3	4.8	3.7	3.5	3.6
Seychelles	4.2	-2.3	1.2	-5.9	7.5	8.3	7.3	5.5	1.5	-0.4	2.9
Sierra Leone	3.8	18.2	27.4	9.5	7.4	7.3	7.4	6.4	5.4	6.3	5.5
Somalia	...	...	...	...	...	...	...	...	...	...	...
South Africa	4.2	2.7	3.7	3.1	4.9	5.0	5.3	5.1	3.1	1.1	3.5
Sudan	8.4	6.2	5.4	7.1	5.1	6.3	11.3	10.2	8.4	5.0	5.2
Swaziland	2.0	1.0	1.8	3.9	2.5	2.2	2.9	3.5	2.6	2.5	2.0
Tanzania	4.9	6.0	7.2	6.9	7.8	7.4	6.7	7.1	6.8	6.1	6.7
Togo	-1.0	-1.3	-1.3	4.8	2.5	1.2	3.9	1.9	0.8	3.9	4.1
Tunisia	4.7	4.9	1.7	5.6	6.0	4.0	5.5	6.3	5.1	4.1	4.2
Uganda	2.3	8.8	7.1	6.2	5.8	10.0	7.0	8.6	7.0	5.6	6.1
Zambia	3.6	4.9	3.3	5.1	5.4	5.2	6.2	6.1	5.5	2.8	4.1
Zimbabwe	-7.3	-2.7	-4.4	-10.4	-3.6	-4.0	-5.4	-6.1	...	...	...
Africa	3.7	4.2	5.4	5.0	5.6	5.7	6.0	6.1	5.7	2.8	4.5

Note: * Fiscal year July (n-1)/June (n)
Sources: Authors' estimates and forecasts, various domestic authorities; IMF *World Economic Outlook* (October 2008).

Table 3 - Demand Composition and Growth Rate, 2007-2010

	2007						2008(e)				2009(p)				2010(p)			
	Final Consumption		Gross Capital Formation		External Sector													
	Private	Public	Private	Public	Exports	Imports	Total Final Consumption	Gross Capital Formation - Total	Exports	Imports	Total Final Consumption	Gross Capital Formation - Total	Exports	Imports	Total Final Consumption	Gross Capital Formation - Total	Exports	Imports
	Percentage of GDP						Real Percentage Growth				Real Percentage Growth				Real Percentage Growth			
Algeria	31.3	11.9	23.9	11.1	46.9	25.0	4.2	5.5	1.8	6.0	4.9	8.0	-6.0	11.4	4.8	6.3	1.0	5.9
Angola	32.6	21.2	2.2	11.6	71.3	39.0	17.7	48.2	10.2	18.4	7.1	-34.1	-4.4	0.5	7.3	6.0	5.8	3.4
Benin	75.8	12.3	12.6	8.1	19.5	28.3	4.1	12.8	4.8	7.5	6.7	11.6	-2.6	6.7	6.9	13.0	-0.1	9.9
Botswana	40.3	20.2	19.4	7.5	49.5	36.9	3.9	11.9	1.3	6.0	4.2	6.1	-1.0	2.9	4.7	8.3	-0.2	5.9
Burkina Faso	76.2	22.9	9.5	5.7	10.5	24.8	3.7	10.1	4.8	6.2	3.4	4.5	5.9	-2.4	3.7	8.0	4.9	4.9
Burundi	85.1	30.7	2.3	9.3	6.8	34.2	2.7	6.2	0.6	1.9	0.9	6.6	3.7	-3.2	2.1	10.0	0.5	2.0
Cameroon	71.3	10.1	14.5	2.2	24.2	22.4	2.6	6.9	6.6	3.2	3.1	4.7	1.7	3.0	2.9	4.7	4.0	3.2
Cape Verde	75.7	18.5	40.5	4.9	17.7	57.2	4.3	14.6	14.9	12.1	4.5	8.2	-16.7	2.4	2.5	9.3	10.1	6.5
Central Afr. Rep.	91.3	6.2	6.1	3.8	14.8	22.3	4.9	16.7	-11.9	6.9	3.7	18.1	-8.9	4.0	4.3	13.4	1.7	4.7
Chad	28.2	23.4	12.0	4.0	54.7	22.4	-2.1	-35.7	1.3	-31.8	0.4	1.0	-1.5	1.0	4.8	5.2	3.7	14.7
Congo	52.5	18.6	15.6	10.6	80.3	77.6	-1.2	5.8	9.0	1.7	0.4	5.9	6.8	0.6	0.9	5.2	4.7	1.3
Congo Dem. Rep.	76.0	9.4	15.9	2.3	46.0	49.5	0.9	11.9	18.6	6.4	0.7	-9.0	-6.9	-5.8	0.1	5.5	5.9	0.9
Côte d'Ivoire	75.2	8.7	6.1	2.7	47.7	40.5	1.7	14.7	1.5	3.3	2.7	12.9	2.0	2.4	3.8	15.0	3.8	6.4
Djibouti	50.1	27.3	42.3	11.5	62.2	93.4	3.6	17.5	6.1	10.9	5.1	10.1	5.5	7.0	4.4	6.9	6.3	4.6
Egypt *	72.4	11.3	12.9	7.9	30.2	34.8	5.3	15.5	29.0	26.0	4.4	10.4	4.3	8.6	5.1	9.4	1.9	9.0
Equatorial Guinea	6.9	2.7	11.3	19.9	95.8	36.5	1.7	7.1	6.3	3.0	4.7	5.0	0.2	0.2	3.0	5.6	1.6	2.7
Ethiopia*	84.0	10.5	9.3	15.7	12.8	32.2	13.9	7.0	17.2	23.1	7.5	3.9	3.9	6.3	7.7	7.2	8.6	9.4
Gabon	32.1	12.2	17.4	6.2	65.0	32.9	7.4	4.5	3.2	4.0	6.7	1.4	1.7	2.6	7.4	3.2	2.3	4.2
Gambia	80.2	10.7	13.1	11.9	53.8	69.7	17.5	10.3	-6.1	22.4	-0.6	9.5	4.4	-4.7	3.5	7.2	3.0	1.4
Ghana	74.4	18.4	19.5	14.2	39.8	66.3	3.2	4.5	5.8	1.6	6.5	5.1	3.2	4.8	4.2	5.0	6.9	3.8
Guinea	78.7	6.7	17.2	2.7	27.5	32.8	0.8	13.7	5.6	2.4	4.9	-8.6	3.2	-7.6	2.5	7.6	5.7	2.3
Kenya	74.8	17.2	15.5	4.6	26.6	38.8	4.2	10.5	-2.0	5.3	4.8	8.0	1.2	3.5	5.8	9.0	1.6	7.2
Lesotho	99.0	33.8	20.6	3.7	55.6	112.8	2.2	4.3	2.3	1.2	2.6	4.2	0.9	0.9	1.1	5.2	6.5	1.4
Liberia	70.3	30.1	57.3	12.5	50.4	120.6	6.2	7.1	5.9	6.1	6.0	7.2	1.4	2.8	5.5	13.5	8.8	8.2

Table 3 - Demand Composition and Growth Rate, 2007-2010 *(cont.)*

	2007						2008(e)				2009(p)				2010(p)			
	Final Consumption		Gross Capital Formation		External Sector													
	Private	Public	Private	Public	Exports	Imports	Total Final Consumption	Gross Capital Formation - Total	Exports	Imports	Total Final Consumption	Gross Capital Formation - Total	Exports	Imports	Total Final Consumption	Gross Capital Formation - Total	Exports	Imports
	Percentage of GDP						Real Percentage Growth				Real Percentage Growth				Real Percentage Growth			
Libya	26.0	11.8	6.8	19.3	65.6	29.5	10.3	14.8	-0.8	26.3	8.5	5.5	-4.6	17.2	3.9	9.6	2.4	11.2
Madagascar	78.0	11.7	19.7	6.7	28.6	44.6	13.4	50.2	-2.9	47.1	11.2	-17.8	0.8	-4.4	7.2	-2.3	19.6	5.6
Malawi	86.1	12.2	10.2	14.1	23.0	45.7	7.3	18.8	19.0	16.3	7.4	7.8	-4.2	4.6	5.1	4.0	2.6	2.7
Mali	75.0	10.9	13.6	8.8	26.4	34.7	3.6	5.8	2.3	4.0	3.3	3.4	3.2	0.9	5.7	6.3	4.0	6.8
Mauritania	73.7	21.7	16.4	6.0	54.5	72.2	11.9	15.4	1.1	14.3	3.6	4.1	0.5	2.5	1.7	5.3	4.9	1.5
Mauritius	70.4	13.1	21.4	5.5	58.8	69.2	4.1	3.0	4.4	3.1	2.9	0.9	-0.2	-0.5	2.5	3.4	2.7	1.8
Morocco	58.4	18.2	29.7	2.8	35.8	44.9	7.0	5.8	4.0	6.8	6.8	7.2	4.3	8.6	4.4	7.4	8.6	7.8
Mozambique	78.1	11.8	6.3	11.7	37.6	45.5	4.5	27.3	2.6	10.5	4.1	13.5	1.4	8.3	4.6	7.8	3.7	4.9
Namibia	61.8	19.2	14.0	6.9	47.9	49.7	6.6	13.0	-2.2	6.7	6.4	8.4	-3.5	5.2	3.7	9.8	2.5	6.4
Niger	71.9	17.2	17.9	7.3	19.0	33.4	7.1	4.6	1.4	8.6	2.8	4.2	-11.1	0.6	5.6	4.3	14.5	7.5
Nigeria	46.7	18.8	16.0	8.0	40.3	29.7	11.6	16.3	-2.1	12.8	3.9	7.3	2.4	4.5	4.5	7.3	2.8	5.1
Rwanda	86.3	10.9	12.4	8.8	10.0	28.3	9.6	13.3	2.3	14.0	9.4	1.9	1.4	12.0	6.4	6.6	5.8	9.0
Senegal	77.3	13.7	20.6	6.5	23.0	41.2	3.2	7.0	1.2	3.5	3.4	3.0	0.9	1.4	3.2	6.0	1.4	3.1
Seychelles	59.3	35.1	26.8	5.6	96.6	123.4	-4.6	-3.0	4.2	-4.1	-6.6	-4.5	-3.6	-11.0	3.2	1.6	1.0	0.9
Sierra Leone	83.4	10.5	10.0	3.5	20.9	28.3	7.9	5.0	-2.6	10.4	8.2	12.1	8.2	15.5	6.1	14.3	1.1	8.3
South Africa	61.4	19.7	15.8	6.2	31.5	34.6	1.7	7.1	1.7	1.1	0.4	1.9	-0.6	-1.3	3.2	8.4	2.0	4.9
Sudan	61.6	15.6	17.0	9.6	20.1	23.9	3.4	14.0	22.6	8.3	4.2	6.6	5.1	4.7	3.6	9.2	6.5	6.4
Swaziland	73.5	14.9	6.1	6.8	79.9	81.2	-1.8	11.0	2.6	-0.4	0.3	0.9	-0.8	-3.2	2.6	7.3	2.7	4.3
Tanzania	67.9	19.3	21.8	7.8	24.2	41.1	7.6	19.7	2.6	16.9	7.1	4.4	0.9	4.0	7.8	10.0	3.4	10.7
Togo	99.6	10.1	8.9	2.0	42.0	62.6	1.5	21.0	1.5	6.2	1.2	16.4	3.0	1.5	3.1	13.5	5.6	6.0
Tunisia	62.0	14.7	19.6	6.0	55.8	58.1	5.1	9.3	3.0	5.1	5.4	8.9	5.8	10.2	3.4	5.8	5.5	4.7
Uganda	80.4	11.9	17.5	5.1	16.1	31.1	7.7	16.5	2.5	13.3	5.3	3.0	1.9	0.7	7.0	10.0	2.4	9.6
Zambia	53.7	18.9	16.7	5.6	39.6	34.3	6.5	11.5	7.6	12.2	2.4	-1.3	-4.4	-5.2	3.7	5.0	4.1	4.0

Note: * Fiscal year July (n-1)/June (n).
Sources: Authors' estimates and projections, Various domestic authorities and IMF *World Economic Outlook* (October 2008).

Table 4 - **Public Finances, 2007-2010** (percentage of GDP)

	2007			2008(e)			2009(p)			2010(p)		
	Total revenue and grants	Total expenditure and net lending	Overall balance	Total revenue and grants	Total expenditure and net lending	Overall balance	Total revenue and grants	Total expenditure and net lending	Overall balance	Total revenue and grants	Total expenditure and net lending	Overall balance
Algeria	39.3	34.5	4.8	39.1	32.3	6.8	28.9	40.3	-11.5	29.1	40.1	-10.9
Angola	45.1	34.0	11.2	47.2	36.4	10.8	36.8	45.5	-8.7	36.2	43.1	-6.9
Benin	24.0	22.2	1.9	22.2	22.7	-0.5	21.3	22.3	-1.0	21.7	22.3	-0.7
Botswana**	40.7	34.2	6.5	37.5	37.7	-0.3	31.0	31.5	-0.5	32.3	31.9	0.4
Burkina Faso	20.1	25.8	-5.7	19.9	26.3	-6.4	18.5	25.5	-6.9	18.4	25.7	-7.3
Burundi	35.9	38.8	-3.0	31.1	40.0	-8.9	69.3	36.9	32.4	30.1	39.8	-9.8
Cameroon	19.9	15.6	4.4	21.7	15.7	5.9	18.8	16.0	2.8	18.7	16.0	2.7
Cape Verde	28.5	29.3	-0.8	28.3	29.5	-1.2	28.2	31.8	-3.7	26.8	30.5	-3.7
Central Afr. Rep.	14.3	12.7	1.5	13.8	13.3	0.5	13.2	13.7	-0.5	13.3	13.8	-0.5
Chad	25.8	19.0	6.8	27.2	14.5	12.7	22.5	17.2	5.3	23.3	17.3	6.1
Comoros	20.3	22.3	-2.0	23.6	21.6	2.0	18.5	21.1	-2.6	19.1	21.2	-2.1
Congo	43.1	32.0	11.1	48.9	24.0	24.9	39.2	29.3	9.9	40.4	26.8	13.6
Congo Dem. Rep.	17.5	17.8	-0.3	15.5	21.3	-5.8	14.2	23.2	-9.0	13.1	20.9	-7.9
Côte d'Ivoire	20.0	20.7	-0.8	20.3	20.6	-0.2	18.8	20.1	-1.3	19.7	21.3	-1.6
Djibouti	35.4	38.0	-2.6	36.0	38.5	-2.4	36.1	38.0	-1.9	36.5	38.4	-2.0
Egypt *	24.2	29.8	-5.6	24.7	31.5	-6.8	25.0	32.1	-7.1	24.9	31.6	-6.7
Equatorial Guinea	41.4	23.2	18.2	41.6	18.5	23.0	38.3	30.6	7.8	38.0	29.8	8.2
Eritrea	25.3	35.3	-10.0	25.5	33.8	-8.3	25.6	33.7	-8.1	27.9	35.0	-7.1
Ethiopia*	17.7	21.4	-3.7	17.2	20.3	-3.1	18.0	19.8	-1.8	16.8	18.1	-1.3
Gabon	29.9	21.3	8.6	30.6	17.7	12.9	28.6	21.9	6.7	28.6	20.3	8.4
Gambia	22.9	22.7	0.2	23.9	24.9	-1.1	22.4	24.8	-2.4	22.9	26.7	-3.8
Ghana	28.6	37.0	-8.4	28.0	38.0	-10.0	25.9	35.1	-9.2	26.0	35.2	-9.1
Guinea	15.7	15.2	0.5	17.4	16.4	1.0	14.7	15.0	-0.3	14.1	16.4	-2.3
Guinea Bissau	31.6	41.9	-10.3	41.9	40.8	1.1	25.0	37.6	-12.6	25.0	37.5	-12.5
Kenya*	22.6	23.7	-1.1	25.4	31.5	-6.1	22.3	25.2	-3.0	21.3	24.4	-3.0
Lesotho*	60.4	48.3	12.2	84.9	74.1	10.8	70.1	54.9	15.2	72.0	55.4	16.6
Liberia*	29.3	24.3	5.0	23.4	22.3	1.1	27.5	25.9	1.6	26.6	24.0	2.6

Table 4 - **Public Finances, 2007-2010** (percentage of GDP) *(cont.)*

	2007			2008(e)			2009(p)			2010(p)		
	Total revenue and grants	Total expenditure and net lending	Overall balance	Total revenue and grants	Total expenditure and net lending	Overall balance	Total revenue and grants	Total expenditure and net lending	Overall balance	Total revenue and grants	Total expenditure and net lending	Overall balance
Libya	61.4	35.2	26.2	66.8	32.3	34.5	47.4	46.4	0.9	48.9	46.3	2.6
Madagascar	15.2	17.8	-2.6	17.5	22.0	-4.5	15.7	18.9	-3.2	15.1	18.9	-3.9
Malawi*	31.7	33.0	-1.3	30.1	32.8	-2.7	31.3	34.3	-2.9	32.1	34.2	-2.2
Mali	21.7	25.1	-3.4	20.8	26.1	-5.4	19.7	23.6	-3.9	20.1	24.4	-4.3
Mauritania	26.5	29.2	-2.7	27.4	31.2	-3.7	26.2	30.9	-4.7	25.2	30.6	-5.4
Mauritius*	19.2	23.5	-4.3	21.5	24.8	-3.4	20.1	23.4	-3.2	20.5	22.6	-2.1
Morocco	25.0	24.8	0.2	24.2	23.4	0.8	23.9	23.5	0.4	24.1	23.5	0.6
Mozambique	25.3	28.2	-2.9	28.7	33.1	-4.4	30.3	35.5	-5.2	28.8	34.1	-5.2
Namibia**	28.9	28.0	0.9	27.3	30.9	-3.6	27.8	31.2	-3.4	31.4	30.3	1.1
Niger	25.1	22.3	2.8	27.2	22.2	5.1	26.1	22.9	3.2	25.6	22.6	3.0
Nigeria	28.3	27.8	0.4	27.3	26.4	0.9	19.0	30.1	-11.1	18.8	30.5	-11.7
Rwanda	25.2	26.9	-1.7	26.9	27.2	-0.3	24.7	24.7	-0.1	23.7	24.8	-1.1
São Tomé and Principe	160.2	40.0	120.2	74.3	32.7	41.6	26.2	31.0	-4.8	26.5	30.2	-3.7
Senegal	23.4	27.2	-3.8	23.5	28.0	-4.5	22.2	26.5	-4.3	22.1	26.8	-4.7
Seychelles	36.0	40.8	-4.7	36.9	36.8	0.1	35.6	39.1	-3.5	35.2	38.6	-3.4
Sierra Leone	42.8	17.6	25.2	16.8	16.8	0.0	15.3	16.0	-0.7	14.0	15.6	-1.5
Somalia	...	...	...	...	...	...	...	...	...	...	...	...
South Africa**	27.1	26.3	0.9	26.4	27.4	-1.0	26.1	29.8	-3.7	27.3	30.1	-2.9
Sudan	20.7	26.1	-5.4	25.1	24.5	0.5	17.8	28.4	-10.6	17.8	28.7	-10.9
Swaziland	43.0	32.5	10.5	40.5	33.9	6.5	42.9	33.0	9.8	39.9	30.9	9.0
Tanzania*	19.0	23.0	-4.0	23.2	23.3	0.0	21.2	23.3	-2.1	20.5	22.0	-1.5
Togo	18.7	19.4	-0.7	19.8	20.1	-0.3	20.4	20.1	0.4	20.9	19.9	1.0
Tunisia	23.9	26.8	-2.8	23.8	26.9	-3.0	23.5	26.7	-3.2	23.2	26.6	-3.3
Uganda*	18.0	19.9	-1.9	18.3	20.5	-2.2	16.7	19.0	-2.4	15.5	18.1	-2.6
Zambia	21.2	24.1	-3.0	23.1	25.2	-2.1	25.5	27.9	-2.3	24.3	27.3	-3.0
Zimbabwe	97.4	97.8	-0.4	...	...	...	...	...	...	...	...	...
Africa	30.2	28.2	1.9	31.0	28.2	2.8	25.7	31.1	-5.4	25.8	30.8	-5.0

Note: * Fiscal year July (n-1)/June (n) ** Fiscal Year April (n)/March (n+1).
Sources: Authors' estimates and projections, various domestic authorities and IMF *World Economic Outlook* (October 2008).

Table 5 - Monetary Indicators

	Inflation (%)				Exchange Rate (LCU / USD)			Broad Money (LCU billion) 2008			Reserves, excluding gold (USD million) 2008	
	2007	2008(e)	2009(p)	2010(p)	2006	2007	2008	Level	% of GDP	Growth 2007/08	Stock at year-end	Eq. Months of imports
Algeria	3.5	4.3	3.3	3.1	72.6	69.3	64.4	7 697.6	65.0	25.0	136 599.0	59.2
Angola	11.8	13.2	9.8	9.4	80.4	76.8	72.7	1 286.1	18.4	25.1	19 786.5	9.9
Benin	1.3	8.1	6.3	4.5	522.6	479.2	452.8	916.7	30.6	8.4	1 365.6	12.2
Botswana	7.1	12.6	9.2	6.3	5.8	6.1	6.8	39.4	44.4	22.2	10 197.2	30.0
Burkina Faso	-0.2	9.3	5.4	3.5	522.6	479.2	452.8	893.0	25.2	9.8	980.6	6.2
Burundi	8.3	24.5	13.1	3.7	1 028.7	1 081.9	1 184.4	390.7	28.6	18.4	211.1	10.4
Cameroon	1.5	5.7	5.4	5.0	522.6	479.2	452.8	2 219.5	20.6	9.2	3 104.0	7.0
Cape Verde	4.3	6.7	3.8	2.1	87.9	80.6	76.1	107.8	81.7	14.0	...	3.2
Central Afr. Rep.	0.9	9.2	5.6	2.9	522.6	479.2	452.8	111.0	12.5	-6.3	127.8	3.6
Chad	-9.0	8.1	3.2	2.1	522.6	479.2	452.8	462.1	11.9	16.2	1 241.8	16.7
Comoros	4.5	5.9	3.8	3.0	0.0	0.0	0.0	34.5	19.2	6.9	112.0	7.8
Congo	2.6	5.4	3.2	3.4	522.6	479.2	452.8	795.6	14.0	11.4	3 394.8	9.1
Congo, Dem. Rep.	16.7	26.2	25.2	21.7	468.3	516.0	560.0	889.5	12.6	38.7	213.2	0.5
Côte d'Ivoire	1.9	6.4	5.4	2.9	522.6	479.2	452.8	3 062.9	29.9	8.0	2 289.2	3.1
Djibouti	5.0	11.9	7.6	6.5	177.7	177.7	177.7	134.0	77.5	13.5	171.0	3.1
Egypt	11.2	11.7	13.0	7.3	5.7	5.6	5.4	...	...	...	32 907.2	7.4
Equatorial Guinea	2.8	5.5	4.7	4.2	522.6	479.2	452.8	622.3	7.2	38.3	4 632.5	15.8
Eritrea	9.3	11.0	10.5	9.7	15.4	15.4	15.4	27.0	118.7	7.7	...	...
Ethiopia	17.8	25.0	15.1	10.0	8.7	8.8	9.2	68.9	29.5	21.2	...	...
Gabon	5.0	5.4	3.2	3.2	522.6	479.2	452.8	1 139.5	16.6	8.8	1 696.2	6.7
Gambia	5.4	6.4	5.6	6.2	28.1	24.9	20.6	9.3	51.8	12.2	142.1	6.7
Ghana	10.7	14.1	8.1	7.3	9 169.5	9 355.0	10 524.3	75 264.1	42.9	30.5	...	...
Guinea	22.9	19.3	11.0	11.2	3 644.3	4 485.0	4 639.3	4 216.1	20.3	24.1	...	...
Guinea Bissau	4.6	9.6	6.2	2.7	522.6	479.2	452.8	83.6	44.4	20.7	148.1	6.9
Kenya	9.8	25.8	9.1	6.8	72.1	67.3	67.6	933.1	44.1	20.0	3 264.0	2.8
Lesotho	8.0	10.7	9.8	7.0	6.8	7.0	8.3	4.4	34.3	12.9	...	...
Liberia	11.4	17.5	7.9	7.7	1.0	1.0	1.0	15.6	1684.1	30.3	148.6	1.7

Table 5 - **Monetary Indicators** *(cont.)*

	Inflation (%)				Exchange Rate (LCU / USD)			Broad Money (LCU billion) 2008			Reserves, excluding gold (USD million) 2008	
	2007	2008(e)	2009(p)	2010(p)	2006	2007	2008	Level	% of GDP	Growth 2007/08	Stock at year-end	Eq. Months of imports
Libya	6.7	11.2	7.1	7.1	1.3	1.3	1.2	...	0.0	0.0	97 604.9	45.0
Madagascar	10.3	9.2	11.7	7.1	2 142.3	1 873.1	1 658.1	3 453.5	21.4	22.7	1 009.9	4.1
Malawi	7.9	8.3	7.5	6.5	136.0	140.0	141.6	96.1	16.6	15.1	132.0	1.2
Mali	1.4	9.3	5.6	2.5	522.6	479.2	452.8	1 049.4	27.8	4.3	1 065.2	5.0
Mauritania	7.3	7.4	6.4	6.2	268.6	258.6	243.5	250.5	27.7	18.4	227.2	1.3
Mauritius	8.8	9.8	6.5	5.7	31.7	31.3	28.7	424.6	169.2	9.5	2 055.0	4.8
Morocco	2.2	3.9	2.2	2.8	8.8	8.2	7.8	733.0	107.6	16.0	24 156.5	7.4
Mozambique	8.2	10.4	7.3	6.1	24 982.1	25 671.2	23 985.3	79 324.4	33.8	18.2	1 684.4	3.6
Namibia	6.7	10.3	8.6	7.2	6.8	7.0	8.3	31.3	52.6	16.2	1 359.9	4.1
Niger	0.1	10.9	4.1	4.3	522.6	479.2	452.8	410.6	18.1	14.5	831.9	6.9
Nigeria	5.4	11.0	10.2	10.1	128.7	125.8	117.8	7 397.6	28.9	53.7	62 082.7	15.7
Rwanda	9.1	14.4	8.8	7.9	551.7	547.0	546.4	419.3	19.4	11.7	593.5	10.5
São Tomé and Principe	18.5	25.9	18.1	12.8	12 448.6	13 536.8	14 699.0	993.7	39.0	21.0	...	...
Senegal	5.9	5.8	4.0	3.4	522.6	479.2	452.8	2 403.4	40.2	21.8	1 458.9	2.9
Seychelles	5.3	37.0	23.4	10.2	5.5	6.7	9.3	5.0	80.5	8.0	94.9	1.0
Sierra Leone	12.1	13.0	11.1	9.0	2 961.9	2 985.2	2 976.7	1 360.1	23.2	20.5	222.4	4.5
Somalia	...	...	...	...	1 546.7	1 423.7	1 435.7	...	...	...	...	...
South Africa*	7.2	11.5	6.7	5.9	6.8	7.1	8.3	1 986.0	85.9	19.0	30 832.0	4.3
Sudan	8.8	14.2	8.3	7.4	2.2	2.1	2.2	23.9	19.2	21.0	2 292.2	2.3
Swaziland	8.1	12.6	8.3	6.3	6.8	7.0	8.3	5.8	25.5	10.6	835.0	4.6
Tanzania	7.0	10.3	9.1	8.4	1 251.9	1 245.0	1 194.3	6 365.9	26.1	22.7	2 689.4	5.6
Togo	1.0	8.9	5.3	2.8	522.6	479.2	452.8	510.9	40.0	10.0	614.6	4.6
Tunisia	3.1	5.0	2.9	3.1	1.3	1.3	1.3	33.0	66.9	10.5	8 471.4	4.7
Uganda	6.1	12.0	9.5	8.6	1 831.5	1 723.5	1 723.3	5 037.0	20.9	31.1	2 663.1	7.2
Zambia	10.7	12.9	9.9	7.1	3 603.1	4 002.5	3 761.1	12 598.9	23.4	17.7	1 170.7	2.8
Zimbabwe	6 723.7	2 311 509	...	...	164.4	9 675.8	2654602 447.2	...	...	...	...	...
Africa	7.5	11.6	8.1	6.5	...	...	...	...	...	...	466 880.3	12.4

Note: StatSA modified the reference for the Consumer Price Index in February 2009.
Sources: Authors' estimates and predictions; various domestic authorities; IMF *World Economic Outlook* (October 2008) and *International Financial Statistics* (March 2009).

Table 6 - Balance of Payments Indicators 2007-2010

	Trade balance (USD million)				Current account balance (USD million)				Current account balance (as % of GDP)			
	2007	2008(e)	2009(p)	2010(p)	2007	2008(e)	2009(p)	2010(p)	2007	2008(e)	2009(p)	2010(p)
Algeria	34 108	45 699	15 088	16 148	30 386	38 883	7 458	10 058	22.4	24.5	5.6	7.0
Angola	29 115	56 631	19 890	24 779	7 066	15 376	-7 221	-7 054	11.5	12.9	-8.1	-7.0
Benin	- 643	- 753	- 677	- 805	- 372	- 450	- 494	- 582	-6.7	-7.1	-7.8	-8.3
Botswana	1 622	1 289	1 048	1 004	1 973	1 557	1 280	1 193	16.6	13.5	11.5	10.1
Burkina Faso	- 597	- 789	- 517	- 574	- 618	- 838	- 683	- 755	-9.1	-10.2	-8.7	-9.0
Burundi	- 205	- 244	- 192	- 205	- 116	- 185	- 98	- 150	-12.4	-16.6	-8.4	-12.4
Cameroon	328	1 083	614	625	86	574	50	58	0.4	2.3	0.2	0.2
Cape Verde	- 664	- 891	- 754	- 810	- 132	- 214	- 173	- 128	-8.7	-11.0	-9.6	-6.6
Central African Rep.	- 71	- 172	- 129	- 146	- 104	- 217	- 162	- 190	-6.1	-9.4	-7.4	-8.1
Chad	2 351	2 666	1 420	1 554	- 476	491	- 163	68	-6.8	8.0	-3.8	1.4
Comoros	- 116	- 156	- 154	- 162	- 31	- 45	- 57	- 57	-6.7	-8.1	-9.5	-9.1
Congo. Republic of	3 190	7 183	4 166	4 901	-1 477	88	-2 850	-2 580	-19.3	0.6	-27.4	-22.6
Congo Dem. Rep.	208	918	461	754	- 191	84	- 331	- 302	-1.8	0.7	-2.9	-2.2
Côte d'Ivoire	2 545	3 303	2 287	2 260	- 135	514	- 69	- 293	-0.7	2.2	-0.3	-1.3
Djibouti	- 451	- 577	- 539	- 586	- 204	- 318	- 239	- 232	-24.2	-31.1	-20.7	-19.2
Egypt*	-16 291	-23 415	-28 505	-28 738	2 269	889	-2 188	-3 588	1.7	0.5	-1.2	-1.8
Equatorial Guinea	7 447	11 640	4 994	5 728	110	3 721	- 2	104	1.0	24.0	0.0	1.1
Eritrea	- 358	- 363	- 360	- 335	- 49	- 44	- 34	- 5	-3.7	-3.0	-2.1	-0.3
Ethiopia *	-3 943	-5 348	-4 556	-4 501	- 589	-1 170	-1 160	- 922	-3.0	-4.7	-5.0	-3.7
Gabon	4 922	8 295	4 170	4 649	1 707	3 517	- 426	444	14.9	21.3	-3.5	3.4
Gambia. The	- 172	- 187	- 156	- 163	- 80	- 112	- 61	- 70	-12.5	-18.3	-8.8	-10.0
Ghana	-3 879	-3 974	-2 921	-3 347	-1 885	-1 686	-2 154	-2 930	-12.4	-11.5	-13.1	-17.9
Guinea	- 14	- 86	68	104	- 456	- 658	- 443	- 458	-11.8	-14.3	-9.7	-9.2
Guinea-Bissau	- 44	- 84	- 73	- 75	- 8	1	- 56	- 54	-2.2	0.2	-11.6	-10.6
Kenya	-4 258	-6 800	-5 358	-5 481	-1 102	-1 750	- 165	38	-4.1	-4.2	-0.4	0.1
Lesotho	- 799	- 739	- 739	- 715	211	- 59	106	19	12.6	-4.5	8.9	1.4
Liberia	- 291	- 622	- 481	- 502	- 274	- 349	- 73	101	-48.1	-28.8	-5.7	7.0

Table 6 - Balance of Payments Indicators 2007-2010 *(cont.)*

	Trade balance (USD million)				Current account balance (USD million)				Current account balance (as % of GDP)			
	2007	2008(e)	2009(p)	2010(p)	2007	2008(e)	2009(p)	2010(p)	2007	2008(e)	2009(p)	2010(p)
Libya	27 122	34 408	6 656	6 815	23 785	28 376	2 081	4 517	34.1	32.3	3.3	6.5
Madagascar	-1 003	-1 831	-1 506	-1 568	-1 070	-2 119	-1 920	-2 411	-13.9	-25.8	-21.0	-22.9
Malawi	- 601	- 442	- 451	- 493	- 74	- 160	- 89	- 193	-2.1	-5.3	-2.8	-5.9
Mali	- 247	- 205	142	- 106	- 557	- 396	- 76	- 311	-7.9	-4.7	-0.9	-3.7
Mauritania	23	85	- 70	- 151	- 321	- 350	- 472	- 537	-11.3	-9.3	-13.2	-14.5
Mauritius	-1 411	-1 995	-1 577	-1 665	- 399	- 910	- 569	- 620	-5.3	-9.9	-6.1	-6.4
Morocco	-14 500	-16 787	-13 802	-15 050	- 600	-3 313	-1 768	-3 129	-0.8	-3.7	-2.0	-3.1
Mozambique	- 635	-1 739	-2 521	-2 240	- 722	-1 716	-1 952	-1 681	-9.0	-11.9	-14.0	-11.2
Namibia	454	- 928	-1 047	-1 196	1 572	298	206	125	18.0	3.6	2.7	1.4
Niger	- 158	- 417	- 432	- 479	- 320	- 657	- 720	- 848	-7.7	-12.8	-15.4	-16.3
Nigeria	26 973	31 517	8 079	9 789	5 873	6 917	-16 721	-13 611	3.5	3.2	-9.1	-6.4
Rwanda	- 404	- 488	- 444	- 492	- 168	- 303	- 254	- 301	-5.0	-7.9	-5.9	-6.2
São Tomé and Principe	- 58	- 66	- 76	- 80	- 44	- 47	- 61	- 64	-30.2	-29.6	-34.5	-33.4
Senegal	-2 329	-2 936	-2 057	-2 249	-1 259	-1 788	-1 057	-1 261	-11.3	-14.2	-8.7	-9.8
Seychelles	- 426	- 487	- 268	- 284	- 265	- 344	- 135	- 138	-29.1	-40.9	-21.5	-20.0
Sierra Leone	- 100	- 174	- 141	- 154	- 64	- 141	- 123	- 143	-3.8	-5.9	-4.4	-4.5
Somalia	...	...	...	...	...	...	...	...	...	...	...	...
South Africa	-5 749	-5 588	-4 583	-7 459	-21 142	-20 214	-14 491	-19 881	-7.5	-7.8	-6.4	-7.6
Sudan	1 133	6 082	- 297	237	-7 217	-1 841	-7 243	-9 420	-16.3	-3.4	-13.8	-15.9
Swaziland	- 309	- 326	- 163	- 149	- 104	201	383	215	-3.6	7.8	15.4	7.9
Tanzania	-2 634	-3 530	-2 785	-3 504	-1 839	-2 713	-1 912	-2 297	-10.9	-14.8	-9.7	-10.4
Togo	- 499	- 619	- 444	- 506	- 159	- 197	- 27	- 59	-6.4	-7.8	-1.1	-2.2
Tunisia	-2 870	-3 552	-3 401	-3 160	- 915	-1 764	-1 447	-1 223	-2.6	-4.2	-3.2	-2.5
Uganda	- 861	-1 971	-1 494	-1 864	- 378	-1 633	-1 199	-1 635	-2.8	-9.8	-7.3	-8.9
Zambia	841	41	-1 038	- 992	- 783	-1 303	-1 811	-1 984	-6.7	-9.1	-17.0	-17.3
Zimbabwe	- 21	...	...	...	- 165	...	...	...	-3.5	...	...	...
Africa	74 770	121 557	-15 624	-11 642	28 172	51 481	-61 787	-65 161	2.2	3.3	-4.4	-4.1

Note: * Fiscal year July (n-1)/June (n)
Source: Authors' estimates and projections; Various domestic authorities; IMF *World Economic Outlook* (October 2008).

Table 7 - Exports, 2007

	Three main exports*, with their share in total exports**			No. of products accounting for more than 75 per cent of exports
	Product I	Product II	Product III	
Algeria	Petroleum oils and oils obtained from bituminous minerals, crude (63.1%)	Petroleum oils and oils obtained from bituminous minerals, other than crude (10.5%)	Liquefied :-- Natural gas (9.7%)	3
Angola	Petroleum oils and oils obtained from bituminous minerals, crude (96.7%)			1
Benin	Cotton, not carded or combed. (29.8%)	Petroleum oils and oils obtained from bituminous minerals, other than crude (20.8%)	Copper waste and scrap. (10.9%)	5
Botswana	Diamonds, whether or not worked, but not mounted or set. Unworked or simply sawn, cleaved or bruted (56.0%)	Nickel mattes (21.2%)	Copper mattes (3.7%)	2
Burkina Faso	Cotton, not carded or combed. (71.6%)	Sesamum seeds (4.3%)	Guavas, mangoes and mangosteens (2.6%)	2
Burundi	Coffee, not roasted :-- Not decaffeinated (62.1%)	Black tea (fermented) & partly fermented tea in packages exceedg 3 kg (4.3%)	Other black tea (fermented) and other partly fermented tea (3.4%)	6
Cameroon	Petroleum oils and oils obtained from bituminous minerals, crude (52.7%)	Wood sawn or chipped lengthwise, sliced or peeled, whether or not planed, sanded or end-jointed, of a thickness exceeding 6 mm. (9.1%)	Cocoa beans, whole or broken, raw or roasted. (6.1%)	5
Cape Verde	Fish, frozen, excluding fish fillets and other fish meat of heading 03.04. (25.4%)	Cotton, not carded or combed. (12.9%)	Cocoa paste, not defatted (10.2%)	9
Central African Republic	Wood in the rough, whether or not stripped of bark or sapwood, or roughly squared. (30.3%)	Diamonds, whether or not worked, but not mounted or set. Unsorted (21.4%)	Cotton, not carded or combed. (16.8%)	4
Chad	Petroleum oils and oils obtained from bituminous minerals, crude (95.3%)	Cotton, not carded or combed. (2.3%)		1
Comoros	Vessels and other floating structures for breaking up (31.0%)	Cloves (whole fruit, cloves and stems) (19.8%)	Essential oils (terpeneless or not), including concretes and absolutes resinoids extracted oleoresins (19.0%)	4
Congo	Petroleum oils and oils obtained from bituminous minerals, crude (83.2%)			1
Congo Democratic Republic	Diamonds, whether or not worked, but not mounted or set. Unworked or simply sawn, cleaved or bruted (24.6%)	Petroleum oils and oils obtained from bituminous minerals, crude (14.9%)	Cobalt ores and concentrates (14.7%)	6
Cote d'Ivoire	Cocoa beans, whole or broken, raw or roasted (29.4%)	Petroleum oils and oils obtained from bituminous minerals, crude (17.0%)	Cocoa paste, not defatted (6.3%)	9

Table 7 - **Exports, 2007** *(cont.)*

	Three main exports*, with their share in total exports**			No. of products accounting for more than 75 per cent of exports
	Product I	Product II	Product III	
Djibouti	**Sheep (26.9%)**	**Goats (24.0%)**	**Petroleum oils and oils obtained from bituminous minerals, other than crude (14.0%)**	**4**
Egypt	**Liquefied :-- Natural gas (18.2%)**	**Petroleum oils and oils obtained from bituminous minerals, crude (11.6%)**	**Petroleum oils and oils obtained from bituminous minerals, other than crude (8.7%)**	**68**
Equatorial Guinea	**Petroleum oils and oils obtained from bituminous minerals, crude (87.9%)**	**Methanol (methyl alcohol) (3.9%)**	**Liquefied :-- Natural gas (3.2%)**	**1**
Eritrea	Natural uranium and its compounds (69.1%)	Nuclear reactors, boilers, mchy & mech appliance (6.4%)	Sesamum seeds (3.3%)	2
Ethiopia	**Coffee, not roasted, not decaffeinated (42.1%)**	**Sesamum seeds (16.3%)**	**Cut flowers and flower buds of a kind suitable for bouquets or for ornamental purposes, fresh (6.5%)**	**7**
Gabon	**Petroleum oils and oils obtained from bituminous minerals, crude (71.8%)**	**Manganese ores and concentrates, in (9.6%)**	**Wood in the rough, whether or not stripped of bark or sapwood, or roughly squared. (0.0%)**	**2**
Gambia	**Cashew nuts :-- In shell (36.0%)**	**Titanium ores and concentrates. (8.5%)**	**Ground-nut oil and its fractions, crude. (8.5%)**	**11**
Ghana	**Cocoa beans, whole or broken, raw or roasted (45.6%)**	**Manganese ores and concentrates, in (8.4%)**	**Petroleum oils and oils obtained from bituminous minerals, other than crude (4.1%)**	**10**
Guinea	**Aluminium ores and concentrates. (52.4%)**	**Aluminium oxide other than artificial (15.3%)**	**Copper ores and concentrates. (7.9%)**	**3**
Guinea Bissau	Cashew nuts :-- In shell (91.3%)			1
Kenya	**Cut flowers and flower buds of a kind suitable for bouquets or for ornamental purposes, fresh (13.7%)**	**Other black tea (fermented) and other partly fermented tea (11.8%)**	**Petroleum oils and oils obtained from bituminous minerals, other than crude (5.9%)**	**51**
Lesotho	**Diamonds, whether or not worked, but not mounted or set. Unworked or simply sawn, cleaved or bruted (28.9%)**	**Jerseys, pullovers, cardigans, waist-coats and similar articles, knitted or crocheted, of cotton (18.5%)**	**Men's or boys' suits, ensembles, jackets, blazers, trousers, bib and brace overalls, breeches and shorts (other than swimwear), of cotton (14.5%)**	**6**
Liberia	**Tankers (46.1%)**	**Other vessels for the transport of goods and/or persons (21.9%)**	**Natural rubber latex, whether or not prevulcanised (11.6%)**	**3**
Libya	**Petroleum oils and oils obtained from bituminous minerals, crude (86.2%)**	**Petroleum oils and oils obtained from bituminous minerals, other than crude(8.9%)**		**1**

Table 7 - **Exports, 2007** *(cont.)*

	Three main exports*, with their share in total exports**			No. of products accounting for more than 75 per cent of exports
	Product I	Product II	Product III	
Madagascar	Jerseys, pullovers, cardigans, waist-coats and similar articles, knitted or crocheted, of wool or fine animal hair (12.4%)	Shrimps and prawns (10.1%)	Women's or girls' suits, ensembles, jackets, blazers, dresses, skirts, divided skirts, trousers, bib and brace overalls, breeches and shorts (other than swimwear). (8.0%)	26
Malawi	Tobacco, partly or wholly stemmed/s (49.5%)	Raw sugar not containing added flav (8.8%)	Other black tea (fermented) and other partly fermented tea (5.7%)	6
Mali	Cotton, not carded or combed. (70.8%)	Guavas, mangoes and mangosteens (4.4%)	Sesamum seeds (2.0%)	2
Mauritania	Iron ores and concentrates, including roasted iron pyrites. Non agglomerated (45.3%)	Petroleum oils and oils obtained from bituminous minerals, other than crude (19.0%)	Molluscs or aquatic invertebrates other than crustaceans, other than live, fresh or chilled (9.7%)	4
Mauritius	T-shirts, singlets and other vests, knitted or crocheted of cotton (17.5%)	Cane sugar and chemically pure sucrose, in solid form. (15.9%)	Prepared of Preserved Fish - Tunas, skipjack and bonito (Sarda spp.) (9.5%)	24
Morocco	Phosphoric acid and polyphosphoric acids (5.2%)	Electronic integrated circuits and microassemblies : other monolithic integrated circuits. (3.8%)	Natural calcium phosphates, natural aluminium calcium phosphates and phosphatic chalk unground. (3.2%)	72
Mozambique	Aluminium, not alloyed (51.3%)	Petroleum oils and oils obtained from bituminous minerals, other than crude (9.9%)	Electrical energy. (optional heading) (5.1%)	5
Namibia	Diamonds, whether or not worked, but not mounted or set : Unworked or simply sawn, cleaved or bruted (20.2%)	Unwrought zinc, containing by weight 99.99 % or more of zinc. (18.7%)	Natural uranium and its compounds alloys, dispersions (including cermets), ceramic products and mixtures containing natural uranium (12.1%)	7
Niger	Natural uranium and its compounds (83.7%)	Paintings, drawings and pastels (2.2%)		1
Nigeria	Petroleum oils and oils obtained from bituminous minerals, crude (87.5%)	Liquefied :-- Natural gas (6.6%)	Petroleum oils and oils obtained from bituminous minerals, other than crude (2.0%)	1
Rwanda	Coffee, not roasted, not decaffeinated (43.2%)	Tin ores and concentrates. (15.6%)	Other black tea (fermented) and other partly fermented tea (13.7%)	4
São Tomé and Principe	Cocoa beans, whole or broken, raw o (49.5%)	Prefabricated buildings. (4.6%)	Parts and accessories (other than covers, carrying cases and the like) suitable for use solely or principally with machines of headings 84.69 to 84.72. (4.6%)	12
Senegal	Petroleum oils and oils obtained from bituminous minerals, other than crude (14.3%)	Phosphoric acid and polyphosphoric acids (9.5%)	Ground-nut oil and its fractions, crude. (7.1%)	34
Seychelles	Tunas, skipjack and bonito (Sarda spp.) (47.8%)	Yellowfin tunas (Thunnus albacares) (11.0%)	Other Fish, frozen, excluding fish fillets and other fish meat of heading No. 03.04. Skipjack or stripe bellied bonito (7.9%)	5

Table 7 - Exports, 2007 *(cont.)*

	Three main exports*, with their share in total exports**			No. of products accounting for more than 75 per cent of exports
	Product I	Product II	Product III	
Sierra Leone	Diamonds, whether or not worked, but not mounted or set : Unworked or simply sawn, cleaved or bruted (31.1%)	Aluminium ores and concentrates. (11.7%)	Titanium ores and concentrates. (11.2%)	8
Somalia	Goats (33.7%)	Live bovine animals : Other than Purebred breeding animals (10.5%)	Pure-bred breeding animals (10.4%)	7
South Africa	Platinum :- Unwrought or in powder form (7.6%)	Diamonds, whether or not worked, but not mounted or set :- Unworked or simply sawn, cleaved or bruted (6.1%)	Gold (including gold plated with platinum) unwrought form. (5.1%)	102
Sudan	Petroleum oils and oils obtained from bituminous minerals, crude (92.3%)			3
Swaziland	Raw sugar not containing added flav (12.7%)	Food preparations not elsewhere specified or included. (10.2%)	Mixtures of odoriferous substances of a kind used in the food or drink (9.9%)	25
Tanzania	Tobacco, partly or wholly stemmed/s (8.5%)	Coffee, not roasted :-- Not decaffe (7.5%)	Fish fillets and other fish meat (whether or not minced), fresh or chilled. (7.4%)	36
Togo	Cocoa beans, whole or broken, raw or roasted (25.3%)	Petroleum oils and oils obtained from bituminous minerals, other than crude (13.0%)	Portland cement, aluminous cement, slag cement, supersulphate cement and similar hydraulic cements, in the form of clinkers. (8.3%)	9
Tunisia	Petroleum oils and oils obtained from bituminous minerals, crude (3.8%)	Trousers, bib and brace overalls, breeches and shorts: -- Of cotton (5.6)	Ignition wiring sets and other wiring sets of a kind used in vehicles, aircraft or ships (4.6)	82
Uganda	Coffee, not roasted :-- Not decaffe (25.6%)	Fish fillets and other fish meat (whether or not minced), fresh or chilled (12.8%)	Tobacco, partly or wholly stemmed (7.3%)	16
Zambia	Refined copper :-- Cathodes and sections of cathodes (62.1%)	Copper ores and concentrates. (6.3%)	Cobalt mattes and other intermediate products of cobalt (5.3%)	4
Zimbabwe	Nickel, not alloyed (22.7%)	Tobacco, partly or wholly stemmed (11.1%)	Nickel ores and concentrates. (9.4%)	13
Africa	Petroleum oils and oils obtained from bituminous minerals, crude (48.6%) [19.5%]	Petroleum oils and oils obtained from bituminous minerals, other than crude (4.3%) [4.0%]	Liquefied :-- Natural gas (3.4%) [22.4%]	37

Note: * Products are reported when accounting for more than 2 per cent of total exports.
** Figures in [ ] represent the share of Africa in the World export for each product.

Sources: COMTRADE Database (Harmonized system, Rev.1) - UN Statistics Division, March 2009.

Table 8 - Diversification and Competitiveness

	Diversification index					Annual export growth nominal (%)	Competitiveness Indicator 2003-2007 (%)	
	2003	2004	2005	2006	2007	2003-2007	Sectoral effect	Global competitiveness effect
Algeria	3.1	2.3	2.4	2.3	2.4	35.3	-0.4	15.8
Angola	1.1	1.1	1.1	1.1	1.1	81.4	17.0	44.5
Benin	4.2	3.9	4.8	6.3	6.4	0.1	2.2	-22.0
Botswana	1.3	1.4	1.4	1.8	2.8	8.2	-9.9	-6.4
Burkina Faso	2.3	2.5	1.6	1.7	1.9	21.2	-9.7	11.1
Burundi	2.8	3.4	2.0	5.4	2.6	36.3	3.7	12.7
Cameroun	4.7	4.0	4.1	3.0	3.3	19.7	3.9	-4.1
Cape Verde	14.5	13.6	7.9	10.0	9.0	33.1	-8.2	21.4
Central African Republic	5.4	5.5	4.7	4.6	5.5	0.8	-7.4	-11.7
Chad	2.2	1.4	1.7	1.2	1.1	604.8	-4.8	589.7
Comoros	1.7	2.4	4.6	5.6	4.9	3.3	-31.4	14.8
Congo	1.6	1.5	1.4	1.3	1.4	48.9	15.1	14.0
Congo Dem. Rep.	3.4	4.0	4.7	6.2	7.6	22.8	-2.7	5.7
Cote d'Ivoire	4.8	7.2	7.1	7.7	7.7	6.9	-8.0	-4.9
Djibouti	13.1	15.0	44.6	23.9	5.9	50.7	-0.8	31.6
Egypt	22.1	22.0	22.6	14.0	17.2	50.9	4.8	26.2
Equatorial Guinea	1.2	1.1	1.2	1.2	1.3	57.8	14.1	23.8
Eritrea	31.2	27.8	9.5	22.4	2.1	204.4	-5.7	190.3
Ethiopia	4.6	4.1	4.2	4.5	4.7	34.0	1.4	12.7
Gabon	1.7	1.8	1.7	1.9	1.9	18.3	13.2	-14.8
Gambia	8.2	10.7	6.1	5.2	6.6	6.8	-7.3	-5.8
Ghana	5.3	5.3	5.2	4.7	4.5	14.7	-5.1	0.0
Guinea	3.5	3.3	3.1	3.4	3.2	15.9	16.0	-19.9
Guinea Bissau	2.2	2.3	1.2	1.4	1.2	0.8	-13.0	-6.1
Kenya	18.8	18.4	17.9	19.9	21.9	12.0	-3.7	-4.1
Lesotho	7.3	7.1	7.2	7.9	6.6	13.4	-14.6	5.5
Liberia	3.1	3.4	3.3	5.0	3.5	1.6	0.6	-18.9

Table 8 - **Diversification and Competitiveness** *(cont.)*

	Diversification index					Annual export growth nominal (%)	Competitiveness Indicator 2003-2007 (%)	
	2003	2004	2005	2006	2007	2003-2007	Sectoral effect	Global competitiveness effect
Libya	1.4	1.3	1.3	1.3	1.3	52.0	17.5	14.6
Madagascar	10.5	15.7	19.6	19.5	21.2	3.2	-14.4	-2.3
Malawi	3.2	3.8	2.9	3.0	3.8	15.4	-9.2	4.8
Mali	1.5	1.3	1.5	2.9	2.0	1.1	-9.9	-8.9
Mauritania	4.5	4.2	4.1	4.4	3.9	47.9	17.8	10.3
Mauritius	13.9	11.8	12.3	12.7	13.4	4.4	-6.9	-8.5
Morocco	72.1	71.6	63.0	69.6	67.3	17.8	-4.2	2.1
Mozambique	2.8	2.6	3.1	2.7	3.5	50.8	-1.1	32.1
Namibia	10.2	7.9	5.9	5.2	9.1	42.4	6.8	24.8
Niger	2.1	3.7	2.5	2.5	1.4	43.4	21.5	2.1
Nigeria	1.3	1.2	1.3	1.2	1.3	44.8	16.4	8.5
Rwanda	2.0	1.7	2.7	2.5	4.1	-1.5	14.9	-36.2
São Tomé and Principe	2.8	5.8	3.8	5.3	3.9	-5.8	-9.8	-15.9
Senegal	19.6	19.7	10.4	25.4	22.3	12.7	-4.2	-2.9
Seychelles	3.2	3.8	4.7	3.2	3.9	-0.2	-1.7	-18.4
Sierra Leone	4.5	3.4	2.8	5.3	7.3	24.0	-6.6	10.8
Somalia	11.4	8.5	8.8	9.0	6.6	12.4	-5.4	-2.1
South Africa	54.1	51.5	50.0	46.7	45.6	24.0	6.0	-1.9
Sudan	1.6	1.5	1.4	1.3	1.2	55.9	12.4	23.7
Swaziland	17.2	17.0	18.8	20.0	20.0	15.2	-5.8	1.1
Tanzania	27.6	25.5	20.4	31.2	30.1	21.4	-1.1	2.6
Togo	11.0	9.8	13.3	11.8	9.3	-9.3	3.1	-32.3
Tunisia	47.1	44.8	43.2	44.3	35.8	20.9	-4.2	5.3
Uganda	7.3	6.7	7.8	8.0	10.4	21.6	-3.8	5.5
Zambia	5.8	4.1	3.5	2.3	2.5	98.9	27.9	51.1
Zimbabwe	11.2	13.6	15.7	15.6	10.8	7.1	9.8	-22.5
Africa	7.3	5.8	4.7	3.9	4.1	34.1	8.2	6.0

Sources: COMTRADE Database (Harmonized system, Rev.1) - UN Statistics Division, March 2009.

Table 9 - International Prices of Exports, 2002-2008

	Unit	2002	2003	2004	2005	2006	2007	2008
Aluminum	($/mt)	1 349.91	1 431.29	1 715.54	1 898.31	2 569.90	2 638.18	2 572.79
Banana (US)	($/mt)	528.58	374.79	524.58	602.84	677.24	675.81	844.21
Coal (Australia)	($/mt)	...	...	...	...	49.09	65.73	127.10
Cocoa	(cents/kg)	177.79	175.09	154.98	153.81	159.19	195.23	257.71
Coffee (Arabica)	(cents/kg)	135.66	141.54	177.40	253.22	252.21	272.37	308.16
Coffee (Robusta)	(cents/kg)	66.18	81.45	79.30	111.45	148.93	190.92	232.09
Copper	($/mt)	1 559.48	1 779.14	2 865.88	3 678.88	6 722.13	7 118.23	6 955.88
Cotton	(c/kg)	101.92	139.91	136.57	121.70	126.66	139.52	157.39
Fish Meal	($/mt)	605.92	610.71	648.58	730.96	1 166.33	1 177.25	1 133.08
Gold	($/toz)	309.97	363.51	409.21	444.84	604.34	696.72	871.71
Groundnut oil	($/mt)	687.08	1 243.17	1 161.00	1 060.44	970.23	1 352.08	2 131.12
Iron ore	(c/dmtu)	29.31	31.95	37.90	65.00	77.35	84.70	140.60
Lead	(c/kg)	45.27	51.50	88.65	97.64	128.97	258.00	209.07

Table 9 - **International Prices of Exports, 2002-2008** *(cont.)*

	Unit	2002	2003	2004	2005	2006	2007	2008
Logs Cameroon	($/CM)	...	...	...	...	318.48	381.32	526.89
Maize	($/mt)	99.27	105.37	111.80	98.67	121.85	163.66	223.12
Oil (crude)	($/bbl)	24.97	28.85	38.30	54.43	65.39	72.70	97.64
Palm oil	($/mt)	390.25	443.25	471.33	422.08	478.35	780.25	948.54
Phosphate (rock)	($/mt)	40.38	38.00	40.98	42.00	44.21	70.93	345.59
Rubber (US)	(cents/kg)	...	...	...	...	231.28	248.03	284.08
Sugar (EU)	(cents/kg)	54.92	59.72	66.97	66.54	64.56	68.09	69.69
Sugar (World)	(c/kg)	15.18	15.63	15.80	21.79	32.59	22.22	28.21
Sugar (US)	(cents/kg)	46.14	47.37	45.47	46.93	48.76	45.77	46.86
Tea (Avg. 3 auctions)	(c/kg)	150.60	151.66	168.56	164.71	187.21	203.61	242.05
Tea (Mombasa)	(c/kg)	149.21	154.36	155.42	147.75	195.23	166.49	221.76
Tobacco	($/mt)	2 744.50	2 646.10	2 740.20	2 790.00	2 740.00	2 917.00	3 270.12

Source: World Bank, *Global Commodity Price Prospects*, March 2009.

Table 10 - Foreign Direct Investment, 2002-2007 (USD million)

	FDI inflows						FDI outflows						FDI inflows/GFCF (%)			Inward FDI* Potential
	2002	2003	2004	2005	2006	2007	2002	2003	2004	2005	2006	2007	2005	2006	2007	2006
Algeria	1065	634	882	1081	1795	1665	100	14	258	23	35	290	4.70	6.30	5.10	68
Angola	1672	3505	1449	-1304	-38	-1500	29	24	35	219	191	331	-52.70	-0.60	-17.80	76
Benin	14	45	64	53	53	48	1	0	-1	0	-2	-1	6.30	5.80	4.60	138
Botswana	405	420	392	281	489	495	43	207	-39	56	51	51	14.70	26.90	24.40	78
Burkina Faso	15	29	14	34	34	600	2	2	-9	0	1	-3	2.70	2.40	37.00	127
Burundi	0	0	0	1	0	0	0	0	...	...	...	...	0.50	...	...	...
Cameroon	602	383	319	225	309	284	-33	4	2	-9	-1	-2	6.70	7.80	6.20	112
Cape Verde	39	34	68	82	131	177	...	1	...	...	...	0	21.90	30.30	33.80	...
Central African Republic	4	13	15	17	18	27	1	...	...	...	...	...	21.50	22.40	29.00	...
Chad	924	713	495	613	700	603	0	0	...	...	...	...	48.20	45.40	34.80	...
Comoros	0	1	1	1	1	1	...	...	...	...	...	...	1.60	1.30	1.60	...
Congo	131	321	-13	724	344	352	4	2	5	3	3	4	47.50	18.30	18.90	97
Congo Dem. Rep.	117	158	10	-76	-116	720	-2	0	0	...	...	...	-7.50	-8.40	44.80	139
Cote d'Ivoire	213	165	283	312	319	427	-4	23	-26	52	-27	0	18.30	17.90	21.20	128
Djibouti	4	14	39	59	164	195	...	...	...	...	...	...	42.00	111.40	121.70	...
Egypt	647	237	2157	5376	10043	11578	28	21	159	92	148	665	32.20	49.80	42.70	83
Equatorial Guinea	323	1444	1651	1873	1656	1726	...	...	...	...	...	...	71.20	52.50	44.70	...
Eritrea	20	22	-8	-1	0	-3	...	...	...	...	...	...	-0.60	0.20	-1.20	...
Ethiopia	255	465	545	265	545	254	...	...	...	...	...	...	11.40	20.80	7.60	134
Gabon	37	206	194	60	268	269	-32	-57	-25	65	106	57	3.30	13.10	11.20	99
Gambia	43	15	49	45	71	64	...	...	...	...	...	...	37.30	57.80	40.20	115
Ghana	59	105	139	145	636	855	-2	11	-1	...	...	...	4.60	19.40	22.30	113
Guinea	30	83	98	105	108	111	0	..	-1	-5	...	...	23.40	20.00	13.70	132
Guinea Bissau	4	4	2	9	18	7	1	1	-8	1	0	-4	19.80	35.10	12.40	...
Kenya	28	82	46	21	51	728	7	2	4	10	24	36	0.60	1.20	13.10	126
Lesotho	27	42	53	57	92	106	0	0	0	...	...	...	11.20	15.50	16.70	...
Liberia	3	372	237	-1384	-205	42	403	173	304	437	346	363	-1587.00	-242.30	41.60	...

Table 10 - Foreign Direct Investment, 2002-2007 (USD million) *(cont.)*

	FDI inflows						FDI outflows						FDI inflows/GFCF (%)			Inward FDI* Potential
	2002	2003	2004	2005	2006	2007	2002	2003	2004	2005	2006	2007	2005	2006	2007	2006
Libya	145	143	357	1038	2013	2541	-136	63	-286	128	-534	-479	14.40	23.00	25.30	35
Madagascar	61	95	95	86	294	997	...	-5	...	...	...	...	7.60	24.60	62.30	131
Malawi	17	66	108	27	30	55	0	1	2	1	1	1	14.30	15.90	26.20	137
Mali	244	132	101	224	83	360	2	1	1	-1	1	1	26.40	7.60	30.10	123
Mauritania	67	102	392	814	155	153	...	-1	4	2	5	4	97.80	19.50	19.00	...
Mauritius	32	62	11	42	105	339	9	-5	32	48	10	58	3.10	6.70	17.90	...
Morocco	481	2314	895	1653	2450	2577	28	12	31	74	445	652	9.80	13.00	12.20	91
Mozambique	347	337	245	108	154	427	0	0	0	0	0	0	8.50	9.10	22.60	104
Namibia	181	149	226	348	387	697	-5	-10	-22	-13	-12	-3	22.20	23.60	39.90	95
Niger	2	11	20	30	51	27	-2	0	7	-4	-1	1	5.60	7.70	3.50	133
Nigeria	2040	2171	2127	4978	13956	12454	172	167	261	200	228	261	36.70	88.50	69.60	88
Rwanda	2	3	11	14	16	67	...	...	...	...	14	13	3.20	3.30	12.20	135
São Tomé and Principe	4	3	4	16	38	35	...	...	...	15	3	3	64.10	74.50	59.90	...
Senegal	78	52	77	45	220	78	34	3	13	-8	10	9	2.00	9.10	2.70	122
Seychelles	48	58	38	86	146	248	9	8	8	7	8	9	81.20	132.40	246.00	...
Sierra Leone	10	9	61	83	59	81	...	1	...	-8	0	-4	104.80	69.20	81.70	114
Somalia	0	-1	-5	24	96	141	...	...	...	...	...	...	5.10	19.80	26.00	...
South Africa	1573	734	799	6644	-527	5692	-399	565	1352	930	6725	3727	16.10	-1.20	11.50	74
Sudan	713	1349	1511	2305	3541	2436	...	...	...	...	7	11	41.30	42.20	22.90	121
Swaziland	92	-61	71	-50	36	37	-1	16	-1	-24	2	3	-9.80	7.70	7.50	...
Tanzania	388	308	331	568	522	600	0	2	...	-6	20	5	20.00	17.70	17.90	120
Togo	53	34	59	77	77	69	2	-6	-13	-15	-14	-25	18.80	16.70	13.30	130
Tunisia	821	584	639	782	3312	1618	7	5	4	13	33	20	12.10	45.50	19.60	66
Uganda	185	202	295	380	400	368	...	...	...	...	...	...	17.60	15.80	12.30	117
Zambia	303	347	364	357	616	984	...	...	...	...	...	...	19.90	22.80	35.60	129
Zimbabwe	26	4	9	103	40	69	3	0	0	1	0	3	202.00	39.80	153.80	141
Africa	14592	18719	18020	29459	45754	52982	270	1245	2050	2282	7829	6055	16.30	21.40	21.30	...

Note: * The potential Index is based on 12 economic and policy variables. See note on methodology for further details.
Source: UNCTAD, FDI Online Database (March 2009) and *World investment Report* 2008.

Table 11 - **Aid Flows*, 2002-2007** (USD million)

	ODA net total, All donors						ODA net total, DAC countries						ODA net total, Multilateral					
	2002	2003	2004	2005	2006	2007	2002	2003	2004	2005	2006	2007	2002	2003	2004	2005	2006	2007
Algeria	328	234	315	348	208	390	123	169	235	266	205	289	63	68	80	70	-4	93
Angola	414	493	1 144	423	171	241	286	372	1 016	248	-55	86	129	122	131	176	124	137
Benin	221	301	391	348	375	470	140	196	210	208	228	238	78	106	181	141	147	229
Botswana	37	28	46	48	66	104	37	27	32	30	36	64	2	2	16	20	31	42
Burkina Faso	477	522	643	696	870	930	230	266	331	338	386	412	202	253	306	349	474	503
Burundi	172	227	359	364	415	466	85	121	186	180	222	200	87	106	173	183	193	266
Cameroon	657	895	780	414	1 689	1 933	436	752	572	331	1 505	1 697	220	143	207	81	179	227
Cape Verde	92	143	143	162	138	163	43	90	91	104	99	114	50	53	52	55	38	49
Central African Republic	60	51	110	90	133	176	40	32	55	60	65	118	20	19	55	30	68	58
Chad	231	251	330	380	284	352	67	96	163	162	153	223	162	155	164	214	128	128
Comoros	32	24	25	23	30	44	11	11	14	15	20	20	17	13	12	8	10	25
Congo	1 175	5 417	1 826	1 782	2 049	1 217	351	5 009	1 165	990	1 500	788	824	407	661	794	549	427
Congo Dem. Rep.	57	69	115	1 429	259	127	41	34	48	1 344	169	48	15	35	68	85	89	78
Côte d'Ivoire	1 068	254	161	97	251	165	831	281	197	129	199	112	236	-28	-36	-32	51	53
Djibouti	78	79	64	76	117	112	37	37	39	54	89	75	39	39	27	23	26	37
Egypt	1 237	987	1 456	995	873	1 083	1 124	775	1 176	663	537	787	83	84	260	242	287	214
Equatorial Guinea	20	21	29	38	26	31	14	18	23	30	19	26	7	3	6	9	7	6
Eritrea	230	316	263	354	129	155	121	185	177	226	63	45	96	131	90	132	67	107
Ethiopia	1 303	1 600	1 809	1 916	1 948	2 422	489	1 033	1 025	1 184	1 024	1 242	780	534	747	702	899	1 147
Gabon	72	-11	40	52	31	48	49	-41	24	29	32	34	22	30	16	23	-1	13
Gambia	60	63	55	61	74	72	18	20	12	15	25	33	40	40	43	46	43	36
Ghana	658	968	1 403	1 146	1 176	1 151	405	471	913	602	595	708	247	483	470	526	580	440
Guinea	250	242	273	199	161	224	126	135	178	126	103	122	118	107	95	61	55	92
Guinea-Bissau	59	145	76	66	82	123	26	98	29	27	39	44	34	48	48	39	43	79
Kenya	391	521	654	767	943	1 275	288	320	471	510	760	824	93	199	185	244	167	448
Lesotho	76	79	96	69	72	130	30	33	35	40	38	62	48	47	61	30	34	68
Liberia	52	107	213	232	268	696	27	70	163	144	187	226	25	36	50	87	80	469

Table 11 - Aid Flows*, 2002-2007 (USD million) (cont.)

	ODA net total, All donors						ODA net total, DAC countries						ODA net total, Multilateral					
	2002	2003	2004	2005	2006	2007	2002	2003	2004	2005	2006	2007	2002	2003	2004	2005	2006	2007
Libya**	0	0	0	24	37	19	0	0	0	17	33	15	0	0	0	3	3	2
Madagascar	371	543	1 250	914	750	892	126	225	685	498	261	387	246	319	566	417	485	499
Malawi	376	515	504	581	684	735	225	309	308	325	398	401	142	204	194	254	274	323
Mali	475	554	582	704	825	1 017	257	272	328	371	398	558	164	284	255	327	418	455
Mauritania	355	249	189	183	190	364	147	136	83	105	94	133	210	116	105	77	96	229
Mauritius	24	-15	32	34	19	75	4	-18	15	22	9	44	20	3	20	11	12	33
Morocco	486	539	707	693	1 044	1 090	217	336	394	287	567	628	135	157	244	315	361	344
Mozambique	2 218	1 049	1 243	1 290	1 605	1 777	1 661	697	731	760	938	1 073	555	349	508	528	663	681
Namibia	134	146	173	114	145	205	85	110	124	88	106	144	47	33	34	22	38	60
Niger	299	461	547	520	514	542	114	245	306	254	235	233	181	216	242	266	279	307
Nigeria	294	308	577	6 401	11 432	2 042	215	200	315	5 932	10 820	1 385	81	109	263	470	611	656
Rwanda	358	335	490	574	586	713	199	213	217	281	321	374	159	121	273	292	264	337
São Tomé and Principe	26	38	33	32	22	36	19	25	22	18	18	31	7	12	12	14	3	5
Senegal	449	454	1 053	686	826	843	243	314	755	444	509	451	196	143	299	243	305	360
Seychelles	8	9	10	15	14	3	4	5	6	8	7	1	4	3	3	7	8	2
Sierra Leone	383	337	376	348	344	535	225	208	163	129	180	381	155	125	212	220	164	154
Somalia	191	174	199	238	392	384	102	114	140	145	263	257	44	60	58	93	126	124
South Africa	505	641	628	680	720	794	375	477	459	466	561	597	128	163	168	214	159	196
Sudan	343	613	992	1 824	2 052	2 104	232	332	848	1 455	1 518	1 666	60	278	119	320	447	324
Swaziland	22	34	22	47	35	63	7	13	7	21	12	12	12	20	14	26	23	51
Tanzania	1 257	1 721	1 765	1 489	1 825	2 811	909	966	1 029	858	992	1 831	351	755	734	619	832	973
Togo	51	50	65	82	79	121	39	46	52	59	55	65	9	2	12	23	24	57
Tunisia	265	298	327	364	432	310	145	208	231	269	287	194	77	95	95	103	154	126
Uganda	732	999	1 217	1 195	1 549	1 728	466	587	684	691	938	1 002	260	411	532	502	608	721
Zambia	794	755	1 128	1 165	1 426	1 045	360	592	746	823	1 115	713	432	157	379	340	309	331
Zimbabwe	199	186	187	374	279	465	178	161	166	187	200	371	21	25	20	187	79	93
Africa Unspecified	1 554	2 107	2 404	2 379	2 828	3 706	1 341	1 758	1 944	2 024	2 411	2 946	174	345	459	354	375	683
Africa	21 675	27 127	29 520	35 525	43 492	38 720	13 367	19 142	19 334	24 589	31 490	24 529	7 608	7 743	9 987	10 586	11 484	13 600

Note: ODA: Official Development Assistance.
DAC: Development Assistance Committee of OECD.
* Net disbursements.
** Libya has belonged to the recipient countries of Official Aid (OA) group from 2000 to 2004 and has been re-included in the new list of ODA recipients in 2005.

Source: OECD Development Assistance Committee 2009.

Table 12 - External Debt Indicators

Country	Debt outstanding, at year end of 2007: Total (USD million)	Of which: Multilateral (as % of total)	Of which: Bilateral (as % of total)	Of which: Private (as % of total)	Total debt outstanding (as % of GDP) 2007	2008 (e)	2009 (p)	2010 (p)	Debt Service (as % of exports of goods and services) 2007	2008 (e)	2009 (p)	2010 (p)
Algeria	5 123	2.5	72.1	25.4	3.8	2.8	3.1	2.7	2.4	1.7	1.5	1.2
Angola	8 556	3.3	44.6	52.1	13.9	7.4	11.9	10.9	8.0	2.8	2.8	2.7
Benin	665	60.2	39.8	0.0	12.1	13.2	15.7	16.3	4.4	5.9	7.2	8.0
Botswana	1 294	64.3	0.0	35.7	10.9	11.9	13.8	14.5	16.1	16.1	16.8	17.3
Burkina Faso	1 338	67.5	32.5	0.0	19.8	21.4	26.7	29.9	6.5	5.9	4.7	4.7
Burundi	1 499	80.9	18.9	0.2	160.1	131.3	36.4	37.7	77.6	49.9	1057.7	2.8
Cameroon	1 132	19.0	71.0	10.0	5.5	5.7	7.8	8.5	10.7	7.5	7.7	7.5
Cape Verde	921	75.3	0.0	24.7	60.7	50.2	57.3	53.8	8.0	7.2	7.0	6.6
Central African Rep.	971	61.3	38.7	0.0	56.7	42.6	44.5	38.6	0.0	0.0	0.0	0.0
Chad	2 057	85.2	14.8	0.0	29.3	34.7	50.9	48.2	2.1	1.8	1.8	2.1
Comoros	281	78.1	21.9	0.0	60.3	49.8	44.7	41.3	63.1	12.1	10.1	10.6
Congo	5 936	9.3	81.3	9.4	77.6	44.8	56.9	50.4	6.3	3.9	2.7	2.2
Congo Dem. Rep.	5 219	30.6	69.4	0.0	50.1	40.8	44.8	38.3	7.7	4.3	4.1	1.8
Côte d'Ivoire	20 245	24.9	33.1	42.0	103.4	83.2	84.7	81.2	9.6	9.3	9.2	9.0
Djibouti	504	74.7	25.3	0.0	59.8	52.6	53.1	56.4	6.7	6.7	6.6	6.6
Egypt	30 906	17.3	69.1	13.6	23.4	17.5	15.9	13.7	6.6	5.6	5.2	5.0
Equatorial Guinea	136	70.1	28.8	1.1	1.3	0.8	1.4	1.2	0.4	0.1	0.0	0.0
Eritrea	850	...	...	0.0	64.6	59.2	56.9	55.3	28.9	26.4	24.4	15.1
Ethiopia	2 292	52.6	43.5	3.9	11.8	11.0	18.6	23.5	5.7	3.9	3.4	6.7
Gabon	4 252	8.0	68.7	23.3	37.2	13.4	17.7	15.9	10.1	23.8	4.1	3.5
Gambia. The	314	78.1	0.0	21.9	48.7	56.4	56.5	62.4	193.9	23.7	24.0	23.9
Ghana	5 749	35.1	27.3	37.6	37.9	46.2	47.7	54.8	2.9	3.1	2.5	2.6
Guinea	3 242	57.5	42.0	0.5	83.8	66.7	30.7	27.7	8.6	20.4	223.7	4.8
Guinea-Bissau	1 013	67.4	32.5	0.1	284.5	235.5	223.6	160.3	7.7	11.4	426.9	9.7
Kenya	5 333	48.9	46.6	4.5	19.8	13.1	14.0	13.7	5.8	4.7	4.0	4.2
Lesotho	687	86.4	5.1	8.5	41.1	53.8	63.0	58.1	4.7	4.1	4.1	3.5
Liberia	4 725	7.8	92.2	0.0	829.8	388.8	365.7	7.1	...	...	...	...

Table 12 - External Debt Indicators *(cont.)*

Country	Debt outstanding, at year end of 2007: Total (USD million)	Of which (as % of total): Multilateral	Bilateral	Private	Total debt outstanding (as % of GDP): 2007	2008 (e)	2009 (p)	2010 (p)	Debt Service (as % of exports of goods and services): 2007	2008 (e)	2009 (p)	2010 (p)
Libya	5 574	...	...	42.6	8.0	6.3	8.9	8.0	...	...	...	...
Madagascar	1 996	66.0	28.3	5.7	25.9	28.7	29.0	28.1	1.3	1.5	3.1	3.8
Malawi	518	55.3	44.7	0.0	14.7	22.9	26.5	31.5	4.6	4.0	3.5	3.1
Mali	1 577	46.5	53.5	0.0	22.4	22.2	26.5	28.4	6.4	2.9	3.6	4.0
Mauritania	2 709	47.4	46.2	6.4	95.5	56.6	61.6	69.4	0.8	1.0	2.3	2.7
Mauritius	741	5.8	87.7	6.5	9.9	8.9	10.1	11.7	3.9	3.3	3.6	3.2
Morocco	17 852	38.7	38.6	22.7	23.8	20.5	20.9	19.7	9.9	8.1	5.6	5.2
Mozambique	4 557	44.4	0.0	55.6	56.5	34.5	38.3	38.5	44.4	17.1	17.9	20.2
Namibia	2 220	...	...	80.3	25.5	29.9	31.5	27.6	3.6	2.0	2.2	3.0
Niger	682	68.6	31.4	0.0	16.3	15.4	21.2	22.9	12.1	20.1	19.9	21.1
Nigeria	3 654	34.8	65.2	0.0	2.2	1.7	2.5	2.6	3.4	2.5	2.9	3.1
Rwanda	579	81.5	18.5	0.0	17.4	17.3	21.0	24.2	3.0	1.9	1.8	2.0
São Tomé and Principe	154	22.4	77.6	0.0	105.7	70.0	65.5	62.3	1626.2	302.8	6.4	6.0
Senegal	4 786	54.3	0.5	55.2	42.8	44.0	50.6	51.7	6.5	5.8	6.7	7.0
Seychelles	668	3.9	33.7	62.4	73.2	88.5	124.7	118.6	10.0	9.1	10.7	6.5
Sierra Leone	335	72.6	0.0	27.4	20.2	14.0	11.8	10.5	4.4	1.2	1.6	1.9
Somalia	2 944	27.5	72.5	0.0	...	...	...	...	...	...	...	...
South Africa	75 275	0.7	6.0	93.3	26.5	34.0	44.4	44.3	8.8	8.1	8.8	8.7
Sudan	31 873	15.6	69.2	15.2	71.8	63.3	69.8	65.4	1.9	3.8	4.4	4.0
Swaziland	507	60.9	11.8	27.3	17.5	20.1	20.9	19.6	0.0	0.0	0.0	0.0
Tanzania	6 673	45.1	46.5	8.4	39.7	37.3	35.5	32.6	132.1	1.1	1.3	1.2
Togo	2 143	51.4	48.6	0.0	85.9	75.5	75.5	45.6	0.5	1.6	2.7	2.5
Tunisia	20 162	30.9	25.4	43.7	56.8	49.6	49.2	47.9	13.0	10.0	9.6	9.5
Uganda	1 468	83.1	16.5	0.4	10.8	11.3	14.7	15.5	4.0	3.5	2.7	3.8
Zambia	674	29.1	70.9	0.0	5.8	5.5	8.6	9.4	1.3	1.1	0.9	0.6
Zimbabwe	5 643	30.5	12.2	57.3	119.5	...	...	...	8.8	...	...	...
Africa	311 203	21.8	36.6	41.6	23.6	20.4	24.2	23.0	7.0	4.7	5.0	4.2

Sources: IMF, *World Economic Outlook* (October, 2008); World Bank, *GDF Online Database* (March 2009).

Table 13 - **Demographic Indicators**

	Total population (thousands) 2008	Urban population (% of total) 2008	Sex ratio (males per 100 females) 2008	Population growth rate (%) 2000-2005	Population growth rate (%) 2005-2010	Infant mortality rate (per 1000) 2008	Total fertility rate (per woman) 2008	Mortality under age 5 (per 1000) 2008	Distribution by age (%) 2008 0-14	Distribution by age (%) 2008 15-64	Distribution by age (%) 2008 65+
Algeria	34 373	65.3	101.9	1.5	1.5	30.4	2.4	32	27.7	67.6	4.6
Angola	18 021	56.7	97.2	3.0	2.7	116.3	5.8	203	45.3	52.3	2.5
Benin	8 662	41.2	101.7	3.3	3.2	84.1	5.4	119	43.2	53.6	3.2
Botswana	1 921	59.7	99.6	1.3	1.5	36.5	2.9	54	33.7	62.6	3.7
Burkina Faso	15 234	19.5	99.7	3.3	3.4	79.6	5.9	156	46.2	51.8	2.0
Burundi	8 074	10.4	96.0	2.6	2.9	97.5	4.6	164	39.0	58.2	2.8
Cameroon	19 088	56.8	99.9	2.3	2.3	86.2	4.6	143	41.1	55.4	3.6
Cape Verde	499	59.7	91.5	1.7	1.4	25.2	2.7	30	36.9	58.7	4.3
Central African Republic	4 339	38.5	96.5	1.8	1.9	104.9	4.8	178	40.9	55.2	3.9
Chad	10 914	26.6	98.8	3.5	2.8	129.4	6.2	210	45.8	51.3	2.9
Comoros	661	28.0	100.7	2.2	2.3	47.5	4.0	61	38.2	58.7	3.1
Congo	3 615	61.3	99.6	2.4	1.9	79.4	4.4	129	40.7	55.5	3.8
Congo Dem. Rep.	20 591	48.8	104.0	2.2	2.3	86.1	4.6	122	40.9	55.3	3.8
Cote d'Ivoire	64 257	33.9	98.2	3.0	2.8	115.3	6.0	196	47.0	50.4	2.6
Djibouti	849	87.4	99.9	2.0	1.8	84.1	3.9	124	36.6	60.2	3.2
Egypt	81 527	42.7	101.2	1.9	1.8	34.2	2.9	40	32.5	63.0	4.5
Equatorial Guinea	659	39.3	98.3	2.8	2.6	98.7	5.3	167	41.2	55.8	3.0
Eritrea	4 927	20.6	96.6	4.0	3.1	53.5	4.6	74	41.5	56.0	2.4
Ethiopia	80 713	16.9	99.0	2.6	2.6	78.1	5.3	129	43.9	53.0	3.1
Gabon	1 448	85.2	99.7	2.1	1.8	50.5	3.3	79	36.7	58.9	4.3
Gambia	1 660	56.5	98.4	3.2	2.7	76.1	5.1	115	42.5	54.7	2.8
Ghana	23 351	50.0	102.7	2.3	2.1	72.7	4.3	116	38.7	57.7	3.6
Guinea	9 833	34.4	102.0	1.9	2.3	97.2	5.4	145	42.9	53.8	3.2
Guinea Bissau	1 575	29.8	98.1	2.4	2.2	113.0	5.7	194	42.7	53.9	3.4
Kenya	38 765	21.6	99.9	2.6	2.6	63.4	4.9	102	42.8	54.6	2.7
Lesotho	2 049	25.4	89.2	1.1	0.9	69.1	3.3	103	39.2	56.1	4.7
Liberia	3 793	60.2	98.7	3.3	4.1	94.1	5.1	138	42.9	54.0	3.1

Table 13 - Demographic Indicators (cont.)

	Total population (thousands) 2008	Urban population (% of total) 2008	Sex ratio (males per 100 females) 2008	Population growth rate (%) 2000-2005	Population growth rate (%) 2005-2010	Infant mortality rate (per 1000) 2008	Total fertility rate (per woman) 2008	Mortality under age 5 (per 1000) 2008	Distribution by age (%) 2008 0-14	Distribution by age (%) 2008 15-64	Distribution by age (%) 2008 65+
Libya	6 294	77.5	107.2	2.0	2.0	17.8	2.7	19	30.2	65.7	4.1
Madagascar	19 111	29.5	99.2	2.8	2.7	64.3	4.7	99	43.3	53.7	3.1
Malawi	14 846	18.8	98.7	2.9	2.8	82.5	5.5	119	46.4	50.5	3.1
Mali	12 706	32.2	97.5	2.3	2.4	105.7	5.5	189	44.2	53.4	2.3
Mauritania	3 215	40.9	102.8	2.7	2.4	72.3	4.5	119	39.8	57.6	2.6
Mauritius	1 280	42.4	98.3	0.9	0.7	14.4	1.8	17	23.2	69.8	7.0
Morocco	31 606	56.0	96.6	1.1	1.2	29.9	2.4	35	28.8	65.9	5.3
Mozambique	22 383	36.9	94.4	2.6	2.3	88.7	5.1	150	44.1	52.7	3.2
Namibia	2 130	36.8	97.1	1.9	1.9	34.4	3.4	50	37.4	59.0	3.6
Niger	14 704	16.5	100.3	3.4	3.9	87.5	7.1	170	49.7	48.3	2.0
Nigeria	151 212	48.4	100.4	2.4	2.3	108.7	5.3	186	42.7	54.2	3.1
Rwanda	9 721	18.3	93.8	2.4	2.7	98.9	5.4	153	42.2	55.3	2.5
São Tomé and Principe	160	60.6	98.1	1.7	1.6	71.9	3.8	94	40.9	55.0	4.1
Senegal	12 211	42.3	98.4	2.6	2.6	58.1	5.0	119	43.8	53.8	2.4
Seychelles	84	54.3	101.3	0.4	0.5	19.3	2.1	23	24.5	68.4	7.1
Sierra Leone	5 560	37.7	94.8	3.8	2.7	102.6	5.2	146	43.3	54.9	1.9
Somalia	8 926	36.5	98.3	2.4	2.3	108.4	6.4	178	44.9	52.4	2.7
South Africa	49 668	60.7	97.2	1.4	1.0	47.9	2.5	70	30.8	64.9	4.4
Sudan	41 348	43.5	101.4	2.1	2.2	68.2	4.2	110	39.5	56.9	3.6
Swaziland	1 168	24.9	95.4	0.8	1.3	65.0	3.5	100	40.0	56.7	3.3
Tanzania	42 484	25.5	99.3	2.7	2.9	63.5	5.6	104	44.7	52.3	3.1
Togo	6 459	42.0	98.0	2.7	2.5	70.9	4.3	97	40.2	56.3	3.5
Tunisia	10 169	66.5	101.2	0.9	1.0	19.5	1.8	22	23.7	69.6	6.7
Uganda	31 657	13.0	100.3	3.2	3.3	73.3	6.3	121	49.0	48.4	2.6
Zambia	12 620	35.4	99.5	2.3	2.4	92.8	5.8	157	46.2	50.7	3.0
Zimbabwe	12 463	37.3	93.6	0.0	0.3	56.7	3.4	92	40.2	55.7	4.0
Africa	987 092	39.1	99.4	2.3	2.3	81.8	4.6	134	40.6	56.0	3.4

Sources: United Nations, Department of Economic and Social Affairs, Population Division, *World Population Prospects*, The 2008 Revision. Special extract.

Table 14 - Poverty and Income Distribution Indicators

	National poverty line Population below the poverty line (%)				International poverty line Population below the poverty line (%)			Gini Coefficient*		Share of consumption (%)	
	Survey year	Rural	Urban	National	Survey year	Below USD1	Below USD2	Survey year	Index	Lowest 10%	Highest 10%
Algeria	2000	...	...	15.0	1995	0.9	...	1995	35.3	2.8	26.9
Angola	2001	94.3	57.0	68.0	2000	54.3	...	2000	58.6	0.6	44.7
Benin	2003	52.3	19.9	46.4	2003	47.3	73.7	2003	38.6	2.9	31.0
Botswana	1994	...	...	30.3	1994	31.2	...	1994	61.0	1.3	51.2
Burkina Faso	2003	52.3	19.9	46.4	2003	56.5	81.0	2003	39.6	3.0	32.4
Burundi	2006	37.0	...	36.2	2006	81.3	87.6	2006	33.3	4.1	28.0
Cameroon	2001	49.9	22.1	40.2	2001	32.8	50.6	2001	44.6	2.4	35.5
Cape Verde	2002	55.1	25.0	36.7	2001	20.6	...	2001	50.5	1.8	40.3
Central African Republic	2003	...	...	50.2	2003	62.4	...	2003	43.6	2.1	33.0
Chad	2003	67.0	63.0	64.0	2003	61.9	...	2003	39.8	2.6	30.8
Comoros	...	...	...	...	2004	46.1	...	2004	64.3	0.9	55.2
Congo	2005	65.1	40.4	50.7	2005	54.1	...	2005	47.3	2.1	37.1
Congo Dem. Rep.	2005	...	...	71.3	2006	59.2	...	2006	44.4	2.3	34.7
Cote d'Ivoire	2008	62.5	29.5	48.9	2002	23.3	48.8	2002	48.4	2.0	39.6
Djibouti	2002	...	...	42.1	2002	18.8	...	2002	40.0	2.3	30.7
Egypt	2005	...	...	19.6	2005	2.0	43.9	2005	32.1	3.9	27.6
Equatorial Guinea	2006	...	...	76.8	...	...	...	...	...	...	...
Eritrea	...										
Ethiopia	...										
Gabon	2005	45.0	30.0	33.0	2005	4.8	...	2005	41.5	2.5	32.7
Gambia	2003	63.0	...	61.3	2003	34.3	82.9	2003	47.3	2.0	36.9
Ghana	2006	39.2	10.8	28.5	2006	30.0	78.5	2006	42.8	1.9	32.5
Guinea	2007	...	...	53.0	2003	70.1	50.2	2003	43.3	2.4	34.4
Guinea Bissau	2002	...	...	65.7	2002	48.8	96.7	2002	35.5	2.9	28.0
Kenya	2005-06	49.1	33.7	45.9	2005	19.7	58.3	2005	47.7	1.8	37.8
Lesotho	2007	...	...	64.0	2003	43.4	56.1	2003	52.5	1.0	39.4
Liberia	2007	...	...	64.0	2007	83.7	...	2007	52.6	2.4	30.1

Table 14 - **Poverty and Income Distribution Indicators** *(cont.)*

	National poverty line Population below the poverty line (%)				International poverty line Population below the poverty line (%)			Gini Coefficient*		Share of consumption (%)	
	Survey year	Rural	Urban	National	Survey year	Below USD1	Below USD2	Survey year	Index	Lowest 10%	Highest 10%
Libya	2000-05	...	...	14.0	...	...	...	...	...	...	...
Madagascar	2006	...	...	67.5	2005	67.8	85.1	2005	47.2	2.6	41.5
Malawi	2006	47.0	25.0	45.0	2004	73.9	76.1	2004	39.0	2.9	31.7
Mali	2005	...	...	47.5	2006	51.4	90.6	2006	39.0	2.7	30.5
Mauritania	2000	61.2	25.4	46.3	2000	21.2	63.1	2000	39.0	2.5	29.6
Mauritius	...	...	...	...	...	...	...	2006	38.9	...	...
Morocco	2004	22.0	7.9	14.2	2007	2.5	14.3	2007	40.9	2.7	33.2
Mozambique	2002/03	55.3	51.5	54.1	2003	74.7	78.4	2003	47.1	2.1	39.2
Namibia	2004	...	...	28.0	2004	32.8	55.8	2004	60.0	0.6	65.0
Niger	1993	66.0	52.0	63.0	2005	65.9	85.3	2005	43.9	2.3	35.7
Nigeria	2004	...	...	54.4	2004	64.4	90.8	2004	42.9	2.0	32.4
Rwanda	2000	62.5	41.5	56.9	2000	57.0	83.7	2000	46.7	2.3	38.2
São Tomé and Principe	2001	...	...	53.8	...	...	...	...	...	...	...
Senegal	2001	...	...	53.9	2005	33.5	63.0	2005	39.2	2.5	30.1
Seychelles	...	...	...	...	...	...	...	...	...	...	...
Sierra Leone	2004	79.0	56.4	70.2	2003	53.4	74.5	2003	42.5	2.6	33.6
Somalia	...	...	...	...	...	...	...	...	...	...	...
South Africa	2006	...	...	43.2	2000	26.2	34.1	2000	57.8	1.3	44.9
Sudan	...	...	...	...	...	...	...	...	...	...	...
Swaziland	2001	75.0	...	69.2	2001	62.9	22.5	2001	50.7	1.8	40.8
Tanzania	2007	33.3	...	...	2000	88.5	89.9	2000	34.6	3.1	27.0
Togo	2006	...	...	61.7	2006	38.7	...	2006	34.4	3.3	27.1
Tunisia	2005	...	...	3.8	2000	2.6	6.6	2000	40.8	2.4	31.6
Uganda	2006	31.3	...	...	2005	51.5	...	2005	42.6	2.6	34.1
Zambia	2006	...	...	64.0	2004	64.3	94.1	2004	50.7	1.3	38.9
Zimbabwe	1995-96	48.0	7.9	34.9	2004	61.9	...	2004	50.1	1.8	40.3

Note: * The Gini coefficient is defined on income distribution.
Sources: Domestic authorities and World Bank (Povcal 2009), *World Development Indicators, online Database, Country DHS*, March 2009.

Table 15 - Access to Services

	Telecommunications						Access to electricity		Water supply coverage (%)			Sanitation coverage (%)		
	Main telephone line per 100 inhabitants		Mobile lines per 100 inhabitants		Internet users per 100 habitants		Final consumption (GWh)		Total	Urban	Rural	Total	Urban	Rural
	2000	2007	2000	2007	2000	2007	2000	2006	2006			2006		
Algeria	5.77	9.06	0.28	81.4	0.49	10.3	18 592	26 456	85	87	81	94	98	87
Angola	0.47	0.63	0.19	29.1	0.11	2.9	1 157	2 372	51	62	39	50	79	16
Benin	0.71	1.23	0.77	21.1	0.21	1.7	399	602	65	78	57	30	59	11
Botswana	7.86	7.28	12.85	61.2	2.89	5.3	1 959	2 544	96	100	90	47	60	30
Burkina Faso	0.45	0.64	0.21	10.9	0.08	0.5	...	...	72	97	66	13	41	6
Burundi	0.30	0.41	0.24	2.9	0.07	0.7	...	...	71	84	70	41	44	41
Cameroun	0.60	1.02	0.65	24.5	0.25	2.0	2 719	3 374	70	88	47	51	58	42
Cape Verde	12.12	13.50	4.37	27.9	1.78	7.0	...	...	80	86	73	41	61	19
Central African Republic	0.25	0.28	0.13	3.0	0.05	0.3	...	...	66	90	51	31	40	25
Chad	0.12	0.12	0.06	8.5	0.04	0.6	...	...	48	71	40	9	23	4
Comoros	0.97	2.28	0.00	4.8	0.21	2.5	...	...	85	91	81	35	49	26
Congo	0.69	0.42	2.19	34.2	0.02	1.9	260	381	71	95	35	20	19	21
Congo Dem. Rep.	0.02	0.01	0.03	10.5	0.01	0.4	2 442	3 030	46	82	29	31	42	25
Cote d'Ivoire	1.55	1.35	2.77	36.6	0.23	1.6	2 757	3 307	81	98	66	24	38	12
Djibouti	1.33	1.30	0.03	5.3	0.19	1.3	...	...	92	98	54	67	76	11
Egypt	8.24	14.87	2.04	39.8	0.68	14.0	64 330	98 443	98	99	98	66	85	52
Equatorial Guinea	1.42	1.97	1.16	43.4	0.16	1.6	...	...	43	45	42	51	60	46
Eritrea	0.83	0.77	0.00	1.7	0.14	2.5	173	220	60	74	57	5	14	3
Ethiopia	0.33	1.06	0.03	1.5	0.01	0.4	1 419	2 567	42	96	31	11	27	8
Gabon	3.30	1.99	10.15	87.9	1.27	6.2	989	1 294	87	95	47	36	37	30
Gambia	2.41	4.47	0.40	46.8	0.87	5.9	...	...	86	91	81	52	50	55
Ghana	1.05	1.60	0.65	32.4	0.15	3.7	6 055	6 519	80	90	71	10	15	6
Guinea	0.30	0.53	0.51	21.3	0.10	0.5	...	...	70	91	59	19	33	12
Guinea Bissau	0.81	0.27	0.00	17.5	0.22	2.2	...	...	57	82	47	33	48	26
Kenya	0.93	0.71	0.41	30.2	0.32	8.0	3 408	5 296	57	85	49	42	19	48
Lesotho	1.18	2.64	1.15	22.7	0.21	3.5	...	...	78	93	74	36	43	34
Liberia	0.22	0.05	0.05	15.0	0.02	0.5	...	...	64	72	52	32	49	7

Table 15 - **Access to Services** *(cont.)*

	Telecommunications: Main telephone line per 100 inhabitants		Mobile lines per 100 inhabitants		Internet users per 100 habitants		Access to electricity: Final consumption (GWh)		Water supply coverage (%)			Sanitation coverage (%)		
	2000	2007	2000	2007	2000	2007	2000	2006	Total 2006	Urban 2006	Rural 2006	Total 2006	Urban 2006	Rural 2006
Libya	11.32	13.83	0.75	73.0	0.19	4.2	10 132	21 573	71	72	68	97	97	96
Madagascar	0.34	0.68	0.39	11.3	0.19	0.6	...	...	47	76	36	12	18	10
Malawi	0.40	1.26	0.42	7.5	0.13	1.0	...	...	76	96	72	60	51	62
Mali	0.39	0.65	0.10	20.5	0.15	0.8	...	...	60	86	48	45	59	39
Mauritania	0.74	1.29	0.60	41.6	0.19	1.0	...	...	60	70	54	24	44	10
Mauritius	23.69	28.63	15.18	73.6	7.34	26.9	...	...	100	100	100	94	95	94
Morocco	4.94	7.67	8.12	64.1	0.69	21.1	12 838	19 260	83	100	58	72	85	54
Mozambique	0.47	0.31	0.28	15.4	0.11	0.9	1 013	9 418	42	71	26	31	53	19
Namibia	5.86	6.66	4.36	38.6	1.60	4.9	2 386	3 163	93	99	90	35	66	18
Niger	0.18	0.17	0.02	6.3	0.04	0.3	...	...	42	91	32	7	27	3
Nigeria	0.44	1.07	0.02	27.3	0.06	6.8	8 688	16 250	47	65	30	30	35	25
Rwanda	0.22	0.24	0.48	6.5	0.06	1.0	...	...	65	82	61	23	34	20
São Tomé and Principe	3.28	4.88	0.00	19.1	4.64	14.6	...	...	86	88	83	24	29	18
Senegal	1.99	2.17	2.42	29.3	0.39	6.6	1 337	1 757	77	93	65	28	54	9
Seychelles	25.39	26.21	32.05	89.3	7.40	36.9	...	...	87	100	75	...	...	...
Sierra Leone	0.42	0.00	0.26	13.2	0.11	0.2	...	...	53	83	32	11	20	5
Somalia	0.35	1.15	1.13	6.9	0.21	1.1	...	...	29	63	10	23	51	7
South Africa	10.93	9.56	18.37	87.1	5.29	8.2	162 516	198 114	93	100	82	59	66	49
Sudan	1.16	0.90	0.07	21.3	0.03	9.1	2 058	3 553	70	78	64	35	50	24
Swaziland	3.01	3.85	3.12	33.3	0.95	3.7	...	...	60	87	51	50	64	46
Tanzania	0.51	0.40	0.33	20.6	0.12	1.0	1 913	2 213	55	81	46	33	31	34
Togo	0.79	1.51	0.93	18.1	1.85	4.9	521	623	59	86	40	12	24	3
Tunisia	9.99	12.33	1.25	75.9	2.72	16.7	8 979	13 021	94	99	84	85	96	64
Uganda	0.25	0.53	0.51	13.6	0.16	2.4	...	...	64	90	60	33	29	34
Zambia	0.80	0.77	0.95	22.1	0.19	4.2	6 039	8 312	58	90	41	52	55	51
Zimbabwe	1.97	2.58	2.10	9.2	0.40	10.1	10 494	11 559	81	98	72	46	63	37
Africa	3.10	3.77	2.56	29.57	0.55	5.4	345 789	477 329	64	83	51	37	52	28

Sources: Telecommunications: International Telecommunication Union - online database,March 2009.
Electricity: International Energy Agency - online database, 2009
Water supply coverage and sanitation coverage: WHO and UNICEF, 2009.

Table 16 - Basic Health Indicators

	Life expectancy at birth (years)			Undernourishment prevalence (%)	Food availability (Kcal/person/day)	Total health expenditure				Health personnel (per 100 000)		
		With AIDS	Without AIDS			as % of GDP	Per capita* (USD)	Distribution Public (%)	Distribution Private (%)	Survey year	Physicians	Nurses
	2008	2008		2003-05	2003-05	2006						
Algeria	72.4	...	...	...	3 100	3.6	123.0	77.3	22.7	2005	92.9	238.2
Angola	47.1	47.1	48.5	46	1 880	2.7	71.0	86.6	13.4	2005	16.5	245.4
Benin	61.5	61.5	62.7	14	2 290	5.3	29.0	53.3	46.7	2005	11.4	39.3
Botswana	54.4	54.4	68.8	26	2 200	7.2	378.0	76.7	23.3	2005	36.2	231.0
Burkina Faso	53.1	53.1	54.2	10	2 620	6.4	27.0	56.9	43.1	2006	2.1	25.9
Burundi	50.5	50.5	52.7	63	1 630	3.0	4.0	24.6	75.4	2005	6.5	75.9
Cameroon	51.1	51.1	55.7	23	2 230	5.2	51.0	28.1	71.9	2005	18.4	43.9
Cape Verde	71.4	...	...	...	2 380	5.6	129.0	81.5	18.5	2006	41.8	90.8
Central African Republic	47.0	47.0	51.6	43	1 900	3.9	14.0	35.6	64.4	2005	4.5	28.8
Chad	48.8	48.8	51.4	39	1 980	3.6	22.0	35.6	64.4	2005	3.4	23.8
Comoros	65.4	...	...	...	1 800	3.2	16.0	55.5	44.5	2005	14.8	75.9
Congo	53.6	53.6	57.2	22	2 330	2.1	42.0	40.8	59.2	2005	21.6	118.9
Congo Dem. Rep.	57.3	57.3	62.6	76	1 500	4.3	6.0	37.1	62.9	2004	10.2	*50.6*
Cote d'Ivoire	47.7	47.7	48.6	14	2 520	3.8	35.0	23.0	77.0	2004	11.4	55.7
Djibouti	55.4	55.4	57.7	...	2 170	6.7	62.0	75.4	24.6	2004	16.3	32.5
Egypt	70.1	...	...	...	3 320	6.3	93.0	40.7	59.3	2007	227.3	283.3
Equatorial Guinea	50.3	50.3	52.5	...	...	1.5	274.0	78.3	21.7	2004	32.4	48.2
Eritrea	59.6	59.6	61.0	68	1 530	4.5	10.0	37.3	62.7	2004	4.9	57.5
Ethiopia	55.2	55.2	57.3	46	1 810	4.9	7.0	60.4	39.6	2004	1.5	13.7
Gabon	60.5	60.5	65.1	...	2 760	3.7	267.0	78.7	21.3	2004	31.1	549.1
Gambia	55.9	...	...	30	2 140	4.3	13.0	58.3	41.7	2003	10.2	112.8
Ghana	56.6	56.6	58.5	9	2 690	6.2	35.0	36.5	63.5	2004	14.7	89.3
Guinea	57.8	57.8	59.3	17	2 540	5.7	20.0	12.3	87.7	2005	5.5	53.9
Guinea Bissau	47.8	47.8	49.1	...	2 050	6.2	13.0	24.7	75.3	2004	12.1	66.9
Kenya	54.3	54.3	61.4	32	2 040	4.6	29.0	48.2	51.8	2007	27.6	121.9
Lesotho	45.2	45.2	62.8	15	2 430	6.7	49.0	61.6	38.4	2003	4.6	...
Liberia	58.3	58.3	60.1	40	2 010	5.6	10.0	63.9	36.1	2004	3.1	18.3

Table 16 - **Basic Health Indicators** *(cont.)*

	Life expectancy at birth (years)			Undernourishment prevalence (%)	Food availability (Kcal/person/day)	Total health expenditure				Health personnel (per 100 000)		
		With AIDS	Without AIDS			as % of GDP	Per capita* (USD)	Distribution Public (%)	Distribution Private (%)	Survey year	Physicians	Nurses
	2008	2008		2003-05	2003-05	2006						
Libya	74.1	...	...	...	3 020	2.9	255.0	70.2	29.8	2002	120.0	353.4
Madagascar	60.4	...	...	37	2 010	3.2	9.0	62.8	37.2	2004	28.7	31.2
Malawi	53.1	53.1	64.5	29	2 130	12.3	20.0	72.1	27.9	2004	2.1	56.3
Mali	48.5	48.5	49.5	11	2 570	6.0	30.0	51.7	48.3	2004	9.3	58.0
Mauritania	56.7	...	...	8	2 790	2.2	19.0	68.6	31.4	2004	10.9	65.7
Mauritius	72.1	72.1	72.9	6	2 880	4.3	223.0	50.4	49.6	2006	111.9	245.3
Morocco	71.3	...	...	...	3 190	5.1	95.0	35.9	64.1	2004	55.6	88.9
Mozambique	47.9	47.9	56.0	38	2 070	4.7	17.0	69.4	30.6	2004	2.6	19.7
Namibia	61.2	61.2	70.2	19	2 290	4.9	167.0	64.4	35.6	2004	30.0	308.2
Niger	51.4	...	...	29	2 140	4.0	10.0	52.7	47.3	2004	2.9	21.2
Nigeria	47.9	47.9	50.3	9	2 600	4.1	32.0	30.1	69.9	2003	25.9	156.2
Rwanda	50.2	50.2	52.2	40	1 940	10.4	32.0	63.7	36.3	2007	2.7	31.9
São Tomé and Principe	65.6	...	...	...	2 600	10.5	58.0	85.4	14.6	2004	54.0	170.5
Senegal	55.6	...	...	26	2 150	5.4	40.0	31.5	68.5	2004	5.2	28.7
Seychelles	73.0	...	...	...	2 380	6.8	573.0	74.2	25.8	2007	142.6	478.0
Sierra Leone	47.6	47.6	48.8	47	1 910	3.5	9.0	49.0	51.0	2004	3.1	34.2
Somalia	49.9	...	...	...	...		...	...	...	1997	4.8	23.1
South Africa	51.6	51.6	64.8	...	2 900	8.6	456.0	41.9	58.1	2007	75.3	329.3
Sudan	58.2	58.2	59.6	21	2 290	3.8	38.0	37.1	62.9	2005	21.7	48.6
Swaziland	45.8	45.8	63.9	18	2 320	5.9	138.0	62.0	38.0	2004	15.3	612.9
Tanzania	55.7	55.7	61.6	35	2 010	5.5	18.0	59.2	40.8	2007	4.8	102.4
Togo	62.6	62.6	66.5	37	2 020	5.5	19.0	27.8	72.2	2004	3.7	35.3
Tunisia	74.0	...	...	...	3 280	5.3	159.0	43.7	56.3	2006	99.7	301.6
Uganda	52.7	52.7	58.8	15	2 380	7.2	25.0	26.9	73.1	2004	7.9	57.9
Zambia	45.5	45.5	55.1	45	1 890	5.2	49.0	46.8	53.2	2004	11.2	168.7
Zimbabwe	44.5	44.5	65.3	40	2 040	8.4	36.0	52.6	47.4	2004	16.0	71.8
Africa	54.3	...	...	30	2 307	5.7	57.7	52.2	47.8	...	...	...

Note: * At average exchange rate

Source: Life expectancy at birth : United Nations, Department of Economic and Social Affairs, Population Division, World Population Prospects, The 2008 Revision. Special extract.
Undernourishment prevalence and food availability: FAO, *FAOSTAT (online database*, March 2009), *The State of Food Insecurity in the World 2008.*
Total health expenditure and public health expenditure: WHO, *The World Health Report 2005 and 2007.*
Health Personnel: Reports from *Ministry of Health, DHS, Pop censuses, MI.*

Table 17 - Major Diseases

	Healthy life expectancy at birth (years)			People living with HIV/AIDS	HIV/AIDS Adult prevalence	AIDS deaths in adults & children	Malaria notified cases		Tuberculosis notified cases	Measles incidence (reported cases)	Vaccination (%)	
	Total	Male	Female	(000)	(%)	(000)	Survey year	Notified cases			MCV	DTP3
	2003				2007				2007	2007	2007	
Algeria	61.0	62.0	60.0	21	0.1	1.0	2002	307	21 369	0	92	95
Angola	33.0	35.0	32.0	190	2.1	11.0	2002	1409 328	41 292	1 014	88	83
Benin	44.0	45.0	43.0	64	1.2	3.3	2001	779 041	...	341	93	97
Botswana	36.0	35.0	36.0	300	23.9	11.0	2003	22 418	7 622	1	79	96
Burkina Faso	36.0	36.0	35.0	130	1.6	9.2	2002	1451 125	3 960	12	94	99
Burundi	35.0	37.0	33.0	110	2.0	11.0	2002	1808 588	6 284	43	99	99
Cameroon	41.0	42.0	41.0	540	5.1	39.0	1998	664 413	24 062	100	74	82
Cape Verde	61.0	63.0	59.0	...	...	...	2000	143	274	0	74	81
Central African Republic	37.0	38.0	37.0	160	6.3	11.0	2003	95 644	...	49	99	84
Chad	41.0	42.0	40.0	200	3.5	14.0	2001	386 197	5 879	441	77	70
Comoros	55.0	55.0	54.0	<200	0.1	...	2001	3 718	...	0	65	75
Congo	46.0	47.0	45.0	79	3.5	6.4	1998	17 122	9 002	84	67	80
Congo Dem. Rep.	37.0	39.0	35.0	...	...	...	2003	4386 638	99 810	55 577	79	87
Cote d'Ivoire	39.0	41.0	38.0	480	3.9	38.0	2001	400 402	23 033	5	67	76
Djibouti	43.0	43.0	43.0	16	3.1	1.1	2003	5 036	3 195	24	74	88
Egypt	59.0	60.0	58.0	9	...	0.5	2003	45	9 841	1 684	97	98
Equatorial Guinea	46.0	46.0	45.0	11	3.4	...	1995	12 530	...	5	37	41
Eritrea	50.0	51.0	49.0	38	1.3	2.6	2003	72 023	3 641	55	80	80
Ethiopia	41.0	42.0	41.0	980	2.1	67.0	2003	565 273	128 844	1 446	65	73
Gabon	51.0	53.0	50.0	49	5.9	2.3	1998	80 247	3 766	0	62	81
Gambia	50.0	51.0	48.0	8	0.9	...	1999	127 899	1 916	0	85	90
Ghana	50.0	50.0	49.0	260	1.9	21.0	2003	3 552 869	12 743	6	95	94
Guinea	45.0	46.0	44.0	87	1.6	4.5	2000	889 089	9 411	3	94	93
Guinea Bissau	41.0	41.0	40.0	16	1.8	1.1	2002	194 976	...	1	80	96
Kenya	44.0	45.0	44.0	...	...	...	2002	124 197	106 438	1 516	80	81
Lesotho	31.0	33.0	30.0	270	23.2	18.0	...	...	2 319	2	80	91
Liberia	35.0	37.0	34.0	35	1.7	2.3	1998	777 754	...	1	95	88

Table 17 - Major Diseases *(cont.)*

	Healthy life expectancy at birth (years) Total	Male	Female	People living with HIV/AIDS (000)	HIV/AIDS Adult prevalence (%)	AIDS deaths in adults & children (000)	Malaria notified cases: Survey year	Malaria notified cases: Notified cases	Tuberculosis notified cases	Measles incidence (reported cases)	Vaccination (%) MCV	DTP3
	2003				2007				2007	2007	2007	
Libya	64.0	65.0	62.0	...	...	...	...	...	2 119	59	98	98
Madagascar	49.0	50.0	47.0	14	0.1	1.0	2003	2114 400	21 857	0	97	95
Malawi	35.0	35.0	35.0	930	11.9	68.0	2002	2853 317	24 461	143	82	87
Mali	38.0	38.0	37.0	100	1.5	5.8	2003	809 428	5 166	2	87	88
Mauritania	45.0	46.0	43.0	14	0.8	1.0	2002	167 423	2 969	11	67	75
Mauritius*	62.0	65.0	60.0	13	1.7	...	2002	22	106	13	98	97
Morocco	60.0	61.0	59.0	21	0.1	1.0	2003	73	25 562	2 248	95	95
Mozambique	37.0	38.0	36.0	1 500	12.5	81.0	2003	5087 865	37 651	267	75	75
Namibia	43.0	44.0	43.0	200	15.3	5.1	2003	444 081	15 205	21	69	86
Niger	36.0	35.0	36.0	60	0.8	4.0	2002	681 707	9 276	282	67	78
Nigeria	42.0	42.0	41.0	2 600	3.1	170.0	2003	2608 479	82 417	2 613	86	69
Rwanda	38.0	40.0	36.0	150	2.8	7.8	2003	856 233	7 638	26	99	97
São Tomé and Principe	54.0	55.0	54.0	...	...	...	2003	63 199	93	0	86	97
Senegal	48.0	49.0	47.0	67	1.0	1.8	2000	1120 094	10 297	9	84	94
Seychelles	61.0	65.0	57.0	...	...	...	...	...	...	1	99	99
Sierra Leone	29.0	30.0	27.0	55	1.7	3.3	1999	409 670	9 418	0	82	79
Somalia	37.0	38.0	36.0	24	0.5	1.6	2003	23 349	11 130	1 149	34	39
South Africa	44.0	45.0	43.0	5 700	18.1	350.0	2003	13 446	315 315	31	83	97
Sudan	49.0	50.0	47.0	320	1.4	25.0	2003	3 084 320	29 270	327	80	91
Swaziland	34.0	35.0	33.0	190	26.1	10.0	2003	36 664	8 888	0	58	68
Tanzania	40.0	41.0	40.0	1 400	6.2	96.0	2003	10 712 526	59 371	7 726	90	83
Togo	45.0	46.0	44.0	130	3.3	9.1	2001	431 826	2 436	8	80	88
Tunisia	62.0	64.0	61.0	4	0.1	0.2	...	...	2 282	4	98	98
Uganda	43.0	44.0	42.0	940	5.4	77.0	2003	12343 411	40 909	3 776	86	85
Zambia	35.0	35.0	35.0	1 100	15.2	56.0	2001	2 010 185	46 320	535	97	92
Zimbabwe	34.0	33.0	34.0	1 300	15.3	140.0	2002	1252 668	40 277	242	80	85
Africa	44.6	43.8	45.3	21 085	4.5	1 390.0	...	...	1 335 134	81 903	83	83

Notes: DTP: Diphtheria, tetanus toxoids and pertussis antigen. MCV: Measles Contaning Vaccine.
Sources: UNAIDS and WHO, Country epidemic updates December 2008; Malaria notified cases: WHO, Roll Back Malaria (RBM) December 2008 online Database; Tuberculosis notified cases: WHO, 2009, Global Tuberculosis Database; Vaccination coverage and Measles incidence: WHOSIS, December 2008.

Table 18 - **Basic Education Indicators**

	Estimated adult illiteracy rate, 2005-08 (%) (people over 15)			Estimated youth illiteracy rate, 2005-08 (%) (people between 15 and 24)			Public expenditure on education 2002-08 (% of GDP)
	Total	Male	Female	Total	Male	Female	
Algeria	**25**	**16**	**34**	**8**	**5**	**11**	**...**
Angola	**...**	**...**	**...**	**...**	**...**	**...**	**2.6**
Benin	**59**	**47**	**72**	**41**	**24**	**58**	**4.4**
Botswana	**17**	**17**	**17**	**10**	**13**	**6**	**8.1**
Burkina Faso	**71**	**63**	**78**	**60**	**49**	**71**	**4.5**
Burundi	**...**	**...**	**...**	**31**	**31**	**30**	**5.1**
Cameroon	**...**	**...**	**...**	**7**	**6**	**8**	**3.9**
Cape Verde	**16**	**11**	**21**	**9**	**7**	**12**	**5.7**
Central African Republic	**...**	**...**	**...**	**26**	**20**	**32**	**1.4**
Chad	**...**	**...**	**...**	**26**	**21**	**30**	**1.9**
Comoros	25	20	30	40	34	47	3.8
Congo	**13**	**8**	**18**	**2**	**1**	**2**	**1.8**
Congo Dem. Rep.	**...**	**...**	**...**	**14**	**9**	**18**	**...**
Cote d'Ivoire	**...**	**...**	**...**	**34**	**26**	**41**	**4.6**
Djibouti	...	...	...	12	9	15	8.3
Egypt	**28**	**16**	**39**	**26**	**21**	**32**	**3.8**
Equatorial Guinea	**...**	**...**	**...**	**2**	**1**	**3**	**0.6**
Eritrea	...	...	...	26	17	34	2.4
Ethiopia	**...**	**...**	**...**	**39**	**34**	**44**	**5.5**
Gabon	**14**	**10**	**18**	**...**	**...**	**...**	**3.8**
Gambia	**...**	**...**	**...**	**36**	**28**	**43**	**2.7**
Ghana	**35**	**28**	**42**	**6**	**5**	**8**	**5.4**
Guinea	**...**	**...**	**...**	**...**	**...**	**...**	**1.7**
Guinea Bissau	35	25	46	35	23	47	...
Kenya	**...**	**...**	**...**	**3**	**3**	**4**	**7.1**
Lesotho	**45**	**...**	**59**	**8**	**15**	**1**	**13.3**
Liberia	**44**	**40**	**49**	**26**	**12**	**40**	**...**

Table 18 - **Basic Education Indicators** *(cont.)*

	Estimated adult illiteracy rate, 2005-08 (%) (people over 15)			Estimated youth illiteracy rate, 2005-08 (%) (people between 15 and 24)			Public expenditure on education 2002-08 (% of GDP)
	Total	Male	Female	Total	Male	Female	
Libya	13	6	22	2	0	4	...
Madagascar	...	...	...	17	14	19	3.4
Malawi	28	21	35	25	17	34	4.2
Mali	77	69	84	59	48	70	4.6
Mauritania	44	37	52	49	42	57	2.9
Mauritius	13	10	15	5	6	4	3.9
Morocco	44	31	57	27	21	34	5.5
Mozambique	56	43	67	34	21	46	4.7
Namibia	12	11	13	7	8	5	6.9
Niger	70	56	84	73	64	83	3.4
Nigeria	28	20	36	9	8	10	...
Rwanda	...	...	...	13	12	13	4.9
São Tomé and Principe	12	7	17	...	...	...	...
Senegal	57	47	68	44	36	52	4.8
Seychelles	...	...	...	...	...	...	6.3
Sierra Leone	62	50	73	...	...	...	3.8
Somalia	...	...	...	...	...	...	...
South Africa	12	11	13	8	8	8	5.4
Sudan	...	...	...	18	14	22	...
Swaziland	...	...	...	8	8	7	7.6
Tanzania	28	21	34	7	5	8	...
Togo	...	...	...	20	10	29	2.5
Tunisia	22	14	31	4	1	7	7.2
Uganda	26	18	34	18	12	23	5.2
Zambia	...	...	...	9	8	11	2.0
Zimbabwe	9	6	12	2	1	3	4.6
Africa	...	...	...	20.2	16.1	24.2	4.5

Source: UNESCO Institute for Statistics (UIS) Database, (March 2009), Domestic authorities.

StatLink http://dx.doi.org/10.1787/324125036081

Table 19 - School Enrolment

	Primary School, 2006-07							Secondary School, 2006-07				Enrolment ratio in technical and vocational programmes 2006 (000)		
	Gross enrolment ratio			Net enrolment ratio			Pupil/ teacher ratio	Gross enrolment ratio			Pupil/ teacher ratio			
	Total	Male	Female	Total	Male	Female		Total	Male	Female		Total secondary	Lower secondary	Upper secondary
Algeria	109.7	113.2	106.0	95.0	96.0	95.0	53.0	83.2	80.3	86.3	20.8	...	...	...
Angola	193.8	200.9	186.8	36.9	60.0	25.4	...	...	...	...	...	...	...	141.6
Benin	100.1	104.4	95.6	82.7	87.3	77.8	17.0	32.5	41.3	23.4	23.9	...	...	...
Botswana	112.2	113.0	112.0	84.0	83.0	85.0	78.0	74.9	73.2	76.7	13.7	...	...	...
Burkina Faso	66.5	71.7	61.2	47.0	52.0	42.0	31.0	13.8	16.2	11.4	31.3	23.0	1.7	3.3
Burundi	103.2	108.1	98.4	75.0	75.9	73.0	55.0	13.3	15.2	11.3	18.9	11.9	2.0	4.4
Cameroon	109.6	117.9	101.3	76.2	81.6	70.8	43.0	41.4	46.0	36.8	24.7	118.0	58.3	15.7
Cape Verde	101.5	104.6	98.3	85.0	85.0	84.0	67.0	67.7	65.3	70.1	23.1	2.1	...	2.0
Central African Republic	81.7	93.7	69.5	55.8	62.8	48.6	...	...	...	...	...	...	...	...
Chad	75.6	90.1	61.0	60.0	70.9	49.5	12.0	15.2	22.7	7.5	34.2	...	...	...
Comoros	85.4	90.7	79.9	56.0	59.5	50.0	33.0	35.1	40.0	30.2	13.8	...	...	...
Congo	105.9	110.0	101.8	55.0	57.7	52.0	44.0	42.9	46.7	39.1	34.3	...	...	...
Congo Dem. Rep.	101.1	106.2	95.5	61.0	62.5	59.4	...	22.0	27.8	16.1	14.5	...	...	...
Côte d'Ivoire	72.1	80.6	63.7	55.1	58.6	51.3	24.0	...	...	...	29.4	...	...	...
Djibouti	44.1	48.7	39.5	38.0	42.0	34.0	27.0	22.8	27.3	18.1	27.9	1.73	0.10	1.45
Egypt	104.7	107.5	101.7	96.0	98.0	94.0	56.0	86.2	89.5	82.6	16.6	...	...	...
Equatorial Guinea	122.0	125.0	119.0	87.0	91.4	83.0	...	...	...	...	...	...	...	...
Eritrea	62.2	68.8	55.6	47.0	50.0	43.0	43.0	30.3	38.2	22.5	51.3	2.1	...	1.5
Ethiopia	90.8	96.7	84.8	71.0	74.0	68.0	...	34.4	40.7	28.0	54.2	123.6	...	...
Gabon	139.8	139.1	140.6	92.4	91.9	93.0	...	...	...	...	...	...	...	...
Gambia	77.0	75.0	80.0	64.0	62.0	66.0	34.0	45.0	49.0	40.9	41.7	...	...	...
Ghana	97.7	98.3	97.0	72.0	73.0	71.0	37.0	45.9	49.5	42.1	19.7	31.5	...	18.4
Guinea	90.8	97.8	83.6	74.0	79.0	69.0	26.0	31.2	40.8	21.2	35.6	...	...	...
Guinea Bissau	69.7	83.5	55.9	45.0	53.0	37.0	...	...	...	...	...	...	...	...
Kenya	107.4	107.3	104.4	75.0	75.0	76.0	45.0	48.2	49.4	47.1	31.6	23.0	...	15.6
Lesotho	114.4	114.5	114.2	72.0	71.0	74.0	78.0	37.4	33.0	41.7	26.6	1.5	...	...
Liberia	83.4	88.2	78.5	37.0	...	...	12.0	...	...	...	...	...	...	...

Table 19 - School Enrolment (cont.)

	Primary School, 2006-07							Secondary School, 2006-07				Enrolment ratio in technical and vocational programmes 2006 (000)		
	Gross enrolment ratio			Net enrolment ratio			Pupil/ teacher ratio	Gross enrolment ratio			Pupil/ teacher ratio			
	Total	Male	Female	Total	Male	Female		Total	Male	Female		Total secondary	Lower secondary	Upper secondary
Libya	110.4	113.0	103.1	...	...	...	...	109.7	99.7	120.0	4.8	...	...	...
Madagascar	141.4	143.7	139.1	98.0	98.0	99.0	61.0	...	...	...	...	32.0	5.1	15.9
Malawi	116.5	114.4	118.6	87.0	84.0	90.0	...	27.6	30.4	24.8	...	...	...	...
Mali	83.1	92.3	74.0	63.0	70.0	56.0	27.0	27.1	33.9	20.3	...	51.2	...	10.3
Mauritania	103.2	100.4	106.3	80.0	78.0	83.0	35.0	20.8	21.9	19.6	31.0	3.2	0.9	2.3
Mauritius	101.4	101.4	101.4	95.0	95.0	96.0	65.0	88.4	88.9	88.0	17.2	...	...	...
Morocco	107.2	113.0	101.3	89.0	91.0	86.0	47.0	49.2	53.4	44.8	18.7	118.5	18.0	72.4
Mozambique	104.8	112.6	96.9	76.0	79.0	73.0	26.0	13.2	15.7	10.8	32.2	26.3	22.7	3.0
Namibia	109.2	109.7	108.8	87.0	84.0	89.0	65.0	56.3	52.7	59.9	25.1	...	...	...
Niger	50.6	58.0	42.7	43.0	50.0	37.0	40.0	9.7	11.9	7.6	30.9	6.3	1.2	5.1
Nigeria	92.5	96.1	88.5	63.0	68.0	58.0	51.0	32.4	35.6	29.2	40.2	...	...	...
Rwanda	147.4	146.3	148.4	94.0	92.0	95.0	53.0	13.4	14.2	12.7	26.3	...	...	...
São Tomé and Principe	130.4	131.6	129.1	97.0	98.0	96.0	55.0	45.3	43.7	46.9	21.7	...	...	...
Senegal	83.5	83.6	83.5	72.0	72.0	72.0	28.0	22.1	25.3	18.8	26.4	...	...	...
Seychelles	125.3	126.1	124.6	98.4	98.9	100.0	85.0	105.4	105.7	105.0	12.8	...	...	...
Sierra Leone	147.1	154.9	139.3	65.2	54.9	62.7	26.0	...	...	...	...	...	...	...
Somalia	8.4	11.1	5.8	9.8	12.7	6.9	...	...	...	...	...	...	...	...
South Africa	98.0	103.4	92.9	86.0	86.0	86.0	76.0	94.7	91.5	97.9	30.8	...	...	...
Sudan	66.4	71.3	61.2	41.2	44.9	37.0	64.0	32.7	33.8	31.6	21.5	44.1	...	44.1
Swaziland	119.5	123.3	115.7	84.2	82.9	85.6	73.0	44.6	45.4	43.8	18.1	...	...	...
Tanzania	111.9	112.8	110.9	98.0	98.0	97.0	48.0	...	...	...	...	...	...	...
Togo	97.1	104.2	94.6	77.0	82.0	72.0	12.0	40.4	53.7	27.1	29.6	...	...	...
Tunisia	97.3	97.3	97.4	96.0	96.0	97.0	52.0	83.2	79.3	87.4	17.2	112.9	65.3	47.6
Uganda	116.7	116.3	117.2	81.8	82.3	81.2	39.0	18.3	20.3	16.4	20.9	...	...	...
Zambia	119.0	120.7	117.2	94.0	94.0	94.0	48.0	30.4	33.4	27.3	34.0	...	...	...
Zimbabwe	101.2	101.7	100.6	88.0	87.0	88.0	...	...	...	...	...	...	...	...
Africa	99.6	99.9	92.0	75.0	75.9	71.5	45.0	44.5	47.4	41.8	26.2	732.8	175.2	404.8

Sources: UNESCO Institute for Statistics (UIS) Database, March 2009; Domestic authorities.

Table 20 - Employment and Remittances*

	Year	Unemployment rate			Participation rate (>15) 2007	Inactivity rate (>15) 2007			Worker remittances (USD million)				
		Total	Men	Female		Total	Men	Female	2003	2004	2005	2006	2007
Algeria	2007	13.8	12.9	18.4	57.3	42.7	22.5	63.1	1 750	2 460	1 950	2 527	2 906
Angola	2006	25.2	...	...	81.7	18.3	10.8	25.5	...	...	...	...	...
Benin	...	...	...	...	72.1	27.9	14.3	41.5	55	63	173	173	173
Botswana	2008	17.6	15.3	19.9	55.7	44.3	36.6	51.8	39	93	125	117	117
Burkina Faso	1998	2.4	2.3	2.6	83.3	16.7	10.2	22.9	50	50	50	50	50
Burundi	1990	0.5	0.7	0.3	89.9	10.1	9.6	10.5	...	...	0	0	0
Cameroon	2001	7.5	8.2	6.7	63.8	36.2	24.6	47.6	76	103	103	103	103
Cape Verde	2008	17.8	15.0	28.0	60.1	39.9	24.6	53.5	109	113	137	137	143
Central African Republic	...	...	...	...	76.8	23.2	12.9	32.7	...	...	...	...	...
Chad	1993	0.69	1.1	0.3	74.1	25.9	22.7	29.0	...	...	...	...	...
Comoros	1991	20.0	21.3	16.9	73.1	26.9	17.0	36.8	12	12	12	12	12
Congo	...	...	...	...	69.1	30.9	17.2	44.2	13	15	11	11	11
Congo Dem. Rep.	...	...	...	...	71.6	28.4	10.3	45.7	...	...	...	...	...
Cote d'Ivoire	1998	4.1	...	...	62.5	37.5	15.3	60.8	142	159	163	167	179
Djibouti	1991	43.5	41.9	46.7	67.3	32.7	23.0	42.2	...	...	...	...	...
Egypt	2008	8.4	...	...	47.3	52.7	28.8	76.2	2 961	3 341	5 017	5 330	5 865
Equatorial Guinea	1983	24.2	27.4	18.5	66.6	33.4	8.5	57.4	...	...	...	...	...
Eritrea	1984				70.0	30.0	14.2	44.6	...	...	...	...	...
Ethiopia	2006	16.7	11.5	22.1	85.3	14.7	9.0	20.3	47	134	174	172	172
Gabon	1993	18.0	19.3	16.4	70.9	29.1	20.2	37.9	6	7	7	7	7
Gambia	...	...	...	...	76.9	23.1	16.2	29.9	65	62	57	64	64
Ghana	1999	10.1	9.4	10.1	72.5	27.5	26.7	28.4	65	82	99	105	105
Guinea	1994	3.09	4.6	1.7	84.1	15.9	11.1	20.6	111	42	42	42	42
Guinea Bissau	...	...	...	...	71.4	28.6	10.1	46.4	23	28	28	28	29
Kenya	1999	9.8			80.8	19.2	12.7	25.6	538	620	805	1 128	1 300
Lesotho	1999	27.3	21.5	33.1	70.9	29.1	25.0	32.4	287	355	327	361	371
Liberia	2007	5.6	6.8	4.2	69.9	30.1	15.5	44.6	...	484	620	685	685

Table 20 - Employment and Remittances* (cont.)

	Year	Unemployment rate Total	Unemployment rate Men	Unemployment rate Female	Participation rate (>15) 2007	Inactivity rate (>15) 2007 Total	Inactivity rate (>15) 2007 Men	Inactivity rate (>15) 2007 Female	Worker remittances (USD million) 2003	2004	2005	2006	2007
Libya	2007	13.5	...	...	52.7	47.3	22.5	74.1	8	10	15	16	16
Madagascar	2005	2.8	2.0	3.6	85.2	14.8	11.6	17.9	16	12	11	11	11
Malawi	2004	7.8	5.4	10.0	77.8	22.2	20.5	23.7	1	1	1	1	1
Mali	2004	8.8	7.2	10.9	50.1	49.9	34.9	63.5	154	156	177	212	212
Mauritania	2004	33.0	25.2	...	70.1	29.9	20.1	39.8	2	2	2	2	2
Mauritius	2007	8.5	5.3	14.4	59.5	40.5	22.8	57.6	215	215	215	215	215
Morocco	2007	9.5	9.6	9.4	51.4	48.6	20.2	75.3	3 614	4 221	4 590	5 454	5 700
Mozambique	1997	2.2	3.4	1.3	82.9	17.1	22.8	11.9	70	58	57	80	80
Namibia	2004	21.9	19.3	25.0	53.8	46.2	41.0	51.2	12	15	18	17	17
Niger	2001	1.5	1.7	0.9	63.5	36.5	12.5	60.7	26	60	66	66	66
Nigeria	1986	3.9	3.7	4.4	54.5	45.5	29.4	61.3	1 063	2 273	3 329	3 329	3 329
Rwanda	1996	0.6	0.9	0.4	80.0	20.0	20.8	19.2	9	10	21	21	51
São Tomé and Principe	2006	16.7	11.0	24.5	56.5	43.5	29.2	57.3	1	1	2	2	2
Senegal	2006	11.1	7.9	13.6	73.7	26.3	13.8	38.5	511	633	633	633	874
Seychelles	2005	5.5	6.1	4.9	...	...	...	...	2 661	4 129	4 650	4 703	4 910
Sierra Leone	2004	2.8	3.1	2.5	66.1	33.9	32.6	35.1	26	25	2	33	38
Somalia	...	...	...	...	71.1	28.9	11.5	45.7	...	...	...	...	...
South Africa	2007	23.0	20.0	26.7	53.4	46.6	39.8	53.0	424	424	424	424	424
Sudan	...	...			51.5	48.5	28.4	68.7	1 223	1 403	1 016	1 156	1 156
Swaziland	1997	22.5	20.0	26.0	65.1	34.9	31.5	38.0	65	83	95	99	99
Tanzania	2006	4.3	2.8	5.8	88.6	11.4	9.7	13.0	9	11	18	15	15
Togo	...	...	...	...	68.9	31.1	13.3	48.2	149	179	193	193	193
Tunisia	2005	14.2	13.1	17.3	48.3	51.7	29.1	74.3	1 250	1 432	1 393	1 510	1 669
Uganda	2003	3.2	2.5	3.9	85.9	14.1	9.7	18.4	306	311	323	665	849
Zambia	2000	12.9	14.1	11.3	70.1	29.9	19.5	40.2	36	48	53	58	59
Zimbabwe	2004	4.2	4.2	4.1	69.7	30.3	20.3	40.1	...	...	...	...	...
Africa	...	...	...	...	...	...	...	...	18 198	23 932	27 204	30 133	32 322

Note: * See note on methodology for definitions.
Source: Employment: ILO, KILM database, March 2009.
Workers remittances: World Bank. Global Development Finance, March 2009.

Table 21 - Corruption Perception Index

	2002		2003		2004		2005		2006		2007		2008	
	Index	Country Rank / 102	Index	Country Rank / 133	Index	Country Rank / 145	Index	Country Rank / 158	Index	Country Rank / 163	Index	Country Rank / 179	Index	Country Rank / 180
Algeria	...	...	2.6	88	2.7	97	2.8	97	3.1	84	3	99	3.2	92
Angola	1.7	98	1.8	124	2	133	2	151	2.2	142	2.2	147	1.9	158
Benin	...	...	...	...	3.2	77	2.9	88	2.5	121	2.7	118	3.1	96
Botswana	6.4	24	5.7	30	6	31	5.9	32	5.6	37	5.4	38	5.8	36
Burkina Faso	...	...	...	...	...	...	3.4	70	3.2	79	2.9	105	3.5	80
Burundi	...	...	...	...	...	...	2.3	130	2.4	130	2.5	131	1.9	158
Cameroon	2.2	89	1.8	124	2.1	129	2.2	137	2.3	138	2.4	138	2.3	141
Cape Verde	...	...	...	...	...	...	...	...	...	...	4.9	49	5.1	47
Central African Republic	...	...	...	...	...	...	...	...	2.4	130	2	162	2	151
Chad	...	...	...	...	1.7	142	1.7	158	2	156	1.8	172	1.6	173
Comoros	...	...	...	...	...	...	...	...	...	...	2.6	123	2.5	134
Congo	...	...	2.2	113	2.3	114	2.3	130	2.2	142	2.1	150	1.9	158
Congo. Dem. Rep.	...	...	...	...	2	133	2.1	144	2	156	1.9	168	1.7	171
Côte d´Ivoire	2.7	71	2.1	118	2	133	1.9	152	2.1	151	2.1	150	2	151
Djibouti	...	...	...	...	...	...	...	...	...	...	2.9	105	3	102
Egypt	3.4	62	3.3	70	3.2	77	3.4	70	3.3	70	2.9	105	2.8	115
Equatorial Guinea	...	...	...	...	...	...	1.9	152	2.1	151	1.9	168	1.7	171
Eritrea	...	...	...	...	2.6	102	2.6	107	2.9	93	2.8	111	2.6	126
Ethiopia	3.5	59	2.5	92	2.3	114	2.2	137	2.4	130	2.4	138	2.6	126
Gabon	...	...	...	...	3.3	74	2.9	88	3	90	3.3	84	3.1	96
Gambia	...	...	2.5	92	2.8	90	2.7	103	2.5	121	2.3	143	1.9	158
Ghana	3.9	50	3.3	70	3.6	64	3.5	65	3.3	70	3.7	69	3.9	67
Guinea	...	...	...	...	...	...	...	...	1.9	160	1.9	168	1.6	173
Guinea Bissau	...	...	...	...	...	...	...	...	...	...	2.2	147	1.9	158
Kenya	1.9	96	1.9	122	2.1	129	2.1	144	2.2	142	2.1	150	2.1	147
Lesotho	...	...	...	...	...	...	3.4	70	3.2	79	3.3	84	3.2	92
Liberia	...	...	...	...	...	...	2.2	137	...	...	2.1	150	2.4	138

Table 21 - **Corruption Perception Index** *(cont.)*

	2002		2003		2004		2005		2006		2007		2008	
	Index	Country Rank / 102	Index	Country Rank / 133	Index	Country Rank / 145	Index	Country Rank / 158	Index	Country Rank / 163	Index	Country Rank / 179	Index	Country Rank / 180
Libya	...	...	2.1	118	2.5	108	2.5	117	2.7	105	2.5	131	2.6	126
Madagascar	1.7	98	2.6	88	3.1	82	2.8	97	3.1	84	3.2	94	3.4	85
Malawi	2.9	68	2.8	83	2.8	90	2.8	97	2.7	105	2.7	118	2.8	115
Mali	...	...	3	78	3.2	77	2.9	88	2.8	99	2.7	118	3.1	96
Mauritania	...	...	...	...	...	...	...	...	3.1	84	2.6	123	2.8	115
Mauritius	4.5	40	4.4	48	4.1	54	4.2	51	5.1	42	4.7	53	5.5	41
Morocco	3.7	52	3.3	70	3.2	77	3.2	78	3.2	79	3.5	72	3.5	80
Mozambique	...	...	2.7	86	2.8	90	2.8	97	2.8	99	2.8	111	2.6	126
Namibia	5.7	28	4.7	41	4.1	54	4.3	47	4.1	55	4.5	57	4.5	61
Niger	...	...	...	...	2.2	122	2.4	126	2.3	138	2.6	123	2.8	115
Nigeria	1.6	101	1.4	132	1.6	144	1.9	152	2.2	142	2.2	147	2.7	121
Rwanda	...	...	...	...	...	...	3.1	83	2.5	121	2.8	111	3	102
São Tomé and Principe	...	...	...	...	...	...	...	...	...	...	2.7	118	2.7	121
Senegal	3.1	66	3.2	76	3	85	3.2	78	3.3	70	3.6	71	3.4	85
Seychelles	...	...	...	...	4.4	48	4	55	3.6	63	4.5	57	4.8	55
Sierra Leone	...	...	2.2	113	2.3	114	2.4	126	2.2	142	2.1	150	1.9	158
Somalia	...	...	...	...	...	...	2.1	144	...	...	1.4	179	1	180
South Africa	4.8	36	4.4	48	4.6	44	4.5	46	4.6	51	5.1	43	4.9	54
Sudan	...	...	2.3	106	2.2	122	2.1	144	2	156	1.8	172	1.6	173
Swaziland	...	...	...	...	...	...	2.7	103	2.5	121	3.3	84	3.6	72
Tanzania	2.7	71	2.5	92	2.8	90	2.9	88	2.9	93	3.2	94	3	102
Togo	...	...	...	...	...	...	...	...	2.4	130	2.3	143	2.7	121
Tunisia	4.8	36	4.9	39	5	39	4.9	43	4.6	51	4.2	61	4.4	62
Uganda	2.1	93	2.2	113	2.6	102	2.5	117	2.7	105	2.8	111	2.6	126
Zambia	2.6	77	2.5	92	2.6	102	2.6	107	2.6	111	2.6	123	2.8	115
Zimbabwe	2.7	71	2.3	106	2.3	114	2.6	107	2.4	130	2.1	150	1.8	166

Note: The Corruption Perception Index (CPI) Score relates to perceptions of the degree of corruption as seen by business people and country analysts, and ranges between 10 (highly clean) and 0 (highly corrupt).
Source: Transparency International 2009.

Table 22 - Civil Tensions*

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Algeria	29.6	30.2	30.3	33.4	29.9	35.6	16.0	2.5	15.4	5.8	0.3	7.4	11.0
Angola	...	...	...	...	...	...	...	...	10.1	0.7	0.5	0.0	0.2
Benin	...	...	...	...	...	...	...	...	0.7	0.0	0.2	0.0	0.0
Botswana	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Burkina Faso	0.0	0.8	0.3	0.6	2.4	0.6	0.6	0.0	0.5	0.2	0.5	0.1	1.3
Burundi	...	...	...	...	...	...	...	...	...	...	...	...	2.1
Cameroon	5.8	11.3	0.3	0.4	0.6	0.2	0.1	0.2	0.5	0.8	0.9	0.0	1.6
Cape Verde	...	...	...	...	...	...	...	...	...	...	...	0.0	0.0
Central African Republic	...	...	...	...	...	...	...	...	...	...	...	...	2.9
Chad	1.1	1.4	0.6	5.0	6.7	4.1	2.6	4.0	1.0	2.8	9.4	4.0	3.5
Congo	...	...	...	...	...	...	...	...	0.5	0.5	0.2	0.1	0.0
Congo Dem. Rep.	...	...	...	...	...	...	...	...	5.4	4.7	7.8	7.0	8.6
Côte d'Ivoire	4.0	0.9	0.8	5.3	6.9	0.7	3.4	4.7	6.3	4.7	4.6	2.0	1.7
Djibouti	...	...	...	...	...	...	...	...	...	...	...	...	0.7
Egypt	5.7	10.1	0.0	0.2	1.9	1.8	0.5	1.4	1.7	3.3	1.7	0.1	6.3
Equatorial Guinea	0.5	0.0	0.5	0.0	0.0	0.0	0.0	0.2	0.3	0.0	0.0	0.0	0.0
Ethiopia	11.8	3.0	0.4	6.2	1.4	2.1	10.6	3.8	6.5	3.3	1.7	2.7	3.2
Gabon	2.3	0.2	0.6	0.2	0.0	0.0	0.4	0.0	0.1	1.1	0.6	0.8	0.5
Gambia	...	...	...	...	...	...	...	...	...	...	...	...	0.0
Ghana	1.2	0.0	0.1	1.1	0.5	1.0	1.0	0.3	0.5	0.0	0.0	0.0	0.7
Guinea	...	...	...	...	...	...	...	...	...	...	...	...	1.6
Kenya	2.5	6.4	8.5	0.0	0.0	1.9	0.5	1.7	1.1	2.8	1.4	16.0	9.8
Lesotho	...	...	...	...	...	...	...	...	...	...	...	...	0.0
Liberia	...	...	...	...	...	...	...	...	...	...	...	2.2	0.7
Libya	...	...	...	...	...	...	...	...	...	...	...	0.0	0.2
Madagascar	...	...	...	...	...	...	...	...	1.7	2.2	1.2	1.8	0.0
Malawi	...	...	...	...	...	...	...	...	...	1.4	1.4	0.7	0.0
Mali	0.8	3.4	0.3	2.2	0.0	0.0	0.0	0.1	0.1	0.6	0.5	1.7	3.1
Mauritania	...	...	...	...	...	...	...	...	...	...	...	...	3.6
Mauritius	0.0	0.0	0.0	1.3	0.0	0.0	0.0	0.0	0.5	0.2	0.0	0.0	0.0
Morocco	2.9	0.4	0.5	0.1	0.1	0.0	0.0	0.0	0.9	0.5	0.0	1.3	1.8
Mozambique	8.4	0.0	0.0	0.7	1.7	0.0	0.0	1.1	1.0	0.2	0.0	0.5	1.0
Namibia	0.9	0.0	0.0	1.9	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Niger	...	...	...	...	...	...	...	...	1.4	0.9	0.3	4.2	5.7
Nigeria	7.3	12.8	2.5	11.8	6.6	9.9	4.8	2.6	7.6	1.0	5.4	6.8	9.9
Rwanda	...	...	...	...	...	...	...	...	0.0	0.0	0.1	0.0	0.9
Senegal	0.1	4.9	0.7	1.4	1.4	1.2	1.9	1.7	2.3	1.2	1.1	1.6	0.8
Seychelles	...	...	...	...	...	...	...	...	...	...	...	...	0.0
Sierra Leone	...	...	...	...	...	...	...	...	...	...	...	...	0.1
South Africa	21.2	10.1	4.9	9.3	4.7	0.6	0.8	0.3	2.7	0.8	2.2	4.7	5.0
Sudan	...	...	...	...	...	...	...	...	...	...	...	...	8.8
Swaziland	...	...	...	...	...	...	...	...	...	...	...	...	0.0
Tanzania	1.2	0.5	0.2	0.0	0.0	1.5	0.0	0.1	0.1	1.3	0.0	0.5	0.1
Togo	...	...	...	...	...	...	...	...	...	...	...	...	0.0
Tunisia	0.0	0.0	0.1	0.6	0.1	0.0	0.7	0.6	0.0	0.7	0.0	0.0	0.7
Uganda	19.5	3.8	2.6	2.4	0.0	6.0	3.6	4.3	9.8	2.2	1.9	5.3	1.7
Zambia	1.2	1.1	1.2	0.9	0.1	4.4	0.3	1.4	0.5	0.5	0.7	2.0	0.5
Zimbabwe	2.1	2.2	2.8	1.3	4.2	3.2	4.1	1.2	0.9	1.1	1.0	6.4	8.3

Note: The AEO Indicator for Civil Tensions was called Political Troubles indicator in past editions of the report. Computation methodology has been improved in 2008 and for all the data series. For more details, see the methodological note of the Statistical Annex.

Source: Authors' calculations based on Marchés Tropicaux et Méditerranéens, between 1996 and 2007, and Agence France Presse for 2008. The change in the source might affect the comparability of 2008 indicator to its historical values.

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Table 23 - Softening of the Regime*

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Algeria	1.3	3.6	0.2	0.5	0.2	0.0	0.7	0.5	0.9	0.5	0.3	0.1	0.1
Angola	...	...	...	...	...	...	...	...	0.3	0.2	0.5	0.0	0.6
Benin	...	...	...	...	...	...	...	...	0.1	0.0	0.2	0.1	0.0
Botswana	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Burkina Faso	0.4	0.4	0.0	0.0	0.3	0.0	0.2	0.0	0.3	0.0	0.0	0.0	0.1
Burundi	...	...	...	...	...	...	...	...	...	...	...	...	0.1
Cameroon	0.7	2.0	0.2	0.0	0.0	0.2	0.0	0.2	0.6	0.2	0.0	0.1	0.1
Cape Verde	...	...	...	...	...	...	...	...	...	...	...	0.0	0.2
Central African Republic	...	...	...	...	...	...	...	...	...	...	...	...	0.1
Chad	4.5	4.0	0.0	0.5	0.1	0.3	0.7	0.4	0.0	0.1	0.1	0.0	0.3
Congo	...	...	...	...	...	...	...	...	-0.1	0.3	0.0	0.4	0.0
Congo Dem. Rep.	...	...	...	...	...	...	...	...	0.1	0.3	0.3	0.2	0.2
Côte d'Ivoire	1.5	2.1	0.2	0.0	0.6	-0.4	0.4	1.7	-0.1	0.9	0.3	1.2	0.7
Djibouti	...	...	...	...	...	...	...	...	...	...	...	...	0.0
Egypt	0.1	0.0	0.0	0.4	0.5	0.0	-0.3	0.3	0.6	0.1	0.5	0.0	0.4
Equatorial Guinea	0.0	2.6	0.0	0.2	0.2	0.1	0.4	0.4	0.1	0.0	0.4	0.0	0.2
Ethiopia	0.1	0.1	0.2	0.0	0.0	0.4	0.0	0.0	0.1	0.5	0.5	0.6	0.3
Gabon	0.0	0.5	0.1	0.0	0.0	0.0	0.3	0.1	0.2	0.2	0.2	0.3	0.0
Gambia	...	...	...	...	...	...	...	...	...	...	...	...	0.1
Ghana	0.9	0.1	0.0	0.0	0.3	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.1
Guinea	...	...	...	...	...	...	...	...	...	...	...	...	0.1
Kenya	0.9	0.7	0.2	0.0	0.0	0.3	0.0	0.6	0.2	0.0	0.0	0.3	2.0
Lesotho	...	...	...	...	...	...	...	...	...	...	...	...	0.0
Liberia	...	...	...	...	...	...	...	...	...	...	...	0.1	0.1
Libya	...	...	...	...	...	...	...	...	...	...	...	0.4	0.4
Madagascar	...	...	...	...	...	...	...	...	0.7	0.0	0.1	0.1	0.0
Malawi	...	...	...	...	...	...	...	...	...	0.0	0.4	0.1	0.1
Mali	1.4	1.8	0.2	0.4	0.3	0.0	0.3	0.0	0.0	0.0	0.0	0.2	0.5
Mauritania	...	...	...	...	...	...	...	...	...	...	...	...	-0.9
Mauritius	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.3	0.0	0.0	0.0	0.0	0.0
Morocco	0.9	0.6	0.1	0.0	0.4	0.0	0.2	0.3	0.8	0.3	0.4	0.2	0.3
Mozambique	0.1	0.0	0.0	0.0	0.2	0.4	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Namibia	0.0	0.4	0.0	0.0	0.0	0.3	0.0	0.1	0.0	0.0	0.0	0.0	0.1
Niger	...	...	...	...	...	...	...	...	0.0	0.3	0.4	0.0	0.2
Nigeria	1.1	1.8	1.6	0.9	0.1	0.0	0.2	0.1	0.3	0.1	-0.2	0.1	0.4
Rwanda	...	...	...	...	...	...	...	...	0.1	0.4	0.0	0.3	0.2
Senegal	0.5	0.7	0.0	0.6	0.3	0.4	0.0	0.0	0.2	0.3	0.2	0.2	0.2
Seychelles	...	...	...	...	...	...	...	...	...	...	...	...	0.0
Sierra Leone	...	...	...	...	...	...	...	...	...	...	...	...	0.2
South Africa	2.6	2.3	0.2	0.5	0.2	0.5	0.2	0.1	0.2	0.2	0.0	0.1	0.5
Sudan	...	...	...	...	...	...	...	...	...	...	...	...	0.5
Swaziland	...	...	...	...	...	...	...	...	...	...	...	...	0.0
Tanzania	0.2	0.1	0.0	0.4	0.0	0.4	0.2	0.0	0.1	0.0	0.0	0.0	0.1
Togo	...	...	...	...	...	...	...	...	...	...	...	...	0.3
Tunisia	1.4	0.7	0.0	0.0	0.2	0.4	0.8	0.2	0.0	0.3	0.1	0.0	0.2
Uganda	0.0	0.4	0.1	0.1	0.2	0.0	0.1	0.2	0.1	0.1	0.6	0.4	0.5
Zambia	1.4	0.0	0.4	0.2	0.0	0.3	0.3	0.4	0.1	0.0	0.1	0.2	0.1
Zimbabwe	0.1	0.1	0.0	0.0	0.3	0.1	0.4	0.6	0.1	0.0	0.2	0.1	1.0

Note: * Aggregation methodology changed for all the series with respect to AEO 2007/08. For more details, see note on methodology.
Source: Authors' calculations based on Marchés Tropicaux et Méditerranéens, between 1996 and 2007, and Agence France Presse for 2008. The change in the source might affect the comparability of 2008 indicator to its historical values.

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Table 24 - State Pressure over Civil Liberties*

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Algeria	2.9	1.5	0.6	0.6	0.1	1.9	3.7	1.1	2.2	0.0	0.5	0.3	4.9
Angola	...	...	...	...	...	...	...	...	1.3	0.1	0.3	0.5	0.8
Benin	...	...	...	...	...	...	...	...	0.1	0.1	0.4	0.0	0.5
Botswana	0.1	0.1	0.0	0.2	0.0	0.0	0.0	0.0	0.3	0.1	0.0	0.4	0.0
Burkina Faso	0.0	0.5	0.1	1.1	0.4	0.3	0.7	0.6	0.7	0.1	0.1	0.1	0.8
Burundi	...	...	...	...	...	...	...	...	...	...	...	...	1.2
Cameroon	1.9	1.5	0.5	0.4	0.2	0.6	0.2	0.5	0.6	0.0	0.4	0.5	1.6
Cape Verde	...	...	...	...	...	...	...	...	...	...	...	0.0	0.2
Central African Republic	...	...	...	...	...	...	...	...	...	...	...	...	0.5
Chad	0.7	0.3	0.3	0.0	0.3	0.6	0.4	1.6	0.2	1.7	4.1	1.6	4.9
Congo	...	...	...	...	...	...	...	...	0.3	0.3	0.1	0.6	0.2
Congo Dem. Rep.	...	...	...	...	...	...	...	...	1.2	2.3	5.0	3.9	3.5
Côte d'Ivoire	0.5	0.6	0.2	2.3	1.6	0.4	0.8	1.6	2.3	1.7	3.1	0.2	1.5
Djibouti	...	...	...	...	...	...	...	...	...	...	...	...	0.6
Egypt	2.3	1.6	1.4	0.5	1.9	0.9	2.9	1.2	1.0	2.8	1.4	5.3	6.0
Equatorial Guinea	0.0	0.3	1.0	0.0	0.0	0.2	1.4	0.1	1.9	0.0	0.3	0.2	0.5
Ethiopia	1.6	1.0	0.6	0.0	0.2	0.9	2.1	0.3	0.3	3.1	1.0	0.5	1.6
Gabon	0.2	1.2	0.2	0.5	0.1	0.0	0.1	0.3	0.6	2.0	0.7	0.1	0.2
Gambia	...	...	...	...	...	...	...	...	...	...	...	...	0.9
Ghana	0.6	0.2	0.6	0.6	0.0	0.2	0.3	0.0	0.1	0.0	0.0	0.0	0.1
Guinea	...	...	...	...	...	...	...	...	...	...	...	...	2.5
Kenya	-0.3	2.1	0.9	0.0	0.0	0.2	0.3	0.5	0.6	0.4	0.8	9.6	7.1
Lesotho	...	...	...	...	...	...	...	...	...	...	...	...	0.0
Liberia	...	...	...	...	...	...	...	...	...	...	...	0.1	0.5
Libya	...	...	...	...	...	...	...	...	...	...	...	0.1	0.5
Madagascar	...	...	...	...	...	...	...	...	0.7	0.3	0.4	1.5	0.0
Malawi	...	...	...	...	...	...	...	...	...	0.8	2.1	0.8	0.3
Mali	0.1	1.3	0.0	0.1	0.3	0.3	0.1	0.3	0.1	0.0	0.2	1.2	1.8
Mauritania	...	...	...	...	...	...	...	...	...	...	...	...	8.3
Mauritius	0.1	0.0	0.0	0.1	0.0	0.0	0.0	0.6	0.1	0.2	0.0	0.0	0.0
Morocco	1.3	0.9	0.4	0.3	0.8	0.7	0.6	0.8	1.4	0.1	0.2	1.1	3.2
Mozambique	0.1	0.2	0.6	0.3	0.9	0.3	0.0	0.1	0.4	0.0	0.0	0.0	0.4
Namibia	0.0	0.1	0.0	0.3	0.4	0.1	0.1	0.2	0.1	0.0	0.1	0.0	0.0
Niger	...	...	...	...	...	...	...	...	0.4	0.4	0.4	2.2	1.7
Nigeria	31.3	0.6	1.2	1.0	1.1	0.7	0.6	0.6	2.3	0.7	0.8	2.4	3.4
Rwanda	...	...	...	...	...	...	...	...	1.0	0.0	0.0	0.0	0.2
Senegal	0.4	0.8	0.7	0.1	0.0	0.4	0.3	0.4	0.2	0.7	0.7	0.7	0.9
Seychelles	...	...	...	...	...	...	...	...	...	...	...	...	0.0
Sierra Leone	...	...	...	...	...	...	...	...	...	...	...	...	0.2
South Africa	4.6	3.0	1.4	1.1	0.5	0.3	0.5	-0.2	0.9	1.1	0.3	1.0	1.5
Sudan	...	...	...	...	...	...	...	...	...	...	...	...	5.0
Swaziland	...	...	...	...	...	...	...	...	...	...	...	...	0.9
Tanzania	0.3	0.1	0.1	0.0	0.1	0.1	0.0	0.1	0.0	0.4	0.0	0.0	0.0
Togo	...	...	...	...	...	...	...	...	...	...	...	...	0.0
Tunisia	0.7	0.4	0.4	0.6	0.3	0.5	0.7	0.4	1.6	0.7	0.1	0.2	3.0
Uganda	0.8	0.0	0.2	0.2	0.0	1.5	0.3	0.6	2.8	0.7	1.6	2.4	0.9
Zambia	0.9	2.1	1.0	0.7	0.3	0.9	1.2	0.4	0.2	0.3	0.3	0.0	0.2
Zimbabwe	1.0	0.9	1.9	1.3	1.2	2.6	3.5	2.3	3.7	3.0	2.5	5.7	9.8

Note: The AEO Indicator for State Pressure over Civil Liberties was called Political Hardening indicator in past editions of the report. Computation methodology has been improved in 2008 and for all the data series. For more details, see the methodological note of the Statistical Annex.

Source: Authors' calculations based on Marchés Tropicaux et Méditerranéens, between 1996 and 2007, and Agence France Presse for 2008. The change in the source might affect the comparability of 2008 indicator to its historical values.

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* *

The Development Centre of the Organisation for Economic Co-operation and Development was established by decision of the OECD Council on 23 October 1962 and comprises 23 member countries of the OECD: Austria, Belgium, the Czech Republic, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Korea, Luxembourg, Mexico, the Netherlands, Norway, Poland, Portugal, Slovak Republic, Spain, Sweden, Switzerland, Turkey and the United Kingdom. In addition, the following non-OECD countries are members of the Development Centre: Brazil (since March 1994); Chile (November 1998); India (February 2001); Romania (October 2004); Thailand (March 2005); South Africa (May 2006); Egypt, Israel, and Viet Nam (March 2008); Indonesia (February 2009); Costa Rica, Mauritius, Morocco and Peru (March 2009). The Commission of the European Communities also takes part in the Centre's Governing Board.

The Development Centre, whose membership is open to both OECD and non-OECD countries, occupies a unique place within the OECD and in the international community. Members finance the Centre and serve on its Governing Board, which sets the biennial work programme and oversees its implementation.

The Centre links OECD members with developing and emerging economies and fosters debate and discussion to seek creative policy solutions to emerging global issues and development challenges. Participants in Centre events are invited in their personal capacity.

A small core of staff works with experts and institutions from the OECD and partner countries to fulfil the Centre's work programme. The results are discussed in informal expert and policy dialogue meetings, and are published in a range of high-quality products for the research and policy communities. The Centre's Study Series presents in-depth analyses of major development issues. Policy Briefs and Policy Insights summarise major conclusions for policy makers; Working Papers deal with the more technical aspects of the Centre's work.

For an overview of the Centre's activities, please see www.oecd.org/dev

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PERSPECTIVES ÉCONOMIQUES EN AFRIQUE

NOTES PAR PAYS

THE AFRICAN DEVELOPMENT BANK GROUP

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 2008, the African Development Bank Group cumulatively approved 3 276 loans and grants for commitments of close to UA 44.7 billion (approximately USD 61.80 billion). The commitments were made to 52 regional member countries and institutions to support development projects and programmes in agriculture, transport, public utilities, industry, education and health services. Since the mid-1980s, a significant share of commitments has also gone to promoting economic reform and adjustment programmes that help to accelerate socio-economic development. About 43.5 per cent 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 cooperation 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 recognizes 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 marginalization of Africa in the globalization 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

Nine years ago, when the *African Economic Outlook* project began, the world was in the midst of what seemed to be a robust growth path. There were bumps, of course, but the general trend was upwards and the interruptions were relatively localised and short-lived. In 2009, however, the picture is very different: the financial crisis has spread throughout the world economy, which is now caught in the deepest and most widespread recession for more than 50 years.

Africa has not been spared. The continent is severely affected by plummeting levels of FDI and remittances, falling commodity prices and depressed export demand from OECD countries. The risk of reversals in recent development progress is looming, which in turn poses serious threats to the hard-won gains in political and social stability. A growth cycle of several years has just been interrupted.

The promising news is that shifting trade patterns, prudent macroeconomic reforms, debt relief, the use of new information and communication technologies – the special focus of this edition of the *Outlook* – and improvements in the business environment suggest that African economies are better positioned to deal with the crisis than in the past. 2010, however, will be crucial for understanding the medium-term macroeconomic prospects for the continent, and for Sub-Saharan Africa in particular.

To strengthen the foundations of growth and development, Africa should continue to pursue structural reforms, investment in infrastructure, poverty reduction; and to foster regional integration. The drop in external financial flows due to the crisis calls for an expeditious response with targeted initiatives, such as accelerating fiscal reforms to increase government revenue, and scaling up resources to finance public programmes, including trade finance. A key challenge will be to find the right balance between these efforts and the preservation of macroeconomic fundamentals. In support of this endeavour, OECD countries and Africa's other development partners must stand by their pledges – more and better aid, and an open trading system.

The *African Economic Outlook* has become a vital source of detailed analysis of African economies; it helps to provide evidence-based policy advice on key development challenges on the continent. We recommend it to policy makers and decision makers in all fields, both within and outside the African continent.

We salute the partnership of the European Commission and its unwavering faith in this project from its inception. Its financial support has been a critical factor for the success of the AEO.

Above all, we reaffirm our own commitment to sound and objective research and analysis, promoting peer learning and good governance, all goals to which the *African Economic Outlook* makes an essential and invaluable contribution.

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African Development Bank Group,
Tunis

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

Abdoulie Janneh,
Executive Secretary,
United Nations Economic Commission for Africa,
Addis Ababa

African Economic Outlook

Country Notes

The country notes are also available at www.africaneconomicoutlook.org

The companion volume, *African Economic Outlook 2009: Overview*, is available at:
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Preface

This eighth edition of the African Economic Outlook reflects an important advance over previous editions, bringing us within striking distance of covering the entire continent. This has been made possible by an expanded partnership. In addition to continuing a particularly fruitful collaboration among the African Development Bank, the OECD Development Centre and the United Nations Economic Commission for Africa (UNECA), we have expanded the number of independent African research institutions involved in preparing country studies and participating in the dissemination of the AEO. And within the Bank, the country economists of the Operations Departments have played a greater role than ever before. Thus, this year's edition sees a further increase in the coverage of the continent to 47 countries, up from 35 in 2008, covering 97 per cent of Africa's population and 99 per cent of its economic output.

Unfortunately, the international environment facing Africa has turned decisively negative. GDP in the OECD countries is expected to contract by 4.3 per cent in 2009 and to be virtually flat in 2010. Growth in emerging economies is also expected to slow dramatically. In turn, world trade is expected to contract by 13.1 per cent in 2009 – the first decline in world trade in 60 years. The global economic recession in which the world now finds itself has led us to slash forecasts of growth in Africa for 2009 to 2.8 per cent, less than half of last year's level. And even this may turn out to be optimistic as projections for OECD and major emerging market countries have continued to be marked down even while this volume was going to press. This somewhat overshadows the good news that growth in Africa was estimated to have been 5.7 per cent in 2008, the fifth consecutive year with growth above 5 per cent.

The slower growth which is now forecast for Africa is accompanied by deteriorating fiscal balances and current account balances, and countries with large projected deficits may find them difficult to finance. At the same time, the contraction of bank lending may make it difficult even for credit-worthy governments to finance them. Thus, enhanced support by the international financial institutions will be essential. The USD 1.5 billion Emergency Liquidity Facility, the Framework of Accelerated Resource Transfer to ADF Countries, and the USD 1 billion Trade Finance Facility announced by the AfDB in March, and the enlargement of resources for the IMF agreed in April will be especially important if these projected deficits are to be fully financed.

Moreover, most of the countries in Africa are grappling with inflation that surged to double-digit levels in 2008, considerably limiting the room for manoeuvre of central banks that would find it problematic to monetise a significant portion of fiscal deficits, especially in the 28 countries with inflation above 10 per cent in 2008.

As has been true in the past, there are marked differences between the oil-exporters and the others. The collapse in oil prices means that the public finances of the former group will come under pressure in 2009 and 2010, including those that had accumulated large reserves during the period of high oil prices. Those must take care to safeguard planned investment in infrastructure and human resource development and to diversify the sources of economic growth.

Net oil-importing countries face a different set of challenges. GDP growth in many of them is expected to fall sharply in 2009 and 2010. Meanwhile, inflation has been rising, mainly due to a more complete pass-through to consumers of international oil price increases combined with the persistence of high international prices of grains and vegetable oils. Most of them must either contain or finance expanding current account deficits which have been heavily impacted by the same factors.

Some countries continue to face the challenge of conflict and instability. In the first quarter of the year, three governments (Madagascar, Guinea and Guinea Bissau) were removed using undemocratic means, in addition to a military takeover in Mauritania in August 2008. However, there have been positive moves by international organisations, including the African Union and the African Development Bank, to help bring an end to conflict. One encouraging development was in the Democratic Republic of Congo (DRC) where a peace agreement was recently signed between the government and the main rebel group in eastern Congo. In Zimbabwe, the opposition party holds the portfolio of prime minister and is now in charge of several ministries. However, conflict resolution will also require the goodwill of African leaders in government and in opposition. The continent's political leaders must continue to show determination to end armed conflict and political instability. This is arguably Africa's greatest challenge.

However, this edition of the AEO sheds light on the ability of Africa to confront the crisis. Over the past years, improved macroeconomic management, debt relief, better governance and greater integration into the world economy have made Africa more resilient to international economic shocks. Moreover, intensified trade with emerging powers such as China, India and Brazil makes Africa less dependent on OECD markets. Growing Sino-African economic relations, in particular, have forged strong linkages and have recast Africa as a global trading partner.

Despite better prospects for tackling the crisis, Africa faces the daunting task of mitigating the negative effects of the downturn on its populations, particularly the most vulnerable. A key challenge is to secure adequate resources for private and public investment as well as trade financing. African countries are doing their level best to minimise the impact of the crisis, but they lack adequate resources and policy space to sustain the various initiatives undertaken at national and sub-regional level. In this context, the fight against protectionism – particularly on the part of OECD countries – and donor country commitments to maintain or increase Official Development Assistance (ODA) are essential for the continent. It will not be enough to scale up ODA, however. Donor countries must also improve the effectiveness of their aid. Now, more than ever, ODA should act as a countercyclical tool in Africa, especially for highly aid dependent countries.

This edition of the AEO provides an analysis of network infrastructure by surveying the Information and Communication Technology (ICT) infrastructure sector and its contribution to innovation in Africa. Sub-Saharan African countries on average have the lowest internet penetration rate in the world. North African countries are relatively better-off than their Sub-Saharan counterparts. However, even in North Africa the penetration rate for broadband internet is low. International backbone infrastructure to connect Africa to the rest of the world is being built and will soon be operational. However, governments will need to play a more active role in attracting inland network investment and in regulating prices in order to increase usage in Africa,

Despite the low penetration rates, innovative applications of ICT, especially in telecommunications, have been proliferating: e-banking, e-payments, e-agriculture, e-trade, e-government, e-education, and capacity building programmes for developing ICT skills and, more generically, for driving innovation. Innovative business models have also been gradually expanding the customer base to include significant numbers of low-income households. Innovation, however, requires better public policies

Government's role as a regulator will be particularly important in realizing the promise of ICT and the innovative applications it makes possible. The regulatory framework must be streamlined to encourage private investment in the sector and promote competition for increased efficiency and access. The report identifies many examples of good practice in this respect and it is our hope that they will become more widespread in future.

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Javier Santiso,
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April 2009

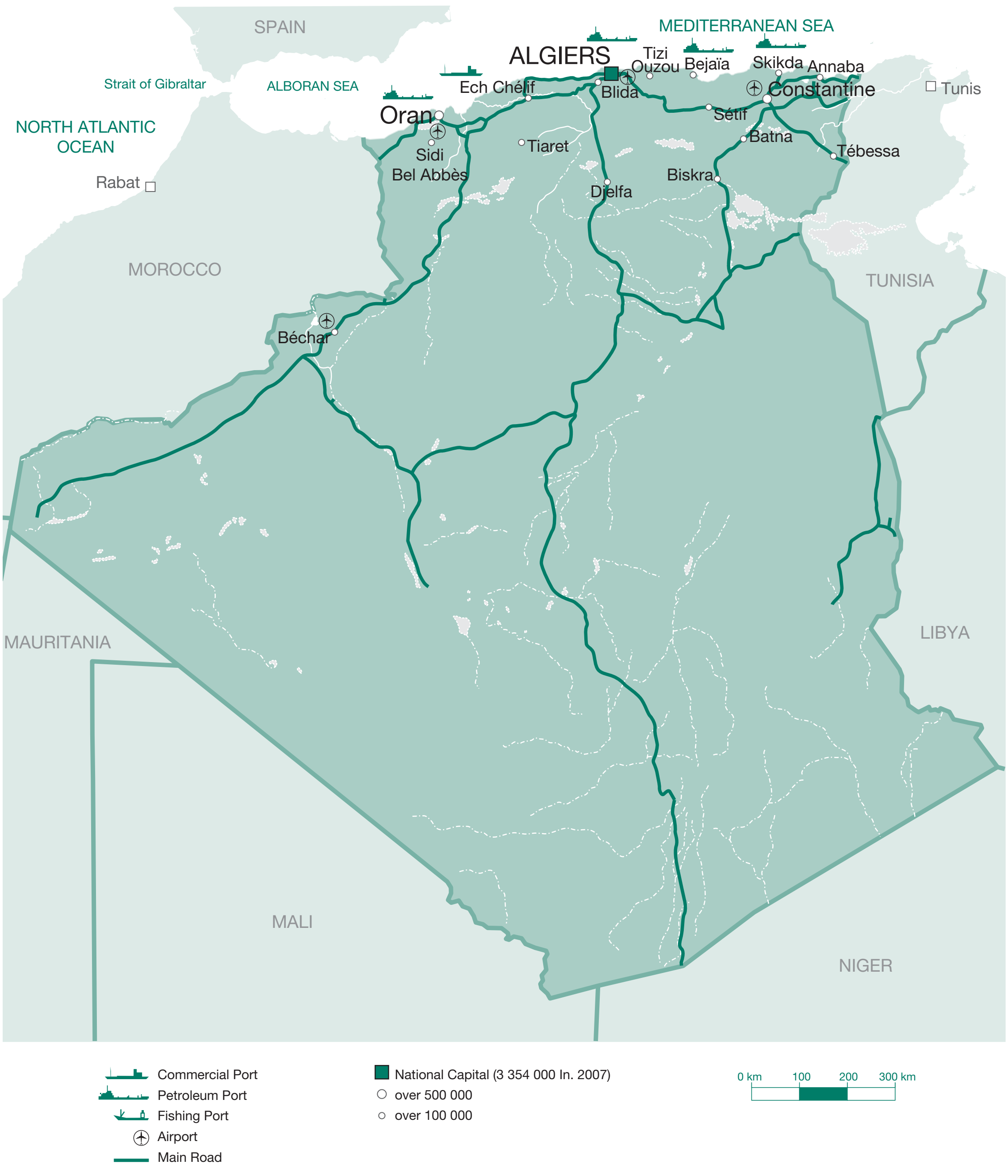
Country Notes

Algeria

key figures

- Land area, thousands of km²: 2 382
- Population, thousands (2008): 34 373
- GDP per capita, PPP valuation, USD (2008): 7 743
- Life expectancy (2008): 72.4
- Illiteracy rate (2008): 25

Algeria

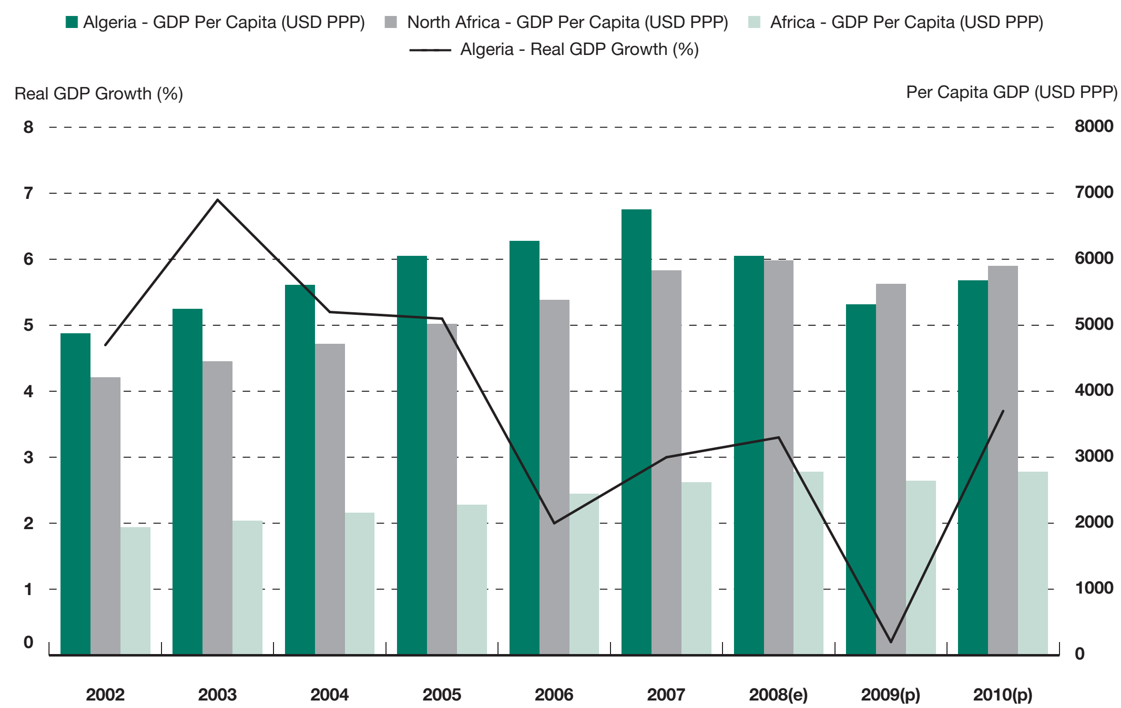

SPAIN
MEDITERRANEAN SEA
ALGIERS
Tizi Ouzou
Bejaïa
Skikda
Annaba
Constantine
Tunis
Strait of Gibraltar
ALBORAN SEA
Ech Chélif
Blida
Oran
Sétif
NORTH ATLANTIC OCEAN
Sidi Bel Abbès
Tiaret
Batna
Tébessa
Rabat
Biskra
Djelfa
MOROCCO
TUNISIA
Béchar
MAURITANIA
LIBYA
MALI
NIGER
Commercial Port
Petroleum Port
Fishing Port
Airport
Main Road
National Capital (3 354 000 In. 2007)
over 500 000
over 100 000
0 km
100
200
300 km

SINCE 2000 ALGERIA HAS CONSOLIDATED its economic growth, and the reforms undertaken are beginning to bear fruit. Growth in 2008 was 3.3 per cent and inflation 4.4 per cent. Having appreciated since 2007, the exchange rate of the dinar (DZD) remained close to its equilibrium value in 2008 (68 dinars to the US dollar [USD]), and unemployment stabilised at around 12 per cent of the active population. Strengthened by an average oil price of USD 99 per barrel in 2008, the Bank of Algeria built up foreign exchange reserves amounting to almost USD 142 billion. Following early repayments, total external debt fell to USD 460 million (0.27 of gross domestic product [GDP]), and internal public debt dropped by nearly 30 per cent. Weak growth of 0.2 per cent is expected in 2009, as a result of falling global demand and reduced prices of oil and gas.

Algeria is weathering external shocks well, but remains dependent on oil and gas exports.

The state budget remains expansionary because of the higher wage bill and increased public investment, but the deficit, excluding oil taxes, remains high (approximately 42 per cent of GDP, excluding oil and gas). The overall fiscal position remains positive thanks to higher oil and gas revenue, but in 2009 it is expected to feel the effects of the global crisis and the collapse in oil prices. To ensure the medium-term viability of public finances and balance of payments, the country will need to diversify further its non-oil economy. This

Figure 1 - **Real GDP Growth and Per Capita GDP**
(USD/PPP at current prices)



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

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is the only solution to create enough jobs, reduce unemployment and improve the standard of living of the population.

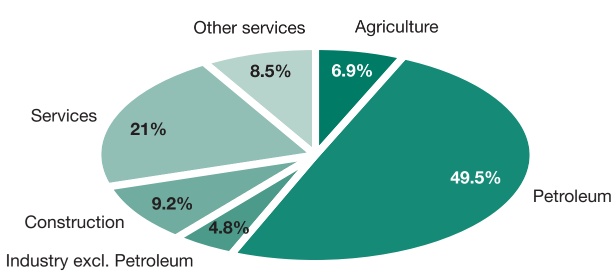
Recent Economic Developments

Economic growth increased slightly in 2008 to 3.3 per cent, from 3 per cent in 2007; but it remained below the projected levels, in particular because of lower production and oil and gas exports. Nevertheless, the increase in medium and long-term credit to the economy and in private-sector credit demand confirmed the signs of good growth in non-oil GDP, which reached 6.1 per cent in 2008. Growth remains largely dependent on oil and gas production and government investment, which makes it vulnerable to sharp downturns in world oil prices, thus reducing state revenue, which comes essentially from oil taxes. In this respect, given the reduction in Algeria's oil-production quota by 200 000 barrels a day following the decision made by the Organization of the Petroleum Exporting Countries (OPEC) at the end of 2008 to reduce output, and given the drastic fall in global demand and prices, only weak growth is expected in 2009 (0.2 per cent). On the other hand, good rainfall during the 2008/09 season may significantly increase production and consumption of agricultural products (crops and livestock).

Overall growth in 2008 was affected by the 0.2 per cent fall in oil and gas production (the third consecutive year that production has fallen, after falls of 0.9 per cent in 2007 and 2.5 per cent in 2006), and the poor performance of agriculture. The solid performance of the services, infrastructure and construction sectors, and to a lesser extent industry, accounted for the strengthening of growth in 2008.

Oil and gas continue to dominate the Algerian economy. The sector accounted for nearly 46.7 per cent of GDP in 2008 and 97.5 per cent of export revenue. The country's oil and gas reserves remained high: 43 billion barrels of oil equivalent (BOEs) for oil, and nearly 5 trillion cubic metres (m^3) for gas. The public operator Sonatrach (Société nationale pour la recherche, la production, le transport, la transformation et la commercialisation des hydrocarbures) controls 43 per cent of the national mining industry and 75 per cent of extracted oil and gas. In addition, it benefits from contracts of association with foreign partners. Although the level of crude oil production has changed very little over the past few years, remaining at around 1.4 million barrels a day, this has been compensated for by the country's gas output, particularly for liquefied petroleum gas (LPG) and condensates. Once production begins on the In Amenas gas fields, in partnership with British Petroleum, gas production will increase by nearly 18 billion m^3 per year. The development of the gas fields discovered in the southern Saharan regions of Illizi and the Ahnet Basin will increase the country's export capacity to 85 billion m^3 per year by 2010, and to nearly 100 billion m^3 by 2017. Local demand will also increase, from 27 billion m^3 in 2008 to nearly 52 billion m^3 in 2013. Local demand will double because of the growing needs of new, energy-intensive projects such as

Figure 2 - **GDP by Sector in 2007** (percentage)



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

StatLink http://dx.doi.org/10.1787/571134544614

fertilisers, electricity generation and seawater desalination, as well as increased housing demand and the use of gas to fuel motor vehicles. In 2008, public-sector gas export capacity rose to 70 billion m³, compared with 62 billion in 2006. The Transmed gas pipeline, which transits through Tunisia, is expected to increase its annual capacity from 27 to 33 billion m³, thereby making it possible to transport more gas to Europe. The collapse in global crude oil prices since July reduced oil and gas export revenue in 2008 by nearly USD 2 billion (USD 78.2 billion, compared with projections of USD 80 billion). Combined with the fall in global oil prices and the stagnant level of oil production, Sonatrach's reduction in production by 200 000 barrels/day to respect its OPEC quota will automatically affect export revenue, which is expected to fall to USD 38.3 billion in 2009, based on a reference price of USD 50 per barrel. In spite of this downturn in production, Sonatrach intends to continue with its plan to invest more than USD 63 billion from 2008 to 2012 in partnership with foreign oil companies.

The agricultural sector, which produces more than 6.5 per cent of the country's wealth, grew by only 1 per cent in 2008, as against 5 per cent in 2007. This weak growth was essentially due to the decline in cereal production, which represents more than 40 per cent of value added in the sector. The estimated production for 2008 of 21 million quintals is less than half the size of the 2007 harvest (43 million quintals). Accordingly the volume of food imports reached a record level of USD 8 billion in 2008, but the figure may be even higher in 2009. This would affect the country's public finances, given the weight of state-approved subsidies to consumer staples to protect the population's purchasing power.

Growth in industry (excluding oil and gas) rose to 2 per cent from 0.8 per cent in 2007. This sector, which accounts for less than 4.5 per cent of GDP, owes its performance to high levels of electricity production and a slight recovery in manufacturing (0.8 per cent increase). The sectors responsible for this modest upturn in industrial activity are agribusiness (12.8 per cent growth); energy (9.1 per cent); chemicals, rubber and plastics (8 per cent); and mines and quarries (7.9 per cent). The sectors in decline were wood, cork and paper (10.6 per cent decline); steel, engineering and electrical goods (5.2 per cent); hides and skins (3.2 per cent); and textiles (1.9 per cent). The Agence nationale du patrimoine minier (ANPM) awarded 27 exploration licences worth DZD 350 million for various minerals, including gold, iron, copper and lead.

Table 1 – **Demand Composition**

	Percentage of GDP (current prices)		Percentage changes, volume			Contribution to real GDP growth		
	2000	2007	2008(e)	2009(p)	2010(p)	2008(e)	2009(p)	2010(p)
Gross capital formation	**23.5**	**35.0**	**5.5**	**8.0**	**6.3**	**2.0**	**2.9**	**2.5**
Public	7.8	11.1	13.0	10.0	5.0	1.5	1.2	0.7
Private	15.7	23.9	2.0	7.0	7.0	0.5	1.7	1.8
Consumption	**55.2**	**43.2**	**4.2**	**4.9**	**4.8**	**2.3**	**2.7**	**2.8**
Public	13.6	11.9	2.0	2.4	2.9	0.2	0.3	0.4
Private	41.6	31.3	4.9	5.6	5.4	2.1	2.4	2.4
External demand	**21.3**	**21.8**				**-1.0**	**-5.4**	**-1.5**
Exports	42.1	46.9	1.8	-6.0	1.0	0.7	-2.2	0.3
Imports	-20.7	-25.0	6.0	11.4	5.9	-1.7	-3.2	-1.9
Real GDP growth						**3.3**	**0.2**	**3.7**

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

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The construction sector saw a decline in growth from a rate of 9.8 per cent in 2007 to 9.4 per cent in 2008. This downturn was partly due to the saturation of capacity to absorb investment in infrastructure. The sector, which accounts for 8.7 per cent of GDP, continues to benefit from domestically funded capital expenditure: it absorbs 40 per cent of funds allocated to infrastructure and to house building (nearly 150 000 homes were completed in 2008).

Market goods and services grew by 7.5 per cent in 2008, as against 6.8 per cent in 2007, representing 19.8 per cent of GDP. The strong rise in imports, especially capital equipment, led to a significant increase in transport and distribution activity and in imports of technical and consulting services. Public services grew by only 5.5 per cent in 2008, as against 6.5 per cent in 2007; they account for 8 per cent of GDP.

In spite of the satisfactory financial position and good performance of the main aggregates, sectors such as industry other than oil and gas, and to a lesser extent agriculture, still make a weak contribution to GDP. In spite of the investment in human resources further efforts are needed to increase the skills the country needs to establish the conditions for sustained development and to absorb unemployment which remains high, especially among young graduates. In terms of foreign direct investment (FDI), Algeria attracted only USD 1.5 billion in 2008, mainly in oil and gas, as against USD 1.37 billion in 2007. These flows remain modest in relation to the country's potential because of a legal and regulatory business framework which, in spite of the reforms implemented, has room for improvement.

Domestic demand was relatively stagnant in 2008, down slightly to 77.1 per cent of GDP from 78.2 per cent in 2007; even so, gross investment recorded stronger growth than consumption, especially public investment, which expanded by 13 per cent. Gross fixed capital formation is expected to continue to grow in 2009 thanks to the continued gross investment that, in the context of the crisis, the authorities intend to consolidate through the new 2010-14 investment plan. External demand (essentially energy products) increased in 2008, and total exports, benefiting from high oil prices before the crisis, reached DZD 5.3176 trillion. A downturn could occur in 2009 because of the fall in oil and gas prices, lower global demand and the reduction in output by Sonatrach. The value of imports in 2008 was nearly USD 40 billion, having risen by 26.9 per cent, as against 14 per cent in 2007. This increase in growth was essentially due to the rise in imports of equipment, raw materials and food, of which world prices increased significantly.

Macroeconomic Policies

Fiscal Policy

Public finances remain marked by the rise in budget expenditure linked to the five-year development programme, the 2005-09 Plan complémentaire de soutien à la croissance économique (PCSCE, Supplementary Plan to Support Economic Growth), and by the weight of operating expenditure. The latter grew following the Treasury's taking charge of the operating expenditure of the new administrative and socio-cultural structures and because of the significant state intervention in social action, amounting to DZD 1.0763 trillion in 2008 (9.9 per cent of GDP). Furthermore, delays in effecting public investments entailed cost reassessments, in particular because of a problem in the management of the costs of public projects. The 2008 budget was also characterised by an increase in the wage bill following the reform of the public sector salaries scheme, which aims to improve the efficiency of public authorities.

The 2008 supplementary budget changed the reference price of oil from USD 19 to USD 37 per barrel. Since 2002, the surplus revenue acquired through oil exports above the reference price has been held in a Revenue Regulation Fund (FRR). The purpose of this fund is to enable the country to deal with any changes in the international economic situation, repay external debt and rebalance public finances if there is a budget deficit.

Dominated by oil revenue, which accounted for more than DZD 3.2 trillion, government revenue in

Table 2 - **Public Finances** (percentage of GDP at current prices)

	2000	2005	2006	2007	2008(e)	2009(p)	2010(p)
Total revenue and grants[a]	**38.3**	**40.9**	**43.0**	**39.3**	**39.1**	**28.9**	**29.1**
Tax revenue	8.1	8.2	8.2	7.9	7.6	8.4	8.4
Oil revenue	29.8	31.4	33.3	30.1	30.2	19.2	19.5
Total expenditure and net lending[a]	**28.6**	**27.3**	**29.4**	**34.5**	**32.3**	**40.3**	**40.1**
Current expenditure	20.8	16.5	17.0	17.8	16.9	21.1	20.7
Excluding interest	*16.8*	*15.5*	*16.2*	*17.0*	*16.2*	*20.3*	*20.1*
Wages and salaries	7.0	5.5	5.3	5.6	5.2	6.5	6.4
Interest	3.9	1.0	0.8	0.8	0.7	0.8	0.6
Capital expenditure	7.8	10.7	12.0	15.1	15.4	19.3	19.3
Primary balance	**13.6**	**14.6**	**14.5**	**5.6**	**7.5**	**-10.7**	**-10.3**
Overall balance	**9.7**	**13.6**	**13.6**	**4.8**	**6.8**	**-11.5**	**-10.9**

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

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2008 totalled DZD 4.2296 trillion, as against DZD 3.6878 trillion in 2007. Ordinary taxation represented only about 23 per cent of total revenue. Spending increased from DZD 3.1085 trillion in 2007 to 3.495 trillion, of which DZD 1.6659 trillion was allocated to investment. The deficit excluding oil and gas was DZD 2.4183 trillion (22.3 per cent of GDP), but given the FRR reserves of DZD 4.3 trillion, this deficit is bearable. Nevertheless, the fall in oil and gas revenues in 2009 combined with the rise in public expenditure and imports could affect negatively the FRR and foreign exchange reserves and reduce the balance of payments account. The overall surplus increased from 5.6 per cent of GDP in 2007 to 7.5 per cent in 2008.

The 2009 budget allocates substantial resources to increasing public expenditure and to the content of the new 2010-14 economic recovery programme, costed at USD 150 billion. Furthermore, the budget treats the transfer of profits of branches and subsidiaries to foreign parent companies based abroad as dividend payments, thereby making them subject to a tax rate of 15 per cent. The budget also sets a specific 20 per cent capital gains tax on the transfer of assets or company shares by non-residents. A deficit equivalent to 11.5 per cent of GDP is forecast in the overall balance in 2009.

Monetary Policy

By the end of November 2008, the Bank of Algeria's net external assets totalled DZD 8.29038 trillion. Since 2005, these assets have been greater than the country's money and near-money liquidities. This difference resulted in money supply growth of 24.17 per cent in 2007 and 10.13 per cent during the first half of 2008. Its structural development reveals a stabilisation of the relative share of sight deposits and a large increase in deposits by Sonatrach.

Before the Treasury repurchased the non-performing loans of public enterprises, credit to the economy increased by 5.15 per cent in June 2008, compared with 5.45 per cent for the same period in 2007. Most lending went to the private sector (55 per cent), while there was a reduction of the share of non-performing loans and a stabilisation of medium and long-term loans, which accounted for 50.9 per cent of lending at the end of June 2008, as against 51.26 per cent in 2007. Government debt, however, fell owing to the Treasury's progressive reduction of debt in respect of the financial system. Thanks to the increased resources of the FRR, at the end of November 2008 the Treasury's net claims on banks amounted to DZD 3.2154 trillion. This growing liquidity has led to a substantial increase in the volume of activity of the interbank money market, with negotiated amounts totalling DZD 37.4 billion by the end of November 2008, as against DZD 16.3 billion in 2007, with an average interest rate stabilised at 3.1 per cent. Excess liquidity in the money market reached DZD 2.3428 trillion during the same period, compared to 2.0012 trillion in 2007, indicating structural excess liquidity. Reserve requirements were increased to 8 per cent in 2008, from 6.5 per cent in 2007. Concerned with improving its control of inflation, in 2008 the Bank of Algeria decided to limit its monetary growth rate to 27 per cent and credits to the economy to 15.3 per cent, but despite a slowdown at the start of the year, the average rate of inflation for the year was 4.4 per cent.

The Bank of Algeria continues to favour the managed floating exchange rate regime for the Algerian dinar, with the aim of ensuring the stability of the currency's real effective exchange rate (REER) in an international context characterised by highly volatile financial and foreign exchange markets. The appreciation of the Algerian dinar against the USD and the variation in the exchange rate between the dinar and the euro have led to the short-term consolidation of the national currency's REER, which was calculated at DZD 68 to the US dollar in the 2008 supplementary budget, up from DZD 72 to the US dollar in the initial budget.

Foreign exchange reserves, which reached USD 142 billion in December 2008, continue to be managed prudently. Since 2004, in order to better manage foreign exchange risk, the Bank of Algeria has combined diversifying its foreign exchange reserves with investment in less risky assets, such as US treasury bills. This policy, coupled with the stabilisation of the Algerian dollar's REER at its equilibrium level, has put the Bank of Algeria in a good position to deal with the turbulent international financial markets.

External Position

The average crude oil price of USD 99 per barrel in 2008 gave Algeria a current account surplus of USD 38.9 billion, compared to USD 30.2 billion in 2007. Exports of goods and services stood at USD 78.2 billion, with exports to the European Union (EU) accounting for USD 39.9 billion and exports to non-EU OECD economies accounting for USD 28.89 billion. Exports other than oil and gas remained marginal, amounting to USD 1.35 billion, and consisted mainly of intermediate products (USD 904 million), especially oil derivatives. Imports of USD 39.9 billion were a record, up from 33.9 billion in 2007; the main imports were capital equipment, intermediate products and food. Imports come mainly from OECD countries (nearly 82.6 per cent). France is the leading importer (USD 6.5 billion), followed by Italy (4.3 billion) and the United States (2.6 billion). Led by China, with nearly USD 4 billion in transactions, OECD non-members account for 18.19 per cent of trade. The volume of trade with other North African countries remains low, even though it increased in 2008 to USD 1.71 billion from USD 678 million in 2007. There was a substantial rise in trade with other Arab countries, from USD 1.1 billion in 2007 to 1.57 billion in 2008. The upgrading of public and private enterprises is expected to be accelerated to prepare them for the tough competition they will face when Algeria joins the Arab Free-Trade Area (AFTA) in 2009 and when full trade liberalisation with the EU occurs in 2012, and to prepare them for membership of the World Trade Organization (WTO), which is stalled on the issue of alignment of energy prices in the domestic market with world prices. The impact of the current crisis on demand for oil and gas is expected to cause a sharp fall in the trade surplus in 2009 to 11.3 per cent of GDP, down from 28.7 per cent in 2008.

The improvement in Algeria's external position since 2002 has made it possible to reduce Algeria's external debt to sustainable levels. Early repayments made in 2004 have led to a drastic reduction in external debt from USD 910 million at the end of 2007 to USD 460 million (0.27 per cent of GDP) in 2008. This policy has also enabled the country to replenish its reserves during the global credit crunch and prevent appreciation of its external debt and the negative consequences this would have on the state budget, taking into account the strong appreciation of the euro against the dollar. Significant foreign exchange reserves and a stable exchange rate have enabled Algeria to withstand external shocks better, but the economy remains vulnerable, since it is highly dependent upon oil and gas exports. Algeria must preserve the medium and long-term viability of its balance of payments by creating the conditions for a diversification of its economy and by controlling inflation. The capital balance continues to deteriorate as transfers abroad, chiefly from oil companies, which account for 80 per cent of such transfers, increased from USD 4.75 billion in 2005 to USD 7 billion in 2007. In 2008 these transfers are estimated at almost USD 8 billion.

Table 3 - **Current Account** (percentage of GDP at current prices)

	2000	2005	2006	2007	2008(e)	2009(p)	2010(p)
Trade balance	22.5	25.7	29.2	25.2	28.7	11.3	11.2
Exports of goods (f.o.b.)	39.5	45.0	47.0	44.6	47.0	32.7	32.6
Imports of goods (f.o.b.)	17.0	19.3	17.8	19.5	18.3	21.4	21.4
Services	-2.6	-2.2	-1.9	-3.0	-3.4	-5.4	-5.9
Factor income	-4.6	-4.9	-3.9	-1.4	-2.3	-2.0	0.0
Current transfers	1.4	2.0	1.4	1.6	1.4	1.7	1.6
Current account balance	**16.7**	**20.6**	**24.8**	**22.4**	**24.5**	**5.6**	**7.0**

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

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

Source: IMF.

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Structural Issues

Private Sector Development

To promote the growth outside oil and gas needed to reduce unemployment and poverty, the authorities must not only consolidate macroeconomic balances, but also pursue the structural reforms they have initiated to improve the business climate.

The private sector still has to work in a business environment that needs improvement. The 2008 *Doing Business* report published by the World Bank places the country 132nd in its Ease of Doing Business Index, seven places below its 2007 ranking. The difficulties in getting credit, the complexities of starting a business or enforcing contracts and the procedures for obtaining planning permission still affect the private sector, especially small and medium-sized enterprises (SMEs). In response to the problem of access to land for industrial use, which discourages investors, the authorities decided in 2008 to make public land available to industry through 99-year concessions awarded by the Agence nationale d'intermédiation et de régulation foncière (ANIREF), which organises transactions and sets prices. Governance and corruption problems continue to affect the business environment, in spite of anti-corruption legislation passed in 2006 and a system for the declaration of the assets of senior civil servants and the leaders of political parties.

Reform of the financial system is the cornerstone of the measures aimed at ensuring that the country benefits from its integration into the regional and global economy and at improving the business climate. Since 2004, the authorities have pursued reforms to improve bank governance, the holding to account of those running them, risk management and efficiency of their services. New bond issues have revitalised the country's financial market at the expense of a share market for which there is very little demand from businesses. There is not yet a market for commercial paper, which could compete with banks for the provision of short-term financing, which goes to the best clients who account for more than half of total lending. The authorities are putting the final touches to a legal and fiscal framework to promote this new financial instrument.

Other Recent Developments

The restructuring of public enterprises continues, in particular to improve their performance and make easier access to bank loans without the Treasury guaranteeing them. This restructuring involves improving the main financial ratios to make them comply with eligibility criteria for credit. This has already enabled banks to provide nearly 64 per cent of their lending to businesses, compared with only 14 per cent in 2005. Public banks remain the main provider of credits to public enterprises and their non-performing loans have often been repurchased by the Treasury, enabling the banks to remain solvent. Nevertheless the authorities are determined to prevent new unproductive loans from emerging by drastically limiting bank financing of non-viable public enterprises. To strengthen the financial structure of public banks, the authorities have decided to raise the minimum capital requirement from DZD 2.5 billion to DZD 10 billion. In 2009, they will also recapitalise public banks to the tune of DZD 50 billion to make them more active in financing industry and supporting SMEs. Furthermore, in 2009 the Banque algérienne de développement is due to be changed into an investment fund, the resources of which will be devoted to the promotion and implementation of investment projects.

No fewer than 407 major public enterprises out of 1 000 are due to be modernised with investment to renovate their production facilities. This investment aims to create national champions grouped around 13 large economic development companies outside the energy and banking sectors that can be opened up to private investors and that are based on existing bodies such as Saidal (pharmaceuticals), SNVI (automotive), Enie (electronics), Cosider (construction), Ferphos (phosphates) and Asmidal (fertilisers). This new industrial strategy is expected to get under way in 2009. Moreover, any future privatisation or creation of joint enterprises with foreigners will have to leave the Algerian partner with a majority share (at least 51 per cent). The authorities have also decided to exercise their pre-emption right on transfers of ownership of companies that have belonged to the state or involve public funds. In the field of privatisations, transfer of ownership to a local private operator has only occurred with 96 of the 417 public enterprises for which such transfers were planned. New rules have been introduced to encourage diversification of investment, improve the selection of new domestic and foreign investments and make them conform to the National Development Plan for 2010-14. The advantages afforded to investors should serve to direct capital towards projects and regions identified in the new strategy. The capital of public enterprises will be opened up in a way that will benefit foreign companies that take into account these investment selection criteria and associate with local private investors.

Large infrastructure projects benefiting from a USD 200 billion multi-year financing plan will be undertaken in the areas of road, rail, ports, seawater desalination, power stations, dams, housing, etc. The 1 216-kilometre east-west motorway will be opened in 2010, and the first metro line in Algiers (nine kilometres long) should be operational by September 2009. A USD 18 billion plan has been drawn up to rehabilitate existing railway infrastructure and open new east-west and north-south lines. The government plans to expand the rail network from 4 940 kilometres to 9 000 kilometres by 2014 and to increase the length of electrified lines from 350 kilometres to 1 200 kilometres by 2012 and 6 000 kilometres by 2025. The new deep-water port being built at Djen Djen, to be managed by the UAE-based company Dubai Ports World, and the expansion of the ports in Oran, Algiers and Béjaïa should increase the number of containers that can be handled by the country's ports. The public company Sonelgaz plans to build 9 500 kilometres of gas supply pipes between 2010 and 2014 in response to the projected domestic gas consumption of 31.2 billion m^3 in 2017, as against 19 billion m^3 in 2008. Sonelgaz also plans to generate 14 000 megawatts (MW) of electricity in 2010 (compared to 7 900 in 2007) to cover domestic demand, which is increasing by 7 per cent per year, and to export to the Mediterranean basin.

All action related to the management of natural resources and environmental protection is now conditional on a national development plan. Most efforts in this area focus on preserving water resources. Household connection rates to electricity and drinking water supplies increased from 78 per cent in 2000 to 92 per cent in 2007, while 47 sewage-treatment stations have been built and 450 sanitation projects have been implemented. Finally, 39 dams have been built since 1999, and eight new dams and six seawater desalination plants are expected to open in 2009.

Problems related to the management of property and financing of farms, which are holding back growth in agriculture and handicapping investment and innovation, led the authorities to pass a framework law on agriculture in 2008, which they put forward as a recovery strategy for the sector. Coupled with existing legislation on land ownership, this framework law will regulate the way private state land is managed by transferring it to the current farmers, who may form commercial companies. These companies may have shareholders, and banks may accept the companies' agricultural assets (land, produce, equipment) as collateral for operating or investment credits. Further, a new type of seasonal credit – the Rfig credit – was introduced in 2008, providing farmers with interest-free loans funded by the Ministry of Agriculture for the purchase of inputs.

Innovation and ICT

Algeria lags behind other countries in the area of new information and communication technologies (NICTs) in respect of Internet and broadband services, but mobile telecommunication services have made remarkable progress since the sector was opened up to competition in 2002. The authorities are aware of the gap with other countries and have created an NICT development programme called e-Algeria 2013.

The NICTs market represents only 3.38 per cent of GDP and employs 1.18 per cent of the active population. The mobile telecommunications sector is subject to strong competition, while the incumbent operator of fixed telephone services, Algérie Télécom, still holds a monopoly and is struggling to meet the ever-growing demand. According to the regulatory body for postal and telecommunications services in Algeria, the Agence de régulation des postes et des télécommunications (ARPT), in 2008 there were 3.1 million subscribers to fixed telephones and 27.5 million subscribers to mobile phones. This brings the total number of subscribers to 30.6 million, from 1.4 million in 2002, and the penetration rate up to 92 per cent (82 per cent for mobile phones and 10 per cent for fixed lines). The total turnover for the three mobile-phone operators in 2008 was DZD 200 billion.

The current legal and regulatory framework allows the development of fixed telephone services and Internet access, and the public operator plans to invest USD 2.5 billion between now and 2010 in order to increase the number of subscribers to fixed telephone services to 7 million and the number of subscribers to ADSL (Asymmetric Digital Subscriber Line) to 3 million (up from 190 000 ADSL subscribers in 2008). The public operator is working with a private operator to make wireless connections widely available and increase penetration in remote rural areas. Satellite GPRS (General Packet Radio Service) has been operational since 2005, and VSAT (Very Small Aperture Terminal) licences have been granted to private operators.

Private operators are active in the assembly of computer equipment, but customs duties remain high, thus delaying expansion. Annual sales of personal computers (PCs) have barely reached 200 000, and the penetration rate of computers in households remains low (1.06 per cent). PCs remain expensive and interest rates on consumer loans remain high (nearly 8 per cent). In spite of its previous failure the government is planning to relaunch the Ourastic scheme more effectively. This scheme, whose slogan is "a computer for every family", aims to enable households to connect to the Internet thanks to soft bank loans. Businesses and central government still do not have sufficient computer equipment and broadband connections.

Algérie Télécom dominates the fixed-line market, in spite of short-lived competition from the Egyptian-backed Consortium algérien des télécommunications (Lacom), which focused on the wireless local loop (WLL) system, but which recently ceased all operations because it did not have networks of its own. There are three mobile-phone operators: ATM, a subsidiary of Algérie Télécom operating under the trade name Mobilis since 1999 using GSM (Global System for Mobile communications) 900 technology ; OTA, a subsidiary of the Egyptian group Orascom Telecom Holding operating since 2002 under the commercial name Djezzy using GSM 900/1800 technology; and WTA (Wataniya Telecom Algérie), a subsidiary of the Kuwaiti group National Mobile Telecommunications Company operating under the commercial name Nedjma since 2004 using GSM 900/1800 technology.

Three operators share the VSAT market (Algérie Télécom Satellite [ATS], a subsidiary of Algérie Télécom; Divona Algérie, a subsidiary of Monaco Télécom; and Orascom Télécom Algérie), and three operators share the Global Mobile Personal Communications by Satellite services (GMPCS): ATS, Thuraya Satellite Algérie and France Télécom Mobile Satellite Communications Algérie. All technological platforms for access to telephone and Internet services are used: copper wire, ADSL, cable, land and submarine fibre-optic, GSM, and Code Division Multiple Access (CDMA), as well as networks such as WLLs, Worldwide Interoperability for Microwave Access (WiMAX) connections, Wireless Fidelity (Wi-Fi) networks and satellite networks with gateways.

The telephone operators are regulated by the ARPT and share the telecommunications infrastructure. The agency is responsible for the environmental and security aspects of the installation of transmission masts, which require authorisation. Algeria has submarine cables connecting it to the rest of the world, and there are plans for a fibre-optic link with Nigeria. Although Algeria's telecommunications market is effective and dynamic, it is not currently able to cover the whole of the country's territory.

Since 2004, a policy has been implemented to provide rural and poorer areas with access to NICTs. This policy embraces telecommunications, broadcasting and information technology. Broadband networks already enable ADSL operators to offer converged services. Legislation on postal services and telecommunications passed in 2000 defines universal service as providing the population with a minimum service consisting of a telephone service of a specific quality, the ability to make emergency calls, information services and a printed or electronic directory of subscribers. Operators must provide all users with a service that includes voice and data services from a fixed telephone or terminal throughout Algeria for local and interurban communication; access to Internet services, incoming national and international voice and data services; and free access to emergency and security calls. Other services that may be offered include services to non-geographic numbers, including calls that are free to the caller, shared-cost and shared-revenue services, image services, broadband services and voice and data services from the telecommunications network belonging to another Algerian operator aimed at the domestic or foreign market. The provision of these services does not give the right to financial compensation for the universal service.

As with other public services with a monopoly, it is difficult to make funding the universal service profitable. Regulators have therefore created a funding mechanism based on contributions by the licence-holding operators of 3 per cent of their annual turnover. The budget stipulates that the state must contribute only when ARPT funds for the universal service are insufficient.

The ARPT, which was established in 2000, is responsible for opening up the NICT sector to private investment, and it ensures that regulations on postal services and telecommunications are respected. The organisation is an independent institution with a legal identity and financial autonomy. Its director-general is appointed by the president of the republic. To ensure its independence, the authority has a board of governors and its own financial resources, including payment for the services it provides, licence fees, a percentage of fee payments for licences and the contribution made by operators to the universal service. The decisions made by the board can be the subject of appeal to the Conseil d'État (State Council). The ARPT ensures there is fair competition between NICT operators and that the licence conditions are implemented. Finally, it ensures that, while property rights are respected, the telecommunications infrastructure is shared. The ARPT is also responsible for the procedures for the allocation of establishment and operating licences and defines the rules on pricing for the services provided to the public.

Algérie Télécom has subsidiary firms for mobile-phone services (Mobilis), Internet services (Fawri), and VSAT and GMPCS services (ATS). The other operators, especially mobile-phone operators, are private companies with mainly foreign capital. Imported mobile phones (nearly 3.8 million units in 2008) are subject to customs duties and 17 per cent value-added tax (VAT), but many telephones are sold through the informal economy (40 per cent of the market), thus escaping any taxation. The prices set for fixed telephone services are based on the unit, and mobile-phone services are now charged per second. The operators receive their financing from their own resources and from loans, with both local and foreign investors among their shareholders.

The main cause of the poor development of fixed telephone services lies in the monopoly held by the public operator, which is unable to meet the growing demand. The now-defunct private operator Lacom was completely dependent upon the networks and infrastructure of the public operator. Healthy, regulated competition must be ensured to stimulate the sector, as has occurred with mobile-phone communications.

The private operators have been trying to introduce new services into the market, although these remain limited for the moment. The operator Djezzy, for example, has signed agreements with airlines operating in the country for the use of its mobile phone services on planes. The authorities aim to develop Internet and NICT services via television, with 95 per cent of households owning a television set. The only authorised ways of exchanging money are through the Algerian postal service and through Western Union, within the currency controls set by the Bank of Algeria. Mobile phones are now widely used for transactions between farmers, and the informal sector is run essentially through mobile phones, both for domestic and international transactions. In 2006, Algeria scored only 0.36 in the UN e-Government Readiness Index, and in 2007 it had just 0.8 Internet servers per million people. Education and research are beginning to develop and are now supported by six research programmes with 474 projects in mathematics, physics, space technology and microelectronics. The country has also launched a major programme for the creation of technopoles. In respect of vocational training, an intranet project set up in 2006 connected all training centres to each other and to the administration and offers e-learning services. Furthermore, 33 Cisco academies, developed in conjunction with the company Cisco, have been opened and offer training in new fields, such as networking. Software and computer-servicing companies and call centres have developed. Algeria has 26 call centres, 11 Audiotex service providers, 71 Internet service providers, 14 GPS firms, 11 providers of Voice over Internet Protocol (VoIP) services, five operators of postal services subject to the authorisation scheme and 23 subject only to declaration, and 6 000 Internet cafés.

Political Context

In November 2008, a special session of the Algerian parliament amended the provisions in the constitution limiting presidents to two terms of office, thereby authorising President Abdelaziz Bouteflika to stand for a third term in the presidential election on 9 April 2009. According to official figures, President Bouteflika was elected with 90 per cent of the vote and voter turnout was 74 per cent. Another noteworthy event in 2008 was the replacement of the prime minister and secretary-general of the largest party in parliament, the National Liberation Front (FLN), by Ahmed Ouyahia, secretary-general of the second-largest party, the National Rally for Democracy (RND).

Social Context and Human Resources Development

Algeria is performing well in providing access to basic education. According to national sources, the gross enrolment rate for compulsory primary education (6-12 year olds) reached 111 per cent in 2008 (114 per cent for boys and 106 per cent for girls), up from 96.01 per cent in 2005. The gender parity index, which measures relative enrolment of girls and boys, currently stands at 0.93. In secondary education there are more girls than boys, since the primary school dropout rate is 10.3 per cent for boys but only 7.8 per cent for girls and the repetition rate is 14.4 per cent for boys but only 9.2 per cent for girls. The gross enrolment rate in secondary education reached nearly 83 per cent in 2008. The rate for boys was 80 per cent, while that for girls was 86 per cent; the gender parity index was 1.08 per cent. In higher education, the enrolment rate remained at 21.8 per cent in 2008. Nevertheless, there was an improvement in the enrolment rate for boys from 18.4 per cent in 2007 to 19.4 per cent, while for girls the rate decreased from 25.3 per cent to 24.4 per cent. Despite the improvements, the overall performances for the education system as a whole remain poor given the level of public expenditure allocated to the sector, the second largest recipient of government funds. The dropout and repetition rates remain relatively high at all levels of education, especially in higher education, where there is a mismatch between graduate numbers and the labour market. The literacy rate was estimated at 75 per cent in 2008 (84 per cent for men and 66 per cent for women).

The health system is making progress, but it still has to deal with chronic and infectious diseases linked to underdevelopment. There has been consistent improvement in calorie intake, hygiene (water and sanitation), education (especially among girls), incomes, housing, and access to basic health care for nearly 98 per cent of the population, The introduction of free health care for mothers and children, the expanded vaccination programme, birth spacing and the fight against HIV/AIDS and tuberculosis have also helped improve public health. Other positive measures resulting from the national health programmes include health insurance covering 80 per cent of the population, free health care for people on low incomes, an expanded network of healthcare centres and pharmacists and the monitoring of the quality and price of medicines. In terms of health infrastructure, Algeria has 185 regional health agencies, 13 CHUs (university hospital centres) and various specialist hospitals. Life expectancy at birth rose from 67.3 years in 1995 to 75.7 years in 2006, giving the country one of the highest levels in the region. The infant mortality rate has improved considerably, having fallen from 36.9 to 26.9 deaths per 1 000 live births between 2000 and 2006. The child mortality rate has also improved considerably, having fallen from 43 to 31.41 deaths per 1 000 children between 2000 and 2006. Algeria is expected to meet all the health-related Millennium Development Goals (MDGs) by 2015, except for maternal mortality, which despite falling slightly, because of an increase in assisted births, remains high (92.6 deaths per 100 000 live births in 2006). HIV/AIDS prevalence remains low, at just 0.1 per cent, and there are around 60 voluntary screening centres and 1 500 screening and monitoring units throughout the country. There are also seven regional treatment centres for AIDS, and five more were expected to open by the end of 2008. Nevertheless, primary health care centres are still not used efficiently, and the care provided is less than optimal. The maintenance and servicing of health infrastructure and equipment still leave much to be desired, even though the skills of the medical and paramedical staff are constantly improving. Although there is still insufficient regulation, private health care is increasing, but it is not yet able to respond to the growing demand, particularly in terms of quality and safety.

According to indicators on life expectancy, education, access to water, access to financial services and access to health care, Algeria's human poverty index (HPI) has fallen from 24.67 per cent of the population in 1998 to 18.95 per cent in 2006, representing an improvement of 5.72 percentage points.

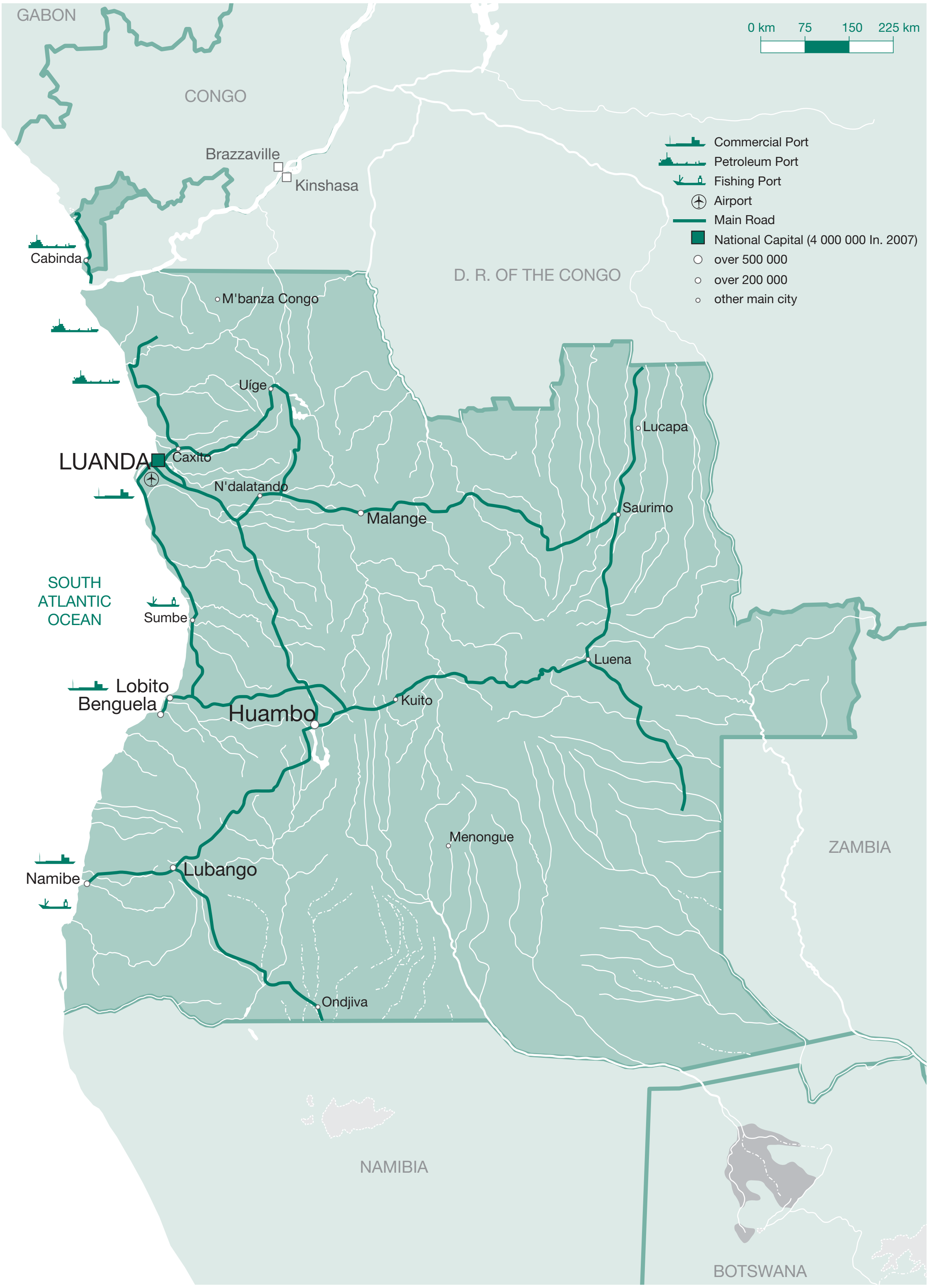
Although the various economic recovery and development programmes substantially reduced unemployment from 27 per cent to 11.8 per cent of the active population between 2001 and 2008, Algeria still has one of the highest rates of unemployment in the MENA (Middle East and North Africa) region. Furthermore, the method used to calculate the figure is questionable, since its employment statistics include workers from the informal sector, as well as apprentices and other people with temporary contracts. The national training system is in many areas not adapted to the labour market, and unemployment is higher among graduates. Unemployment among young people remains a concern: 30 per cent are out of work, and nearly 72 per cent of unemployed people in Algeria are below 30 years of age.

Angola

key figures

- Land area, thousands of km²: 1 247
- Population, thousands (2008): 18 021
- GDP per capita, PPP valuation, USD (2008): 5 467
- Life expectancy (2008): 47.1
- Illiteracy rate (2008): n.a.

Angola


GABON
CONGO
Brazzaville
Kinshasa
D. R. OF THE CONGO
0 km
75
150
225 km
Commercial Port
Petroleum Port
Fishing Port
Airport
Main Road
National Capital (4 000 000 In. 2007)
over 500 000
over 200 000
other main city
Cabinda
M'banza Congo
Uíge
LUANDA
Caxito
N'dalatando
Malange
Lucapa
Saurimo
SOUTH
ATLANTIC
OCEAN
Sumbe
Lobito
Benguela
Huambo
Kuito
Luena
Menongue
Namibe
Lubango
Ondjiva
ZAMBIA
NAMIBIA
BOTSWANA

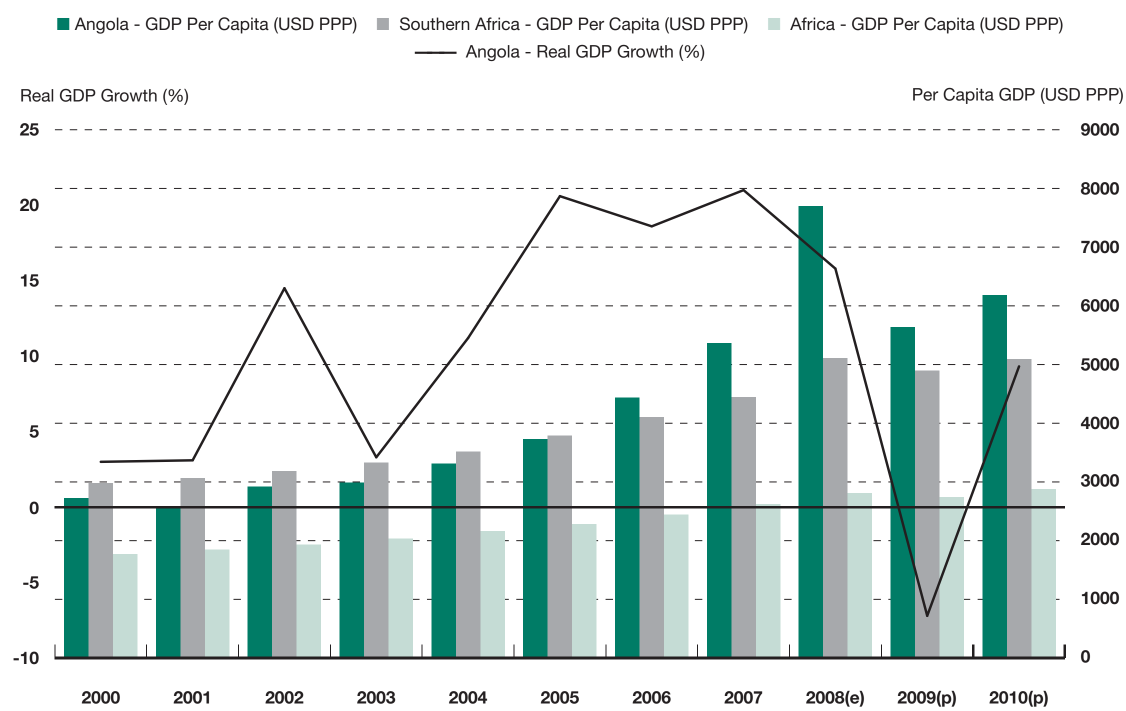
WITH GROWTH AVERAGING 20 PER CENT over the last three years, Angola ranks among the fastest-growing economies in the world. The growth rate slowed to an estimated 15.8 per cent in 2008 and is expected to turn negative in 2009 before rebounding in 2010. After 27 years of civil war, reconstruction is proceeding, largely financed by oil revenues, which have been developed through foreign investment by the major oil companies. Due to rising food prices, inflation increased to 13.2 per cent in 2008 but is expected to diminish as world commodity prices decline and domestic demand falls off. A technical accident lowered oil output in 2008. The fall in oil prices and the reduction of the production quotas of the Organisation of the Petroleum Exporting Countries (OPEC) will dampen growth in 2009.

Although Angola is still extremely dependent on oil, the non-oil sector has recently been showing a new dynamism, especially in agriculture, construction and services. Diversification is still hampered by weaknesses in infrastructure and the business climate, however.

The collapse of oil prices poses a threat to the economic boom and reconstruction effort.

Macroeconomic policies have remained prudent, for the most part. Taking advantage of its victory in September's elections, the ruling party is pursuing deep institutional reforms, including the creation of a new Ministry of Economy, rationalisation of public enterprises and fiscal decentralisation to municipalities.

Figure 1 - **Real GDP Growth and Per Capita GDP**
(USD/PPP at current prices)



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

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The economic boom is also generating a chaotic development process, however, giving rise to inefficiencies and co-ordination problems that are exacerbated by severe capacity shortages at all levels. Until recently, this confusion was perceived as a harmless symptom of rapid growth, but it is now clear that greater control must be exercised over project selection and implementation. The recent collapse of oil prices poses a threat to the sustainability of the boom. Indeed, in order to preserve fiscal balance and limit foreign borrowing, the government plans to review expenditure for 2009, slowing the reconstruction efforts.

While per capita income has been increasing, especially in metropolitan areas, life remains difficult for the majority of Angolans, with pervasive poverty and unemployment. Although political stability has improved, corruption remains endemic. Improvements in the business climate are needed to foster sustainable growth and employment creation through greater diversification and productivity improvements.

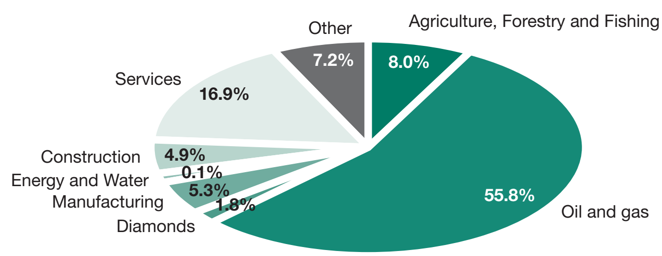
Recent Economic Developments

Angola has one of the world's highest growth rates and the third-largest economy in sub-Saharan Africa, after South Africa and Nigeria. In 2008, growth slowed to 15.8 per cent, down from 20.4 per cent in 2007, and is expected to turn negative (-7.2 per cent) in 2009 before rebounding to 9.3 per cent in 2010.

Until recently, the non-oil sector's share of GDP had been edging up, mainly driven by agriculture, construction and services. In 2007, however, oil still represented almost 56 per cent of GDP. With annual average growth of 17.4 per cent in oil output between 2003 and 2007, Angola is Africa's second-largest oil producer, after Nigeria. In 2008, production is estimated to have increased by 10 per cent to slightly under 1.9 million barrels per day (b/d), despite an accident that reduced production by 210 000 b/d in September and October. Production is concentrated in offshore oil fields in Cabinda province, controlled jointly by the Angolan state-owned oil company Sonangol and by foreign multinationals, notably United States-based ChevronTexaco and ExxonMobil, France's Total, the United Kingdom's (UK) BP, the UK/Dutch Shell and Italy's Agip/Eni. Total proven reserves in 2007 were 9 billion barrels, 0.72 per cent of the world total. Sonangol controls 41 per cent of reserves and has a monopoly on refining and distribution in Angola.

Boosted by exceptionally high oil prices, investment has flooded into the country's oil sector in recent years, reviving exploration and drilling projects whose profitability was poor in times of lower prices. Fuelled by a prospecting success rate of 80 per cent, the oil boom allowed Angola to expand its extractive capacity, and very deep-water oil fields are expected to become operational starting in 2010, substituting for older fields. Production potential will reach 2.55 million b/d by 2012, making the country the largest oil producer

Figure 2 - **GDP by Sector in 2007** (percentage)



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

StatLink http://dx.doi.org/10.1787/571137408833

in Africa. A new mining code aiming at attracting more investment is expected in 2009.

The current international financial crisis threatens Angola's oil-driven investment boom, as world oil prices fall and financing for new projects becomes more difficult to obtain. In addition, Angola's OPEC production quota was cut twice. Angola is likely to honour its OPEC commitments, particularly since it assumed the presidency of the cartel in 2009, and growth in the oil sector is expected to be negative for the year.

Proven natural gas reserves are estimated at 270 million cubic metres, enough to maintain production over the next 30 years. Production is managed by the Liquefied Natural Gas Consortium, owned by Sonagas (22.8 per cent), Chevron (36.4 per cent), Eni (13.6 per cent), Total (13.6 per cent) and BP (13.6 per cent). A liquefied natural gas (LNG) plant is under construction and scheduled for completion in 2012. LNG projects are expected to increase employment in the oil and gas sector, which at present directly employs only 10 000 people.

After two years of almost 26 per cent growth, non-oil output slowed to 18.6 per cent growth in 2008, mainly due to difficulties in importing the intermediate and capital goods needed for reconstruction projects. These difficulties are attributable to infrastructure capacity constraints, particularly in the port of Luanda.

The diamond sector, decimated by years of war, is still struggling to recover, but has significant potential. Launched in 2005, the Luo diamond-mining project will be able to process 6 to 7 million tonnes of rock per year, making it one of the ten largest diamond mines in the world. The project is expected to require investment of 400 million US dollars (USD) and create 1 200 jobs. A pilot factory with a capacity to process up to 1 million tonnes of rock a year is now in operation. State-owned Endiama, which has the monopoly over diamond production, produced some 7 million carats in the first three quarters of 2008 (a 5.5 per cent increase over the previous year), mostly from informally mined diamonds. Growth of 10 per cent is expected in 2009, boosted by new discoveries, but previous projections have often proven overly optimistic. Diamond polishing and cutting activities have been attracting more investment since Endiama launched the Angola Polishing Diamonds Factory in 2005.

Agriculture accounts for 50 per cent of total employment. Prior to the civil war, Angola had one of the most productive agricultural sectors in Africa, thanks to its fertile soil. As the devastating legacy of the war is gradually effaced, agriculture is experiencing a revival, although it still accounts for just 8 per cent of GDP. Cultivated and irrigated areas are increasing and productivity rising as land mines are cleared, access to inputs improves and many former smallholders return. Investment in commercial farming is also increasing, especially in the provinces of Kwanza Norte, Kwanza Sul, Benguela and Huila. There are a growing number of farmers' associations and co-operatives, particularly in livestock raising and fruit growing.

As a result of the above factors as well as favourable climatic conditions, agricultural production increased by 28 per cent in 2007/08, after a 27.4 per cent increase in 2006/07. As in the previous year, cereal production grew 17 per cent in 2007/08 and is expected to accelerate to 30 per cent growth in 2008/09. For the second consecutive year, coffee production increased by 130 per cent in 2007/08, seemingly fuelled by the sharp rise in world prices. Surprisingly, however, exports and domestic processing stagnated. In 2008/09, coffee production is expected to increase by a further 30 per cent, while public investment to revamp the sector will total USD 150 million over the next four years.

Despite these improvements, the threat of food insecurity persists, with the deficit in domestic cereal production approaching 50 per cent. As in many other African countries hit by the 2007-08 food price shock, agriculture has recently benefited from renewed attention from the government. The Medium-Term Agriculture Development Programme for 2009-13, with a budget of USD 400 million, aims to reduce the country's dependence on imports through *i)* improved extension services and other support to small-holder farming, *ii)* fostering of agribusiness and *iii)* infrastructure rehabilitation. In 2008, the government approved a USD 270 million credit to support purchases of farm equipment for family farms, associations and co-operatives, in line with the Extension and Rural Development Programme started in 2006. It also extended the Aldeia Nova horticulture project, with technical assistance from Israel, and planned to increase irrigated land by 52 000 hectares in 2009.

Several agro-industrial projects were also launched, based on public-private partnerships. Most of these are focused on biofuel production. The Kapanda agro-industrial centre, located close to the Omonime dam to ensure cheap access to energy and water, has developed an area of 443 000 hectares to produce sugarcane for bio-ethanol production (Biocom project), with technical assistance from a Brazilian firm. The Biocom project is financed by USD 370 million from the government and USD 700 million from private investors. Other projects are to be launched in the interior of the country, aiming to counterbalance the greater agricultural development of coastal areas.

In addition to the legacy of the civil war and climatic hazards, agricultural development is hampered by pests, lack of access to credit, inadequate management and technical skills, and opaque land tenure legislation. The government's selection of priority crops – i.e. those eligible for public support – is controversial because it is not based on an in-depth evaluation of the country's farming characteristics and needs, and because the selection process could be politicised. Moreover, the government has been criticised for not focusing enough on smallholder farming. In 2009 it will begin setting price floors for agricultural products to decrease the volatility of smallholder incomes. In 2008 the Development Bank of Angola, in partnership with commercial banks, extended loans to several private agricultural projects, although the amounts were limited due to the poor quality of project applications and lack of collateral. A new Land Law was passed in 2007, but the regulatory framework for its implementation is still under preparation.

The manufacturing sector contributed only 5.3 per cent of GDP in 2007, with food and beverages accounting for 85.6 per cent of sector output. The government undertook several industrial projects to stimulate manufacturing activity, including the Viana Special Economic Zone, where 11 out of 70 factories are already active, including a new Nissan vehicle assembly factory. Other industrial zones are located at Futila, Catumbela, Caàla and Matala. Manufacturing production increased by 11.7 per cent in 2008.

After growing by 37 per cent in 2007, construction slowed in 2008 to growth of 10.6 per cent, mainly due to difficulties in retrieving imported capital goods in the congested port of Luanda. In contrast to the last few years, when the sector's growth was driven by construction and rehabilitation of infrastructure and non-residential construction in Luanda, residential projects are gaining momentum. In 2008 a new plan was launched to build 1 million houses for lower-income people in the main urban centres. A Chinese firm has been given a USD 3.5 billion contract to build 20 000 apartments, 246 shops, 24 kindergartens and 17 schools in the outskirts of Luanda. Public investment is expected to remain strong, owing to the 2010 African football cup, the development of the Fortaleza and Bela shopping malls, and the Luanda Bay project. A deficit of 5 000 beds is boosting hotel construction, and 39 new hotels are anticipated as part of the 2009-13 Tourist Sector Development Programme.

The dynamism of the construction sector resulted in shortages of cement, despite plans for several new cement plants. Cement production suffers from lack of competition. In addition to the now-operational Nova Cimangola plant in Cacuaco (Luanda), new projects include two new factories in Lobito slated to open by 2010, a new factory in Cuara District (Kwanza Sul province) and a USD 200 million Angolan-Brazilian project with the capacity to produce 1.2 million tonnes of cement, enough to meet 25 per cent of the country's annual needs.

After the Chinese government withdrew from the Lobito petroleum refinery project (Sonaref), Sonagol signed two agreements with Kellogg Brown and Root International to design and develop the project. Sonaref, expected to be fully operational by 2013, is intended

Table 1 – **Demand Composition**

	Percentage of GDP (current prices)		Percentage changes, volume			Contribution to real GDP growth		
	2000	2007	2008(e)	2009(p)	2010(p)	2008(e)	2009(p)	2010(p)
Gross capital formation	**13.0**	**13.9**	**48.2**	**-34.1**	**6.0**	**9.0**	**-8.1**	**1.0**
Public	6.3	11.6	55.0	-40.0	5.0	8.6	-8.4	0.7
Private	6.7	2.2	13.0	8.0	10.0	0.4	0.2	0.3
Consumption	**54.0**	**53.8**	**17.7**	**7.1**	**7.3**	**12.7**	**5.2**	**6.2**
Public	37.9	21.2	35.5	5.0	7.0	6.1	1.0	1.6
Private	16.0	32.6	12.0	8.0	7.5	6.6	4.2	4.6
External demand	**33.0**	**32.4**				**-5.9**	**-4.3**	**2.1**
Exports	91.8	71.3	10.2	-4.4	5.8	9.5	-3.9	5.3
Imports	-58.8	-39.0	18.4	0.5	3.4	-15.4	-0.4	-3.2
Real GDP growth						**15.8**	**-7.2**	**9.3**

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

StatLink http://dx.doi.org/10.1787/575434560464

to reduce Angola's dependence on fuel imports. Funding has not been found.

The services sector has also been increasingly dynamic, accounting for 17 per cent of GDP in 2007. The most important sub-sectors are tourism, real estate, financial services and, lately, retailing and commerce. The Restructuring the Systems of Logistics and Distribution of Essential Goods to the Population Programme (PRESLID), launched by the government in 2007, aims at developing the retail distribution chain in order to reduce food prices. It calls for the construction of 10 000 *lojas de proximidade* (retail shops), 163 municipal markets, 31 NossoSuper supermarkets and eight warehouses, with a public investment contribution of USD 1.7 billion through 2012. By end 2008, 25 supermarkets were opened, two warehouses built (one of which is operational) and 4 000 people employed. Despite the big construction effort, the impact of this project might be limited because little attention has been given to transport logistics and costs, especially in remote provinces.

While private consumption remained the leading proximate driver of recent growth, thanks to rising disposable income (especially in urban areas), public investment in infrastructure has played an important underlying role, as it rose by an estimated 55 per cent in 2008. Public consumption also grew strongly, at an estimated rate of 35.5 per cent in 2008. The sharp fall in oil revenues in 2009 will lead to an abrupt reduction of public investment and a slowdown in current government spending. Exports are also expected to fall in 2009, further contributing to the sharp decline in economic activity. Private consumption should continue to rise in 2009 and 2010, although at a slower rate than in 2008. Private investment, consisting mostly of foreign direct investment (FDI) in the mineral sector, is also expected to remain relatively buoyant in 2009 and 2010. A return to positive growth is expected in 2010 as government spending and exports recover.

Macroeconomic Policies

Fiscal Policy

The increase in oil prices for most of the year led to increased revenues. Oil accounts for close to 90 per cent of total government revenue. Non-oil revenue increased as well, thanks to a larger tax base and improvements in tax collection, linked to the reform in customs duty collection. As a result, fiscal revenues accounted for 47.2 per cent of GDP, up from 45.1 per

Table 2 - **Public Finances** (percentage of GDP at current prices)

	2000	2005	2006	2007	2008(e)	2009(p)	2010(p)
Total revenue and grants[a]	**52.5**	**40.7**	**46.4**	**45.1**	**47.2**	**36.8**	**36.2**
Tax revenue	4.7	6.1	5.8	6.2	6.2	8.2	7.5
Oil revenue	45.3	33.2	38.0	37.4	41.0	28.5	28.6
Total expenditure and net lending[a]	**60.3**	**32.2**	**35.5**	**34.0**	**36.4**	**45.5**	**43.1**
Current expenditure	53.1	27.2	23.5	22.7	22.2	34.8	33.2
Excluding interest	*46.2*	*25.2*	*22.0*	*21.6*	*22.0*	*34.6*	*33.0*
Wages and salaries	5.9	9.2	8.6	7.7	8.2	13.7	13.4
Interest	6.9	2.0	1.5	1.1	0.2	0.3	0.2
Capital expenditure	6.3	5.0	12.0	11.3	13.2	10.6	9.9
Primary balance	**-0.9**	**10.5**	**12.4**	**12.2**	**11.1**	**-8.4**	**-6.7**
Overall balance	**-7.8**	**8.5**	**10.9**	**11.2**	**10.8**	**-8.7**	**-6.9**

a. Only major items are reported.
Source: Ministry of Finance data; estimates (e) and projections (p) based on authors' calculations.

StatLink http://dx.doi.org/10.1787/576522420511

cent in 2007. With expenditures increasing to 36.4 per cent of GDP, the budget surplus decreased to 10.8 per cent of GDP (11.2 per cent in 2007).

The mid-year budget revision raised expenditure by USD 35.5 billion, a 56 per cent increase with respect to the original budget law, in part to bolster support for the government in the legislative elections. Current expenditure shot up 50 per cent due to increases in food and fuel subsidies (aimed at stabilising domestic prices in a context of rising world prices) and to new recruitment and wage adjustment in the public sector. Public investment in infrastructure rehabilitation, social sectors, water and sanitation, and education also rose dramatically. Expenditure in the social sectors amounted to 31.6 per cent of total spending, down from 36.4 per cent in 2007. A large share of expenditure is still devoted to defence and security (14.6 per cent in 2008).

Overall, the budget execution rate improved dramatically, reaching 84 per cent in 2008, although it remains rather poor where investment is concerned. The improvement was achieved thanks to the fiscal decentralisation process launched in 2008 in 68 municipalities. This process was implemented simultaneously with the progressive roll-out of two integrated software systems for management of current expenditure (*Sistema Integrado de Gestão Financeira do Estado* – SIGFE) and public investment (*Sistema Integrado de Gestão Financeira do Investimento Pùblico* – SIGIP), which allow real-time recording and transmission of budget execution in decentralised budgetary units. Despite the encouraging results obtained in terms of improved transparency and a higher current expenditure execution rate, there are persistent compatibility problems between the two systems, coupled with capacity shortages. The government is addressing this problem by organising training sessions. The decentralisation process will be extended to all 168 municipalities in 2009.

The 2009 budget law approved in December 2008 set the reference price of oil at USD 55 per barrel, the same level as in the previous year, and plans huge increases in expenditure. However, the budget is likely to undergo substantial revision at the end of the first quarter, as the government has realistically lowered the reference oil price to USD 35. Current expenditure is likely to be maintained, but investment will be drastically reduced. With nominal GDP decreasing by almost 30 per cent and oil revenue by 50 per cent, the budget will show a substantial deficit in 2009 and 2010.

In order to strengthen its planning capacity, the government has decided to create a new Ministry of Economy to co-ordinate the economic ministries, including planning and finance, and the central bank. The government is also drawing up its first medium-term expenditure framework for 2009-13 to replace the biannual investment plan. At the time of writing, however, the document had not been officially released.

Monetary Policy

In 2008 inflation rose to 13.2 per cent (11.8 per cent in 2007), reversing the downward trend started at the beginning of the decade and exceeding the government target of 10 per cent. Inflation was driven by dramatic run-ups in world oil and food prices in the first half of the year and by booming domestic demand.

In 2007 the central bank raised the rediscount rate and the compulsory reserve requirement, with reserves now entirely held as deposits at the central bank; no major changes have been made since then. The central bank, in conjunction with the finance ministry, maintained a "strong kwanza" policy, involving intervention in the foreign exchange market to keep the currency stable against the US dollar and sterilisation of the resulting changes in the money supply. In 2008, aggressive interventions in the exchange market helped to keep the nominal exchange rate against the dollar almost unchanged at AOA 75 (Angolan Kwanza), but sterilisation proved infeasible. The monetary base therefore increased by over 60 per cent in the first nine months of 2008, as against 49.6 per cent in 2007. The steady nominal exchange rate against the dollar implied significant real appreciation of the kwanza due to Angola's relatively high inflation and the strength of the dollar against other currencies in 2008.

In 2009, inflationary pressures are expected to ease as the economy slows, international food prices fall back and the kwanza stays stable against the strong dollar, which should hold down prices of imports from Europe. The inflation target for 2009, unchanged at 10 per cent, seems achievable. However, efforts to reduce inflation might be hampered by the possible devaluation of the Kwanza and the risk of monetisation of the fiscal deficit.

The dollarisation rate continued to decline at a slow pace. Bank deposits denominated in domestic currency grew faster than foreign currency deposits, reflecting stronger confidence in the kwanza as well as a high interest rate differential.

External Position

In 2008, oil and diamonds accounted for an overwhelming 99.5 per cent of total merchandise exports, as non-mineral exports suffered from the loss of competitiveness linked to the real appreciation of the kwanza.

The high level of oil prices in the first ten months of the year more than offset increased imports of capital and intermediate goods and rising prices of food imports, resulting in a trade surplus of 47.4 per cent of GDP and a current account surplus of 12.9 per cent of GDP. In 2009 and 2010, the trade balance is expected to fall precipitously, in line with the steep decline in world oil prices and the cutbacks in oil production mandated by OPEC, and will no longer compensate for the large negative balances in factor income and services, resulting in current account deficits. The high services deficit reflects the need to import services related to the oil industry, while the negative balance on the factor income account is largely due to repatriated earnings of foreign oil companies.

Since 2007, China has become the major importer of Angolan oil, followed by the United States. Between January and September 2008, trade with China reached USD 20.8 billion, up from USD 11 billion in 2007, making Angola China's most important African trade partner. Lusophone countries, particularly Portugal and Brazil, remain very active in infrastructure construction and, more recently, biofuels.

Angola is a member of the Southern African Development Community and the Economic Community of Central African States.

Although Angola is the second-largest recipient of FDI inflows in Africa, net flows decreased by 15 per cent in 2007, due to progressive "Angolanisation" of firms. Examples include the acquisition of Nova Cimangola by the Angolan company Ciminveste and Novo Banco by state-owned Banco Africano de

Table 3 - **Current Account** (percentage of GDP at current prices)

	2000	2005	2006	2007	2008(e)	2009(p)	2010(p)
Trade balance	54.7	51.4	51.8	47.5	47.4	22.4	24.6
Exports of goods (f.o.b.)	88.8	78.7	73.0	70.8	66.1	45.5	45.6
Imports of goods (f.o.b.)	34.1	27.3	21.2	23.4	18.7	23.1	21.0
Services	-27.3	-21.6	-13.5	-14.9	-12.0	-15.7	-14.1
Factor income	-18.8	-13.2	-12.2	-20.8	-22.4	-14.6	-17.2
Current transfers	0.3	0.1	-0.3	-0.3	-0.2	-0.2	-0.3
Current account balance	**8.9**	**16.8**	**25.8**	**11.5**	**12.9**	**-8.1**	**-7.0**

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

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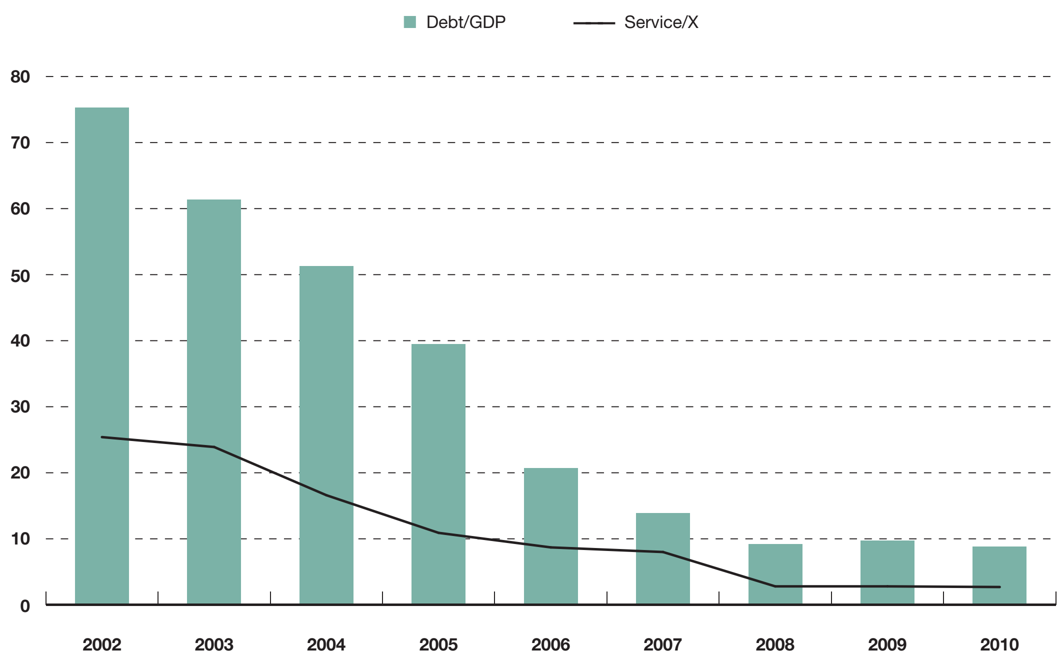
Investimentos, the sale of TotalFina's stake in the Luanda refinery to Sonangol and the acquisition of 49.9 per cent of Banco Millennium Angola's shares by Sonangol and Banco Privado Atlântico. Inward flows in 2008 included considerable investments by Escom (Portugal) and Odebrecht (Brazil).

The 2008 current account surplus translated into a substantial surplus in the overall balance of payments, allowing the central bank to accumulate USD 18 billion in reserves (USD 11 billion in 2007), or seven months' coverage of goods imports. Reserve accumulation stopped in August 2008, however, as the current account deteriorated sharply.

Despite a low level of reserves relative to other oil economies, Angola decided to create its own sovereign wealth fund. Two funds for saving revenues from mineral exports already exist in the country: the National Treasury Reserves Fund, which sets aside surplus oil

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



Source: IMF.

StatLink http://dx.doi.org/10.1787/572884876038

revenue when prices exceed the reference price; and the Development Fund, which channels 5 per cent of oil revenue and 2 per cent of diamond revenue into private sector economic projects. The creation of a sovereign wealth fund is of questionable usefulness, considering the existence of these other two funds, the prospect of lower oil prices and the opacity that still reigns in certain areas of public fund management.

After reaching an agreement last year with Paris Club creditors and scheduling payments of arrears over the 2008-10 period, Angola has supposedly paved the way for new credit lines from Portugal, Germany and Spain to finance the ambitious increase in public spending. However, the current international recession and credit crunch might reduce lending. The government's plan to increase external financing seven-fold in 2009, bringing total public external debt to 17.5 per cent of GDP (up from 12 per cent of GDP in 2008), may therefore not be realistic.

Structural Issues

Private Sector Development

A narrow elite connected to the ruling party dominates the private sector in Angola, and its influence adversely affects the business climate. The World Bank's 2008 *Doing Business* report ranks Angola 168th out of 181 countries, up only one place from 2007, indicating that the business environment and economic governance remain dismal. The creation of a one-stop shop lowered the time required to start a business, but on the whole, procedures remain complex and costly compared to neighbouring countries. The business environment also suffers from lack of access to credit, rigid labour regulations, difficulties in registering property and poor investment protection. A new commission was created to suggest improvements in investment regulations. Leading sectors of the economy remain controlled by monopolies or quasi-monopolies. A new public procurement law is being drafted.

The banking sector in Angola has grown dramatically in recent years. The global financial crisis notwithstanding, in 2008 deposits and loans in Angola expanded by 45 and 83 per cent respectively. Nevertheless, the Angolan banking system remains embryonic, with less than 10 per cent of the population having bank accounts.

Despite the relative isolation of the banking system, there is a risk that the international credit crunch will have an impact through liquidity restrictions imposed by the headquarters of foreign-owned banks, influencing credit delivery. At the time of writing, however, this risk had not materialised. Although the total number of banks in Angola rose to 18, the system is dominated by only three banks, two of which are state-owned. In 2008, the private telecommunications company Unitel acquired 49.9 per cent of Banco do Fomento de Angola, once fully owned by the Portuguese BPI.

Angolan banks are sound and well capitalised. Nevertheless, some improvements are needed in risk assessment and management, and real estate loans may be vulnerable to a collapse of the real estate boom in Luanda. Banks are becoming more cautious and demanding higher collateral. The opening of the Luanda Stock Exchange was delayed and is now expected for 2009.

Other Recent Developments

In 2008 Angola intensified its structural reform efforts, capitalising on economic growth to advance infrastructure development and public sector restructuring, including decentralisation of budget execution. However, the multiplicity of these government actions is generating confusion and inefficiencies, mainly due to profound skill shortages. Several investment projects have been interrupted, and international liquidity constraints might lead to further delays. Moreover, high oil revenues have enabled the government to postpone reforms in other important areas such as the judicial system, public procurement laws, the democratisation of credit access and corruption.

The Secretaria de Estado, created in 2007, is responsible for public sector reforms. The objectives of halving the number of state-owned enterprises (SOEs) and privatising over 100 companies by 2009 have run into delays owing to elections and administrative hurdles. The state will remain the majority shareholder in strategic sectors, while promoting public-private partnerships. A diagnostic analysis of SOEs, started in 2007 and slated to finish in 2008, assessed only 91 out of 500 such firms. As a result, considerable uncertainty still surrounds the privatisation programme. Responsibility for divestiture could shift to the new Ministry of Economy, and the Secretaria de Estado may be closed.

The electricity sector is to be restructured by 2013. According to the reform, the national power company ENE will undergo internal restructuring and lose its monopoly over the production, distribution and commercialisation of electricity in favour of new private operators.

Reform is also under way in budget administration, the goals being enhanced transparency and decentralisation to local communities. The collection and use of oil revenues have traditionally been surrounded by a high degree of opacity, and Angola is merely an observer in the Extractive Industries Transparency Initiative. Reporting and auditing have improved recently, however, with regular publication of oil and diamond production and revenue data, as well as independent audits of Sonangol's balance sheet. Sonangol is undergoing institutional reform that should result in separation of its commercial oil business from its activity as concessionaire, but it remains very powerful and autonomous.

Angola has made impressive progress in rehabilitating its transport infrastructure. This effort has mainly been financed with public funds, although development partners, notably China and Brazil, have made significant contributions. Road rehabilitation centred on roads connecting the main urban centres and on the roads around Luanda. The enlargement of the highly congested "Marginal" coastal road was stopped in 2008 due to financing problems, making traffic even more difficult, especially during the rainy season. Rail rehabilitation focused initially on domestic connections, but work on international corridors with Zambia, the Republic of Congo and Namibia is slated for 2010.

The port of Luanda is a major constraint on growth of non-oil sectors, with an average of 45 days required to dock and three months to get a container out of the port. A USD 35 million contract was signed in 2007 with Maersk for rehabilitation of the existing port and the creation of a new deep-water port, but the project has been delayed and the backlog at the port worsened during the year.

Expansion of airports is under way, with a budget of USD 400 million. Luanda's airport capacity will rise from 1.6 to 3.6 million passengers by 2009, and a new international airport is to be built by 2010 by a Chinese firm. Angola's national airline TAAG remains on the European Union's blacklist and has not been allowed to fly over Europe since July 2007 due to poor safety standards. However, the first direct flights to and from Beijing were established in 2008.

Only 20 per cent of the population has access to electric power. Hydroelectric facilities generate around two-thirds of Angola's electricity, the remainder coming from conventional thermal sources such as diesel generators. In north-eastern Angola, the four-turbine Chicapa hydroelectric dam (16 MW capacity) on the Tchicapa River, built by a Russian company, began operations in March 2009. Chicapa-2 will be operational by 2010. Odebrecht, a Brazilian construction company, completed the first phase of a hydroelectric plant at Capanda on the Kwanza River. In 2007 Russian-based Technopromexport installed the second phase (260 MW). The Capanda project will nearly double Angola's power generating capacity.

The Angolan government is planning to develop a nuclear energy industry using domestic uranium deposits. There has been some discussion with the Chinese government regarding training and the construction of a nuclear plant in Angola, but no progress has been made. Sonangol already owns a 45 per cent stake in Amorim Energia, which in turn holds about 33 per cent in the Portuguese oil and gas group Galp Energia, SGPS. With the possible acquisition of shares in the Portuguese

Electricity Agency as well as 75 per cent of Sao Tomé and Principe's oil company ENCO, Angola is positioning itself as a regional leader in production.

Innovation and ICT

Angola emerged from the long civil war with dilapidated telecommunications infrastructure. Since then, substantial progress has been made in fixed and mobile telephony, beginning with the liberalisation of fixed-line telecommunications in 2002. At present, there are five national fixed-line operators, of which the incumbent, state-owned Angolatel, remains the dominant presence.

Mobile networks were also opened to competition in 2002. Only one mobile operator, Unitel, entered the market, joining the state-owned incumbent Movicel. Unitel is the dominant operator with 4 million subscribers, while Movicel has 2 million. Movicel was partially privatised in October 2008: the state retained 20 per cent of the capital, placed 49 per cent with private investors and shifted 30 per cent to a strategic partner, the Chinese telecommunications firm ZTE. The powerful oil parastatal Sonangol owns 25 per cent of Unitel, with the rest in the hands of private investors, including Isabel dos Santos, the daughter of President José Eduardo dos Santos.

Unitel uses global system for mobile communication (GSM) technology, and Movicel is planning the costly and complex shift from code division multiple access (CDMA) technology to GSM. Movicel's new Chinese partner has expertise in this technology that is likely to be essential in this regard.

Inacom, the national regulator, was established in 1999 as an independent institution under the Ministry of Telecommunications. In addition to regulating and monitoring telecommunications, it is responsible for the allocation, management and taxation of bandwidth. Inacom offers 15-year renewable licences, with the government deciding on the number of licences available. A concessionary licence was granted to Unitel, the mobile phone operator, whereas sealed bids were used for fixed-line operators. The regulator has not yet resorted to auctions, but does not rule out this method for the future. Taxes on telecommunications include a 5 per cent tax on communications revenues and a 20-25 per cent sales tax on handsets.

The regulator Inacom has called for more operators, arguing that the effective duopoly in the Angolan market has maintained high prices. The country's two mobile operators currently do not share their networks.

Internet provision is open and relatively competitive, with all operators – including fixed-line, mobile and cable television – providing Internet access services. The mobile operators dominate the market for Internet services, with Movinet (spun off from Movicel) having the highest capacity.

Rapidly increasing demand for Internet use without corresponding increases in capacity has resulted in slowdowns, which are growing worse as many connections compete for limited bandwidth. Luanda has the country's only fibre-optic network. There remain significant bottlenecks to data transmission even in the capital, with bandwidth severely limited and frequent interruptions in service. National mirror servers might considerably reduce the need to route through international servers and thus improve access. Until recently, even Angolan websites were hosted outside of the country, requiring all information retrieval to draw on a saturated international connection. Local servers are now running domestic websites.

International traffic is severely limited by the capacity of Angola's connection to the international backbone. Angolatel, responsible for acquiring bandwidth to supply other providers, does not have sufficient financial resources to undertake the capital investment required to improve the country's bandwidth and connections to meet expanding demand.

In light of Angola's infrastructure constraints, the government is engaged in a number of ambitious projects to boost the country's telecommunications network. Three major projects are currently under way, under the supervision of Inacom.

The first, known as Adonis, is a submarine cable following Angola's coastline that, when it comes on stream in early 2009, will boost the coastal cities' access to Internet and communications. It will also enable integration of neighbouring countries' networks with Angola's. Work is also under way on the international underwater cable SAT3, funded by the government and managed by Angola Telecom.

The second project is Infrasat, a state-owned satellite reception network. Infrasat will serve government, particularly for national defence, television, telecoms and radio transmission purposes. The first phase of the project comprises 600 very small aperture terminal (VSAT) stations throughout the country, with the goal of doubling the number of base stations. Investments are set but no timeline agreed upon. A successful Infrasat network should significantly improve access, especially in remote rural areas.

The last and most ambitious project is the launch of a national telecom satellite, Angosat. After a fraught approval process due to the complexity of the project and a polemic over outsourcing to foreign contractors, the project has been approved and is due for completion by 2012. Angosat is ostensibly for private users, to complement Infrasat's national security and broadcasting focus.

The national government is financing these projects, with the SAT3 underwater cable costing about USD 25 million, Infrasat USD 102 million, Adonis USD 60-70 million, and Angosat an estimated USD 420-430 million.

To promote access to poorer communities, Unitel has formed a partnership with Amigotel, which buys airtime at a discount, then resells it in affordable 15-second units for AOA 10. TELO, a network of subsidised public phones, is made available by the private fixed-line operators to increase access. With the cost of mobile communications decreasing, however, the usefulness of these discounted services has been reduced somewhat. Movicel has supported government health campaigns, using its network to send text messages to heighten awareness of vaccination initiatives. Mobile banking is available, provided by the domestic inter-bank service firm EMIS.

In 2009 the government will publish a white paper on information and communication technology to serve as a guideline for the country's telecommunications development strategy for the coming years.

Political Context

The election in September 2008 marked an important step forward, being the second democratic election since independence in 1975. The election was conducted successfully, with no social tensions, and judged to have been fair. With a remarkably effective electoral campaign and massive investment in infrastructure preceding the election, the ruling party Movimento Popular de Libertação de Angola (MPLA) took over 80 per cent of the vote, giving the government the legitimacy to implement economic and constitutional reforms. Presidential elections are expected in 2009, with the incumbent José Eduardo Dos Santos likely to be re-elected.

The Angolan government has denied accusations that its army supports Joseph Kabila in his conflict against rebels in the north-east of the Democratic Republic of Congo, which flared up again in late 2008. Given its interests in the region and its desire for stability, however, it would not be out of the question for Angola to intervene, either bilaterally or multilaterally.

Despite Angola's ratification of the Protocol to the African Charter on Human and Peoples' Rights in May 2008, human rights organisations face increasing intimidation and threats in a climate of restricted freedom of expression, according to Amnesty International. Cases of forced evictions and human rights violations by police were reported, although on a smaller scale than in previous years.

Corruption is perceived to be pervasive in Angola. Transparency International downgraded Angola to 158th out of 180 countries in its 2008 corruption perception index, from 147th in 2007. The "Angolagate" trial, concerning accusations of illegal arms trading and corruption between Angola and France during the civil war, opened in October 2008 in Paris. The trial could degrade relations between the two countries.

Social Context and Human Resources Development

The civil war left Angola's population destitute, with 4 million displaced and the highest number of mutilated land-mine victims in the world. Basic services are hampered by the destruction of infrastructure and loss of personnel during the war. As a result, when the war ended in 2002, all human development indicators were very low and the poverty rate was 68 per cent.

The situation is certainly improving, thanks to massive investment in infrastructure and social services. Per capita income has improved dramatically, as people return to productive activities in agriculture and in urban areas.

The share of the national budget allocated to social sectors has increased to over 30 per cent in the last two years, enabling extensive recruitment of medical and school staff, as well as the construction of hospitals and schools. However, infrastructure development is skewed towards the coastal regions and the capital city, leaving the inland provinces behind. Moreover, infrastructure investments have in part been governed by political objectives, notably in the run-up to the election, which undermines the quality of the services provided.

Government policies in the education sector are in line with the strategy adopted at the beginning of the decade for the 2001-15 period and with the education system reform plan for 2006-12. The goals are curriculum improvements, teacher training, rehabilitation of school buildings (with strong support from China) and distribution of school materials.

According to the Ministry of Education, the gross enrolment rate in primary schools jumped from 68 per cent in 2002 to 135.8 per cent in 2008, but the increase was less impressive in secondary schools. The number of teachers rose from 83 601 in 2002 to 179 928 in 2008, with almost 12 000 hired in 2008 alone. In the same period, 31 504 classrooms were added. However, quality indicators remain poor. In 2008, the pupil/teacher ratio was 32, the pupil/classroom ratio as high as 114, the repetition rate 22 per cent and the dropout rate 24 per cent. The reasons for the high dropout rate include high costs of school materials, poor nutritional or health status of children, pressure for them to help in the fields, and long distances from home to school; premature pregnancy is also a problem for girls.

The health sector has attracted less government attention than education, although some government initiatives have been helpful and the population's health status is improving marginally thanks to the end of the conflict. Infrastructure is still inadequate, and indicators for child and maternal health remain very poor.

HIV/AIDS prevalence is low compared to neighbouring countries, at 2.1 per cent among prime-age adults. The government's response to the epidemic was timely and well co-ordinated with NGOs and the private sector. Capacity building for human resources, better access to services at the local level and strengthening of monitoring sites are among the challenges Angola faces in fighting the epidemic. An accelerated prevention policy and a law on HIV/AIDS are in preparation.

Unemployment, while still high at 25.2 per cent, has declined since 2002 thanks to the strong growth of the economy, big infrastructure projects, and technical education and training programmes, in which 40 000 students were enrolled in 2008. These programmes help young people find their first jobs. Under the 2009 Programme for Public Administration, Employment and Social Security, the creation of 40 000 additional jobs is foreseen. The programme will also provide training for 11 000 young people. Public administration remains the largest formal employer, however, revealing the limited extent to which growth has stimulated private sector job creation.

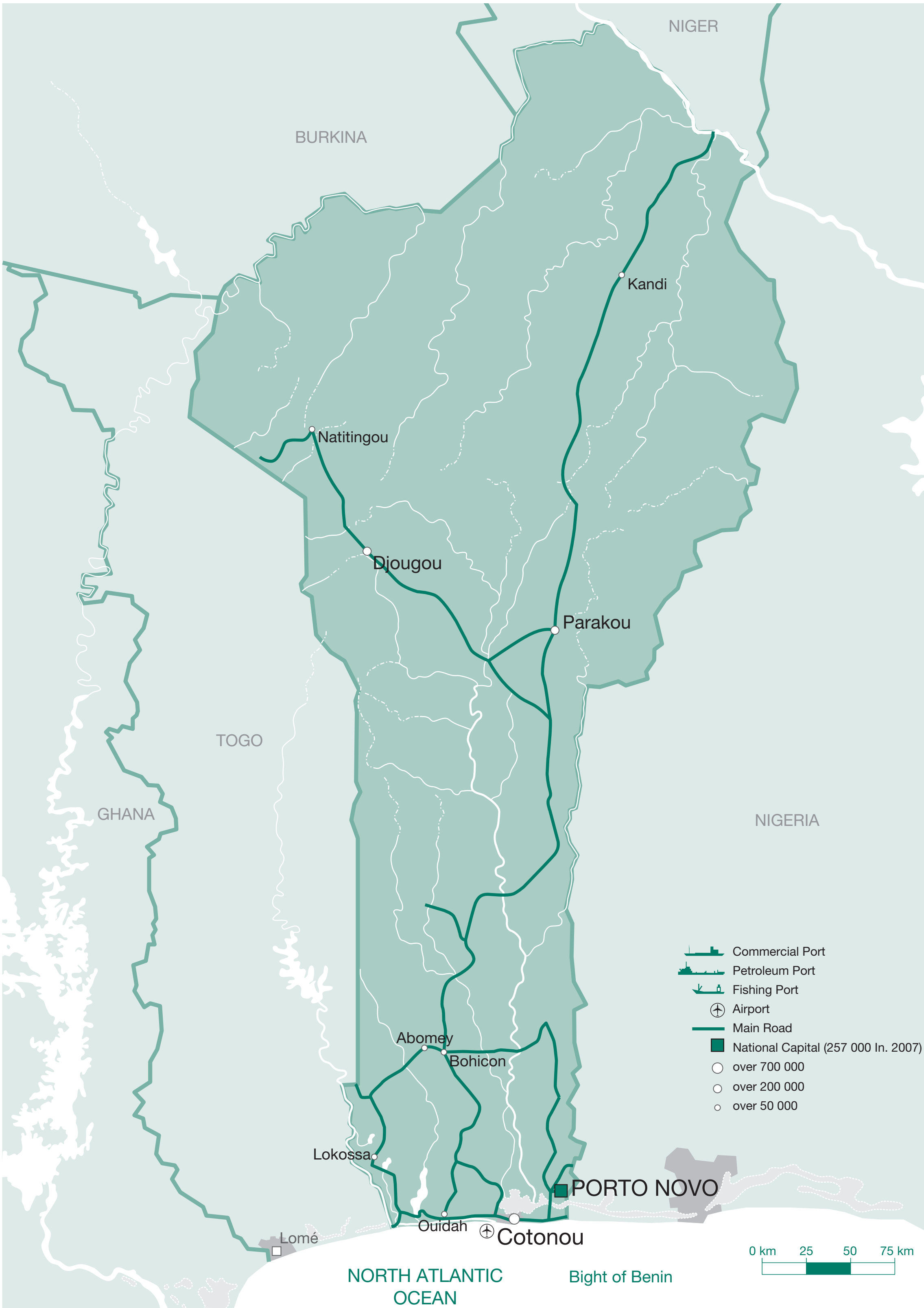
Oil companies, including France's Total, are also contributing to development by building schools and providing training in several cities. Although foreign firms operating in the mineral sectors are required to contribute to social development, they could certainly increase their level of engagement, considering the huge profits they make.

Benin

key figures

- Land area, thousands of km^2: 111
- Population, thousands (2008): 8 662
- GDP per capita, PPP valuation, USD (2008): 1 312
- Life expectancy (2008): 61.5
- Illiteracy rate (2008): 59

Benin



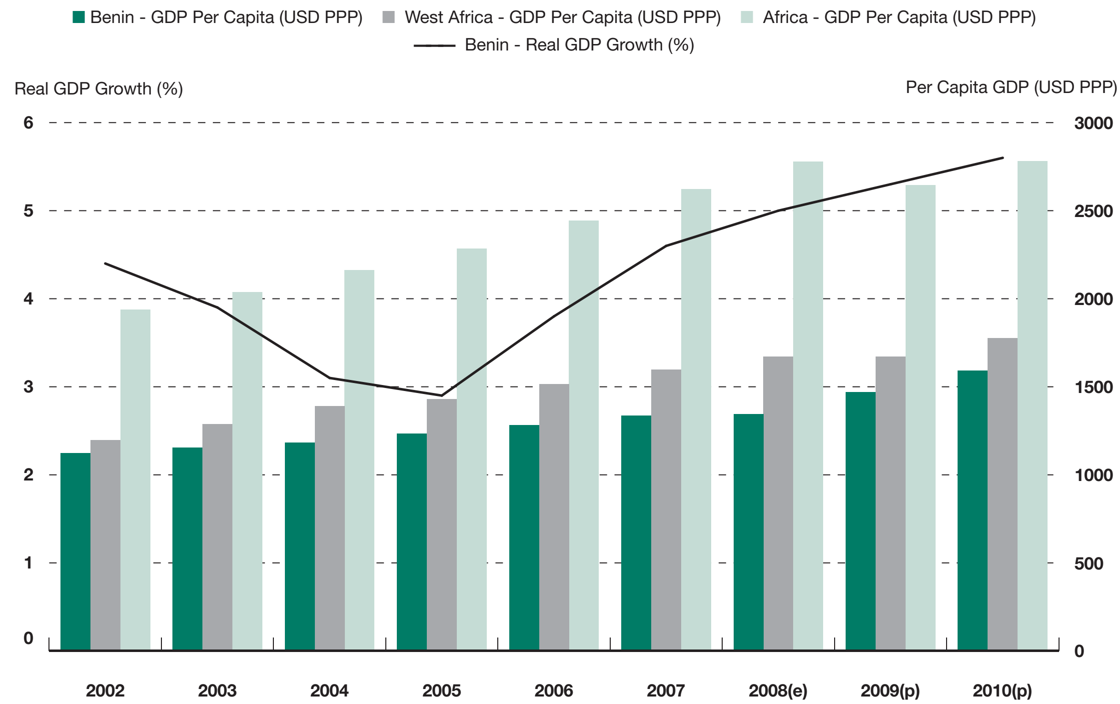
NIGER
BURKINA
Kandi
Natitingou
Djougou
Parakou
TOGO
GHANA
NIGERIA
Abomey
Bohicon
Lokossa
PORTO NOVO
Ouidah
Cotonou
Lomé
NORTH ATLANTIC OCEAN
Bight of Benin
Commercial Port
Petroleum Port
Fishing Port
Airport
Main Road
National Capital (257 000 In. 2007)
over 700 000
over 200 000
over 50 000
0 km
25
50
75 km

THE SOCIAL AND POLITICAL SITUATION in Benin has been relatively stable since the wide-ranging national consultation took place between 19 and 28 February 1990. This consultation, known as the *Conférence nationale des forces vives* (National Conference of Dynamic Forces), put an end to the deep social and political crisis that had existed in the late 1980s. Since 1990, Benin has become a model for political transition in sub-Saharan Africa. During this time, three presidents have taken the helm of the country following democratic presidential elections: Nicéphore Soglo (1991-96), Mathieu Kerekou (1996-06) and Thomas Yayi Boni (April 2006-present). Parliamentary elections also took place in April 2007. These elections ran smoothly, with Yayi's supporters gaining a majority in parliament. Nevertheless, since local elections in April 2008, the president has been confronted with a rebellion in parliament. Political reshuffling has enabled the opposition to re-establish a majority in parliament, thus making it difficult for the government to deploy its programme.

The growth performance of recent years was consolidated in 2008, but the food crisis sparked inflation.

Despite this political change and a global economic environment marked by strong pressure on oil and food prices, Benin maintained a rather remarkable economic growth rate of 5 per cent in

Figure 1 - Real GDP Growth and Per Capita GDP
(USD/PPP at current prices)



Source: IMF and National Institute of Statistics and Economic Analysis (INSAE) data; estimates (e) and projections (p) based on authors' calculations.

StatLink http://dx.doi.org/10.1787/568638084708

2008. Growth is expected to remain high in 2009 and 2010, with current forecasts of 5.3 and 5.6 per cent respectively.

Recent Economic Developments

The upturn in economic growth since 2006 was consolidated in 2008, despite pressure caused by the food crisis and the high cost of energy. The real growth rate for 2008 is estimated at 5 per cent, up from 4.6 per cent in 2007 and 3.8 per cent in 2006; this is the second highest level of growth in the West African Economic and Monetary Union (WAEMU), after Senegal. This performance is the result of measures taken by the government to revitalise the construction sector, improve crop production and improve electricity supplies.

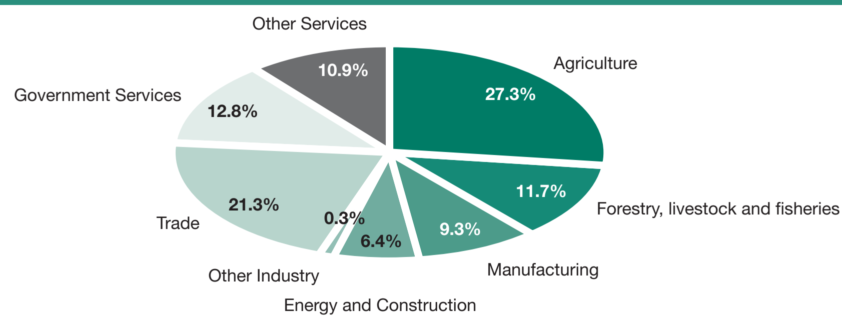
In the construction sector authorities have carried out major improvement works in Cotonou and in various other towns and cities in Benin (Abomey, Parakou, Djougou, etc.). In Cotonou, work has involved building roads, interchanges and new government buildings, expanding Cotonou Airport, and preparing for the 10th summit of the Community of Sahel-Saharan States (CEN-SAD) in June 2008.

The government has increased its support for producers and introduced fiscal measures to improve access to input supplies in order to improve food security in the country. These measures increased crop production in 2008, especially for maize, yams, millet and rice. Rice production increased by 65 per cent, and millet production by 44 per cent. Cotton production, the country's main export (more than 40 per cent of exports), also increased during the 2007/08 season, with exports up 11.6 per cent to 268 628 tonnes. Forecasts predict 2008/09 production to fall by 10.3 per cent to 241 000 tonnes because of late rainfall and late payments to cottonseed producers, among other factors.

Growth in 2008 is also related to a progressive improvement in electricity provision thanks to the rehabilitation and installation of generators. Manufacturing grew, particularly for cotton ginning and oils. Port activity also increased thanks to good levels of trade with Nigeria. The telecommunications sector was revitalised by the country's fifth GSM (Global System for Mobile Communications) operator.

The Beninese economy is not very diversified, and relies essentially upon agriculture. This sector is the driving force behind growth, but relies heavily upon rainfall. The sector is not very competitive, since costs are high and there is little mechanisation. Benin's agricultural land has huge potential, since it is suitable for diversified agriculture. Efforts are being made to diversify other export channels, which in the long-term should reduce the country's heavy dependence on cultivating cotton. Benin's subsoil is also rich in resources, including gold, offshore oil, marble, phosphates and iron, but these resources are not yet extensively exploited.

Figure 2 - **GDP by Sector in 2007** (percentage)



Source: Authors' estimates based on quote INSAE data.

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Production in the primary sector is mainly informal (99.6 per cent). Real value added in this sector rose by 3.9 per cent in 2008, under the effects of increased livestock and crop production, especially cotton production. In 2009, real value added in the primary sector is expected to rise by 4.8 per cent thanks to increased crop production. The 2008/09 harvest began well, despite uneven rainfall. Crop production is expected to rise by 18.5 per cent in volume, thanks in particular to government incentives, including the provision of fertilisers at subsidised prices and better support for producers.

The 2008/09 cotton harvest is expected to be less than the previous year's, with nearly all producers having sown less than in the last two seasons. The central and southern regions will be most affected. In the north, delays in payments to cottonseed producers from the 2007/08 harvest and pockets of drought in June 2008 also badly affected seeding. This dramatic reduction has increased crop cultivation, which is where all government support has been directed. With regard to other export crops (pineapples and groundnuts), the Ministry of Agriculture, Livestock and Fisheries is forecasting significant increases in the 2008/09 harvest. Pineapple production is expected to double, and groundnut production is expected to increase by 27.7 per cent.

The secondary sector in Benin is dominated by the informal sector (more than 60 per cent), and is still in its infancy. This sector represents just 13 per cent of gross domestic product (GDP). Industrial production is dominated by the food, textile and cement industries. Construction and energy, which are essential to industrial development, contribute very little to GDP (4.4 per cent and 1.1 per cent respectively). The shortage of entrepreneurial and managerial skills, a lack of investors in the sector, limited exploitation and development of local resources, and the unsuitable nature of the institutional and regulatory environment are the main problems holding back the country's industrial development. The sector's real value added rose by 6.1 per cent in 2008, thanks mainly to major improvement works carried out by the government. The real value added of the construction sector rose by 7.8 per cent in 2008. This rise is expected to continue in 2009 at a rate of 6.8 per cent because of continued infrastructure projects. The real value added of the manufacturing industries is estimated to have grown by 8 per cent in 2008. The extractive industries remain at more or less the same level as in 2007. The country's

Table 1 – **Demand Composition**

	Percentage of GDP (current prices)		Percentage changes, volume			Contribution to real GDP growth		
	2000	2007	2008(e)	2009(p)	2010(p)	2008(e)	2009(p)	2010(p)
Gross capital formation	**18.7**	**20.7**	**12.8**	**11.6**	**13.0**	**2.6**	**2.5**	**3.0**
Public	6.4	8.1	14.0	14.0	10.0	1.1	1.2	0.9
Private	12.2	12.6	12.0	10.0	15.0	1.5	1.3	2.1
Consumption	**85.6**	**88.1**	**4.1**	**6.7**	**6.9**	**3.5**	**5.6**	**5.8**
Public	12.6	12.3	4.7	5.0	5.1	0.5	0.6	0.6
Private	73.1	75.8	4.0	7.0	7.2	2.9	5.1	5.2
External demand	**-4.3**	**-8.8**				**-1.0**	**-2.8**	**-3.2**
Exports	25.4	19.5	4.8	-2.6	-0.1	1.3	-0.7	0.0
Imports	-29.7	-28.3	7.5	6.7	9.9	-2.3	-2.1	-3.1
Real GDP growth						**5.0**	**5.3**	**5.6**

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

StatLink http://dx.doi.org/10.1787/575446556824

major potential in mineral resources (gold, limestone, marble, iron and phosphates) have still been exploited very little by the formal sector.

The tertiary sector accounts for almost half of GDP. Benin's geographical location in relation to countries in the hinterland such as Niger, Burkina Faso and Mali offers extensive opportunities in transport, transit and tourism. Tertiary activities are primarily based on trade, which is highly dependent on the state of Benin's relations with its bigger neighbour, Nigeria. The sector faces difficulties such as inappropriate and inadequate legislation and regulations; a rise in smuggling; and a lack of co-ordination among the country's various trade development bodies. There was remarkable growth in the sector in 2008 (7 per cent) thanks to the revitalisation of trade with Nigeria and the countries in the hinterland. The tertiary sector's real value added increased by 6.1 per cent in 2008. Growth is also expected in 2009, but at a lower rate, mainly because of a reduced performance in exports to Nigeria. Lower oil prices affect revenue in the country, and this may lead to a slowdown in demand.

Transport and telecommunications grew by an estimated 6.1 per cent in 2008, spurred by increased port activity and high demand for mobile telecommunication services.

Growth is still being pulled along by private consumption and public investment. The contribution made by private consumption to growth in GDP in 2008 is estimated at 2.9 percentage points, as against 0.5 percentage points for public investment. The external sector, which is still in deficit despite a revival in cotton exports, made a negative contribution to GDP growth (-1 percentage point). Real GDP growth in 2009 is expected to be 5.3 per cent, still spurred on by private consumption and public investment. Overall pay rises introduced by the government in the final quarter of 2008 will have a positive effect on private consumption in 2009. Public investment will continue to be fed by large public infrastructure sites, which the government has been creating for nearly two years. The authorities envisage building new quays at the Autonomous Port of Cotonou (PAC), with support from the US-funded Millennium Challenge Account (MCA).

Macroeconomic Policies

On 5 August 2005, Benin agreed to a three-year economic and financial programme with the IMF under the Poverty Reduction and Growth Facility (PRGF). Given the delay in implementing structural reforms by authorities, the programme has been extended until August 2009. The fifth review of the programme took place in September 2008 and concluded that, with the exception of two performance criteria[1], all quantitative performance criteria had been met. The country was confronted with a food crisis that led to a major rise in consumables prices. Inflation rose from 1.3 per cent in 2007 to 8.1 per cent in 2008. This was the second highest level of inflation in the WAEMU, after Burkina Faso. The government initially reacted to high inflation by subsidising certain products (cement, white rice 25 per cent broken, concentrated tomato, pasta, milk, wheat flour, wheat, sugar, reinforcing bars and petroleum products). These subsidies, which consisted mainly of deductions in customs duties, led to substantial budget expenditure. The financial cost of these measures was estimated at about XOF 85 billion (CFA Franc BEAC) in 2008.

With the ongoing crisis, the high cost of subsidies and their limited effect on prices, in July 2008, the government decided to return to *"true prices"* by putting an end to direct subsidies and fiscal measures that drastically drained budget resources. On the other hand, the government put well-targeted safety nets in place to help the poorest members of the population. The following measures were taken: *i)* a national cost-of-living management committee was set up with regional and local offices; *ii)* special shops were opened in all communes selling maize, rice, cement and specific

1. Internal funding was greater than was planned and the government took out a non-concessional loan of SDR 5.1 million (IMF special drawing rights) from a development partner.

fertilisers; *iii)* a special labelling system was set up to better control prices; *iv)* measures to prevent food products from leaving the country fraudulently were reinforced.

In order to ensure food security in the medium-term, the government created the emergency programme to support food security (PUASA). This project aims to reduce the adverse effects of the food crisis by introducing food into the market from farms cultivating short-cycle crops. The programme involves making areas viable for small farms and fostering the mechanisation of those areas by setting up production and processing equipment. Public authorities have increased agricultural guidance and training and improved the provision of seeds and the acquisition of production and processing equipment.

Fiscal Policy

The application of measures adopted in 2006 to improve revenue collection continued in 2008. Income increased by 0.8 per cent of GDP, despite losses resulting from reductions in duties for certain products. The government strengthened customs governance and included customs escort charges in fiscal revenue. Furthermore, an increase in the value of imports translated into a rise in customs revenue. Internal revenue also increased thanks to the modernisation of the tax authorities, especially with regard to large corporations. Tighter controls have enabled better collection of Value Added Tax (VAT). In contrast, the government was unable to meet its internal funding objectives because of high expenditure resulting from the cost of measures taken in response to the food crisis and the cost of major public works to improve infrastructure. The fiscal balance (including grants) decreased from a surplus of 1.9 per cent of GDP in 2007 to a deficit of less than 0.5 per cent of GDP in 2008. Several development partners provided budgetary support to meet financing requirements. Nevertheless, the authorities had to issue treasury bills amounting to XOF 40 billion to complete necessary funding. The liberalisation of prices on most subsidised products in July 2008 reduced constraints on the budget in 2008. In 2009, the deficit is expected to worsen by reaching 1 per cent of GDP because of ongoing major public works in a context in which there is pressure on fiscal revenue. The 2009 budget includes: various tax-reduction measures aimed in particular at generating recovery in the private sector, a reduction in tax on industrial and commercial profits, and the suppression of road tax on the transport of goods to Niger and Burkina Faso.

In 2009, the government will try to build on macroeconomic stability already achieved while supporting the development of economic infrastructure. To achieve this, the government intends to pursue its

Table 2 - **Public Finances** (percentage of GDP at current prices)

	2000	2005	2006	2007	2008(e)	2009(p)	2010(p)
Total revenue and grants[a]	**17.5**	**18.9**	**18.8**	**24.0**	**22.2**	**21.3**	**21.7**
Tax revenue	13.9	14.5	15.4	16.9	16.9	16.0	16.2
Grants	1.6	2.2	1.8	3.3	1.5	1.4	1.6
Total expenditure and net lending[a]	**19.2**	**21.3**	**19.7**	**22.2**	**22.7**	**22.3**	**22.3**
Current expenditure	11.9	15.0	15.0	14.6	14.8	13.9	13.8
Excluding interest	*11.1*	*14.7*	*14.8*	*14.4*	*14.4*	*13.6*	*13.5*
Wages and salaries	3.9	4.4	4.6	4.2	4.3	3.9	4.0
Interest	0.8	0.3	0.2	0.2	0.4	0.3	0.3
Capital expenditure	7.3	6.3	4.6	7.5	7.9	8.4	8.5
Primary balance	**-0.9**	**-2.1**	**-0.6**	**2.1**	**-0.1**	**-0.6**	**-0.4**
Overall balance	**-1.7**	**-2.4**	**-0.9**	**1.9**	**-0.5**	**-1.0**	**-0.7**

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

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"true prices" policy by progressively reducing subsidies on electricity and cement. At the same time, it will pursue measures to increase growth in the local market, especially in food products. The primary deficit is not expected to be greater than 0.6 per cent of GDP.

Monetary Policy

The money supply increased by 14 per cent in 2008, as against 17 per cent in 2007. This increase in the money supply is essentially due to an expansion in credit to the economy. Nevertheless, the average quality of bank loans deteriorated. Consequently, the Central Bank of West African States (BCEAO) left cash reserve requirements at 15 per cent, the highest level in the WAEMU.

In 2009, the BCEAO monetary policy will remain focused on the objective of achieving price stability and keeping official foreign exchange reserves at an acceptable level. The increase in money supply is expected to be limited to 12 per cent in 2009, and credit to the private sector is expected to be 15.4 per cent. With the support of the WAEMU Banking Commission, the government intends to strengthen banking supervision in order to improve compliance with prudential ratios. The enforcement of the regulatory framework for the microfinance sector will also be improved.

External Position

Benin's external position, with a trade balance and current account balance that are structurally negative, is still getting worse. The trade deficit has grown from XOF 232.7 billion (CFA francs BCEAO) in 2007 to XOF 300 million in 2008, essentially due to a major rise in the value of imports. There are several factors behind this marked progression in the value of imports: *i)* a substantial rise in imports of capital equipment created by the CEN-SAD summit and major public works; *ii)* the high cost of imports of energy products due to the energy crisis; *iii)* high global food prices. Beninese exports are still dominated by cotton exports (about 40 per cent), mainly to Asia, and re-export products to Nigeria and the countries of the hinterland. Thanks to increased re-exports to Nigeria, the total value of exports rose to XOF 458.3 billion in 2008, up from 419.4 billion in 2007. Continued demand from Nigeria increased exports to the country by about 8 per cent. China alone absorbs more than 20 per cent of Benin's exports, which is the same amount exported to the entire industrialised world. Exports to Africa are mainly to three countries: Niger, Nigeria and Togo.

The value of Benin's imports in 2008 is estimated to have risen by 16 per cent to XOF 758.3 billion, from 652.1 billion in 2007. These additional imports have increased transport costs. The deficit in net services grew by 33 per cent to XOF 84.3 billion.

The total trade deficit widened from 6.7 per cent of GDP in 2007 to 7.1 per cent of GDP in 2008. The strong rise in inflation pushed up the country's real exchange rate, thus affecting its competitiveness. In 2009, the impact of the financial crisis on exports to Nigeria and migrant transfers, among other factors,

Table 3 - **Current Account** (percentage of GDP at current prices)

	2000	2005	2006	2007	2008(e)	2009(p)	2010(p)
Trade balance	-5.2	-9.3	-10.5	-11.7	-11.9	-10.7	-11.5
Exports of goods (f.o.b.)	16.6	7.5	5.7	5.9	6.2	5.3	4.8
Imports of goods (f.o.b.)	21.9	16.8	16.1	17.5	18.1	16.0	16.3
Services	-1.5	-1.1	-1.0	-0.6	-0.8	-0.5	0.0
Factor income	-0.5	-0.9	-0.6	-0.5	-0.4	-0.5	-0.3
Current transfers	5.2	4.8	6.3	6.1	6.0	3.9	3.5
Current account balance	**-2.1**	**-6.5**	**-5.7**	**-6.7**	**-7.1**	**-7.8**	**-8.3**

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

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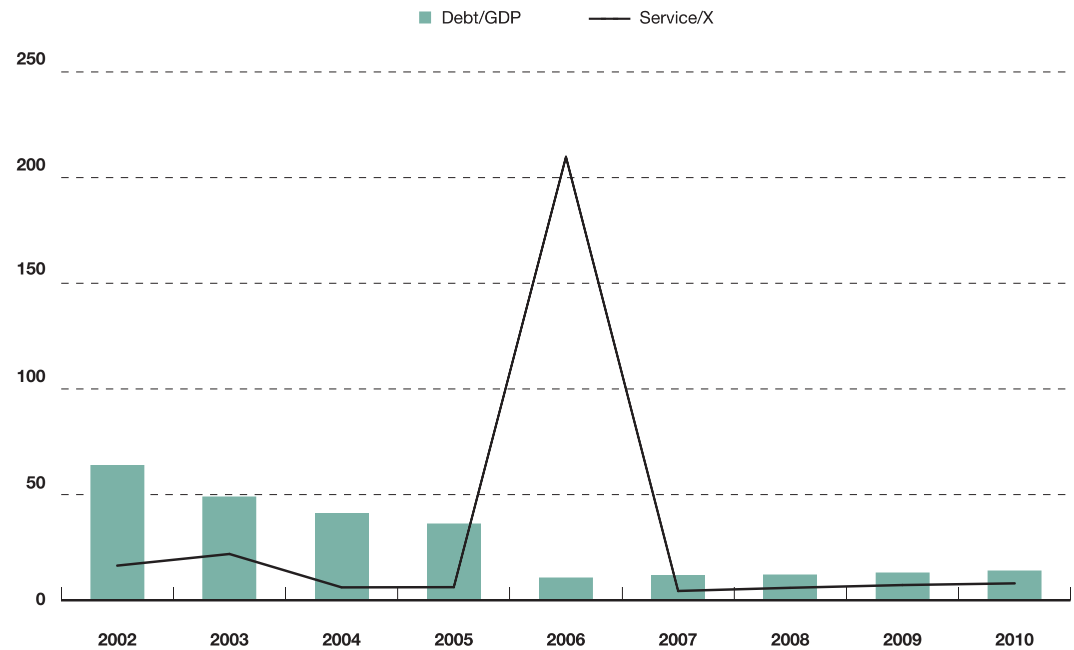
Figure 3 - **Stock of Total External Debt** (percentage of GDP) **and Debt Service** (percentage of exports of goods and services)



Source: IMF.

StatLink http://dx.doi.org/10.1787/572888076543

are expected to cause this deficit to shrink by 7.8 per cent of GDP. The Beninese government is aware of the importance of external trade on the economy. Thus, since 2007 it has intensified action to increase interregional trade. Its main areas of action have been: *i)* creating an economic forum between economic operators in Benin and Nigeria (the first forum was held in Cotonou in February 2007); *ii)* creating the Co-Prosperity Alliance Zone (COPAZ) on 13 February 2007, with Ghana, Nigeria and Togo; *iii)* participating actively in the Economic Partnership Agreement (EPA) between West Africa and the European Union (EU).

Benin has already benefited from debt relief granted under the Heavily Indebted Poor Countries Initiative (HIPCI) and the Multilateral Debt Relief Initiative (MDRI). In 2008, an IMF analysis of the sustainability of debt indicated that Beninese debt remains low, and that the risk of the country becoming over-indebted is low. Following the HIPCI and MDRI debt relief granted in 2006, Benin's debt has fallen significantly below the reference thresholds. The debt service ratio at the end of 2008 was estimated to be 5.1 per cent of GDP (net present value [NPV] 2007), well below the indicative threshold of 20 per cent. The country should, however, be prudent, by only accepting concessional loans. Over the past three years, Benin has not accumulated any domestic or external arrears. In order to avoid weakening its debt situation, the country has adopted a fairly prudent debt strategy, avoiding excessive use of the regional market, whose resources are generally non-concessional.

Structural Issues

Private Sector Development

The business environment in Benin benefits especially from a relatively stable political and macroeconomic situation. Nevertheless, there are many constraints on the private sector. The most significant problems are related to fiscal pressure, administrative complexities, procedures to start a business or to dismiss staff, and respect for contracts. The World Bank's 2008 *Doing Business* economy ranking places Benin in 169th place, down 13 places from its 2007 ranking. The Beninese government set up a commission to reflect upon all the problems affecting the country's business environment after expressing concern over this drop in ranking. This commission, supported by the World Bank, must propose solutions that will improve the country's business environment very quickly. The government also set up a think tank in 2008 for "taxation at the service of development". Although these commissions have not yet given their conclusions, a number of urgent measures have already been taken. The tax measures include a number of tax reductions introduced into the 2009 budget. In addition to measures regarding profits tax and road tax, the government has broadened the field of applying the free industrial zone to Information and Communication Technology (ICT) firms and to financial and banking institution holdings. The government is also planning to study real estate, with support from the US-funded MCA.

As part of measures taken to accelerate growth, specific attention has also been given to providing financial intermediation for poor households. Thus, credit lines have been allocated to micro-credit institutions, and the National Microcredit Fund (NMF) – through the Micro-Credit for the Poorest programme –, has provided more than 174 000 beneficiaries with XOF 5 billion since the fund was set up in April 2007. Furthermore, the General Framework for the Management of Credit Lines (CGGC) has financed 3 025 micro-projects with XOF 2.1 billion through micro-credit institutions. As part of its efforts to improve the financial sector environment, the government has also adopted and disseminated the National Microfinance Development Strategy (SNDMF) and co-ordinated and harmonised activities in this sector. Several activities have taken place to promote small and medium-sized enterprises (SMEs), especially the evaluation of business start-up procedures and support for the professional organisation of SMEs.

The prudential ratios used to assess the state of the banking system have identified a few difficulties. Consequently, the BCEAO house decided to leave cash reserve requirements at 15 per cent, the highest level in the WAEMU. In 2008, the BCEAO also raised its discount rate from 4.75 to 6.75 per cent. Different bank inspection missions carried out by the banking commission have led to a number of corrective measures being adopted. In particular, improvements are planned for information systems and risk management. The Beninese government plans to strengthen banking supervision in order to improve respect for prudential standards.

Over the past ten years, the microfinance sector has flourished throughout the country, especially in poorer regions, where the penetration rate of banks is low. However, the financial state of microfinance institutions has deteriorated. The government has therefore decided to strengthen the sector's regulatory framework.

Other Recent Developments

As part of its growth strategy to reduce poverty, the government has introduced structural reforms aimed at improving the business environment and revitalising the economy. Progressive state withdrawal from the productive sector through the privatisation of public enterprises has continued, especially through projects to privatise the *Société nationale de promotion agricole* (SONAPRA, national agriculture company), the *Société béninoise d'eau et d'électricité* (SBEE, water and electricity company), the *Office des postes et télécommunications* (OPT, post and telecommunications company) and the Autonomous Port Authority (PAC).

Many reforms already carried out include the sale of the factories of SONAPRA and the *Société nationale de commercialisation des produits pétroliers* (SONACOP) and the sale of Continental Bank's capital. The government made a commitment to partially privatise SONAPRA's cotton-ginning factories in order to restore and maintain its integral nature within the context of private management. After several failed attempts, the company's ownership was finally transferred by creating a mixed-ownership company, the *Société de développement du coton* (SODECO). Through a dynamic public-private partnership, the government created a new privately managed mixed-ownership company. This new company will be responsible not only for improving the performance of SONAPRA's cotton-ginning factories but also for substantially contributing to the development of Beninese cotton production. Finally, the government transferred ownership of its shares in the capital stock of Continental Bank.

The SBEE rehabilitation process, which began in 2006, has continued. This process involves not only rehabilitating the company, but also improving the quality of service, an essential factor to ensure the economy's overall competitiveness. The spirit of the reform is to create one company to manage assets, and another, privately owned company responsible for marketing. The strategic guidelines for this new vision are drawn up alongside the WAEMU commission with a view to finding sustainable solutions to the energy crisis. The government is studying strategic guidelines.

To reform the telecommunications sector, the government chose to recruit a consortium of consultants, whose participation is necessary in preparing and carrying out the strategic opening up of Bénin Télécoms SA's capital to the private sector. The consortium's role includes: *i)* assisting the government in drawing up an action plan and a calendar for the process of opening up Bénin Télécoms SA's capital; *ii)* carrying out a technical, accounting and financial audit of Bénin Télécoms SA; *iii)* assisting the Beninese government in formulating a strategy to open up the company's capital; *iv)* preparing the full dossier for the international tender.

The government had already carried out reforms to improve the PAC's competitiveness, with the support of the MCA. This reform aimed to improve security at the PAC and to involve the private sector in managing port facilities. Improvements to port facilities are expected to include two new wharves financed by the MCA enabling large-capacity container ships to dock at the port. These wharves will be granted as concessions as soon as they have been delivered. The Beninese government called upon the International Finance Corporation (IFC) to intervene with the following: *i)* structuring the tender to build the quays; *ii)* a strategic review of the PAC trade activities to provide the government with recommendations on appropriate levels of private-sector involvement and conditions for the most appropriate regulatory framework. The contract for these services was signed on 4 November 2008.

Innovation and ICT

In 2008, Information and Communication Technologies (ICTs) in Benin were dominated by services related to telecommunications networks. The sector is also characterised by the monopoly held by Bénin Télécoms SA, the public enterprise resulting from the breakup of the OPT.

Bénin Télécoms SA has a monopoly on fixed telephone services and its network covers the local telephone cable networks that have been rehabilitated in the main cities, Code Division Multiple Access (CDMA) networks, and communal phones that have been developed through payphones and private telecentres.

In 2007, the completely digital telephone network had 58 full-capacity automatic telephone exchanges equipped with 100 556 main lines. The total capacity of the CDMA network is 166 000. In 2007, there were 110 254 subscribers to the fixed-telephone network, of which about 38 265 subscribed to the CDMA network. Most of these subscribers lived in urban areas (approximately 96 per cent of lines). The mean failure rate is 5.3 per cent. The cabled part of local networks is saturated, making it impossible to meet the demand. Around 30 000 people were still on the waiting list for wired telephone lines in 2007.

With regard to international telecommunications, Bénin Télécoms SA has two International Transit Exchanges (ITEs) that are linked to each other through digital fibre-optic circuits. These exchanges direct international telephone communications through the ground station connected with the Intelsat VI F3 satellite, the digital microwave transmission links with bordering countries, and the SAT-3 submarine cable. Bénin Télécoms SA also has long-distance fibre-optic links connecting Benin with Togo, Burkina Faso, Niger and Nigeria.

In 1995, Bénin Télécoms SA installed an Advanced Mobile Phone System (AMPS) network with a 150-kilometre radius and a wireless local loop (WLL) system with a 50-kilometre radius.

The mobile phone sector was liberalised in 1997, and by 2008 five operators provided calls, messaging, voicemail and roaming to consumers. The market share of each operator is as follows: MTN, 40 per cent; MOOV, 34 per cent; Bell Benin Communications (BBCOM), 10 per cent; Libercom, 10 per cent. The number of subscribers to mobile phone services was estimated at 1 904 334, taking the country's teledensity (fixed plus mobile) to 25 per cent.

Benin was first connected to the Internet in December 1995, with a 64 kilobit per second gateway, thanks to the Francophonie Summit. In June 2007, the international bandwidth increased to 155 megabits per second. The access provider is Bénin Télécoms SA. Internet access is by Public Switched Telephone Network (PSTN), WLL and satellite. In 2007 there were 8 089 Internet subscribers, and the overall Internet population was estimated at more than 100 000.

There remain a number of challenges in order to develop telecommunications infrastructure and improve the quality of services. These challenges include developing the necessary basic infrastructure for telecommunications services to break into all areas of life in Benin and promoting professional structures and associations in the ICT sector.

In 1994, the Beninese government approved the declaration of sectoral policy of postal and telecommunications services, whose objectives were: *i)* to update current regulations; *ii)* to clearly separate the functions of regulation, control and supervision of obligations incurred by the government and obligations entrusted to public and private operators; *iii)* to create two autonomous public operators for postal and telecommunications services with management conditions similar to those of commercial companies; *iv)* to open the services up to the private sector. In addition to this declaration, on 13 February 2003 the government adopted the document "ICT Policy and Strategies in Benin", which covers all sub-sectors of ICTs. This policy, whose vision is to "make Benin a cohesive, flourishing, open information society", is built upon five pillars: *i)* an institutional policy that fosters ICTs; *ii)* a policy of creating appropriate infrastructure; *iii)* a policy of building human resource capacities that will make it possible to undertake necessary reforms for the information society to take root in Benin; *iv)* a policy to develop sectoral applications that are able to make all sectors of life in Benin more dynamic; *v)* a co-operation policy. Coherent strategies and short-, medium- and long-term action were defined to establish these fundamental principles.

An analysis of the implementation of these policies from 1994 to 2005 reveals that although the sector's reform took place by opening it up to the private sector and by separating postal and telecommunications services, not all the objectives have been achieved. The sector remains characterised by "sustainable disorganisation compounded by a widespread lack of control in the opening up of the sector, with no long-term vision or regulatory authority"[2]. Given this situation, a roadmap entitled "Plan TIC-Bénin" (Benin ICT Plan) was produced in June 2006 to improve and develop the ICT sector within the framework of the aforementioned policies.

This roadmap enabled the government to create a transitional regulatory authority for postal and telecommunications services (Decree 2007-209, dated

2. Présidence de la République, Plan TIC-Bénin: "Feuille de route pour l'assainissement, le redressement et la dynamisation du secteur des télécommunications et des TIC au Bénin" (Roadmap for the Improvement, Reorganisation and Revitalisation of Telecommunications and ICTs in Benin), June 2006.

10 May 2007), which: *i)* introduced a neutral system to award operating licences for GSM networks; *ii)* issued experimentation authorisations to Internet service providers; *iii)* recovered all payment arrears owed to the government and to Bénin Télécoms SA by all GSM operators for various charges; *iv)* reduced tariffs in 2007; *v)* created a new ICT development strategy in 2008.

Mobile phones used to come from both the formal and informal economy. The informal economy, which is fed by Nigeria, is tax-free. Telephone imports are subject to customs duties and VAT. Furthermore, VAT is charged on equipment and services for the fixed and wireless networks as well as for phone calls.

The government contributes towards financing Bénin Télécoms SA. Financing the universal service is not yet in place.

The desired level of development within telecommunications services has not yet been reached. There is still little awareness of the existence of mobile phone banking service providers, and only 1 per cent of the population currently uses these services. This is despite the fact that using the telephone or the Internet for banking services is considerably cheaper. GSM operators are progressively becoming established and increasing their turnover.

In 2005, the national statistics and economic analysis institute (INSAE) analysed the current state of affairs in terms of the use of ICTs by public authorities. This analysis revealed that there is one telephone line per 22 employees. But it also revealed significant disparities between different bodies in terms of the number of telephone lines. Although some authorities were found to have at least one telephone per employee, others were found to have more than 200 employees using the same telephone. Furthermore, more than 17 per cent of public authorities were found to have no telephone in service, either because of a fault or because they had no telephone. In most cases these were healthcare centres, schools, security units, local councils and other authorities that are just as important, such as the main customs and tax offices.

As is the case with telephones, a significant proportion of public authorities have no computers (27.9 per cent). On average, each authority has eight computers, and an average of ten employees use each computer, although there are major disparities between different authorities. Moreover, within authorities that were analysed, more than 72 per cent of computers were not connected to the Internet. Finally, government departments have local-area networks, but connecting departments together remains a project for the future. This suggests that ICTs do not make a significant contribution to human development in Benin.

Political Context

Local elections held in April 2008 caused a significant shakeup to Benin's political environment. This led the president to carry out a cabinet reshuffle on 22 October 2008. However, the coalition of political parties supporting the government has begun to fall apart and it is becoming increasingly difficult for the president to ensure that he has a majority in parliament. This resulted in members of parliament rejecting the revised budget for 2008. Nevertheless, given the government's significant achievements, especially in terms of economic infrastructure, the president continues to benefit from widespread support among the population. The 2009 budget was eventually unanimously approved by members of parliament.

Over the past two years, political governance has improved somewhat. Much remains to be done, however, especially in terms of rationalising institutions' organisation and operation, improving representation in all public institutions, tightening obligations on accountability and transparency, and improving the collection and management of public resources.

Social Context and Human Resources Development

Through the Growth Strategy for Poverty Reduction, the Beninese government has expressed its desire to strengthen the country's human capital stock, most notably by strengthening the education system and improving the health situation. This has resulted in substantial resources being allocated to the education, training and health sectors. This perspective has led authorities to take measures to: *i)* promote a development-based education system; *ii)* strengthen vocational training according to the needs of the labour market; *iii)* improve the quality and access to health and nutrition services; *iv)* develop protection and social solidarity.

In education, the government has pledged to: *i)* improve the availability of pre-school education; *ii)* lower dropout rates in primary and secondary schools, especially among girls; *iii)* ensure that higher education receives better support; *iv)* fight against the AIDS pandemic in schools. 2007 was marked by measures to ensure free provision of pre-school and primary education. Thus, 536 permanent classrooms and 500 temporary classrooms were built for the 2006/07 academic year. Thus the government increased funding for pre-school and primary school education, paid all community teachers (about 11 300) for 12 months and recruited and trained supply teachers. There has been a significant improvement in the gross enrolment rate in schools from 94.8 per cent in 2006 to 101.1 per cent in 2007.

Insurance coverage remains poor: there is still very little cover against natural risks (natural catastrophes), biological risks (illnesses, epidemics, accidents, invalidity and old age) and other risks. The Beninese authorities have sought to remedy the situation by promoting families and women, protecting and ensuring the development of children, improving insurance coverage, and promoting mutual health insurance schemes.

In 2007, measures to promote families included publishing and distributing 700 copies of the Personal and Family Code by publishing 700 copies, and registering orphanages and identifying their needs. Of 88 orphanages registered, so far only three have benefited from food and medicine.

In the employment sector, a national fund to promote entrepreneurship and employment among young people is now operational. About 20 young promoters received funding from this institution in 2007. Furthermore, the government has adopted a capacity-building policy for jobseekers.

The health situation in Benin is still marked by a high morbidity rate. The infant mortality rate for 2008 is estimated to be 98 deaths per 1 000 live births. Communicable diseases are still one of the main causes of morbidity and mortality. This is followed by anaemia, which can be caused by infection or nutritional disorders. Malaria and acute respiratory infections are the main problems treated by GPs. Serious malaria remains the main condition treated by hospitals, followed by anaemia. Various programmes have been implemented as part of the new National Health Development Plan (PNDS) for 2007-16 to enable the country to achieve the Millennium Development Goals (MDGs). This plan stresses the importance of: *i)* preventing and fighting against the most prevalent diseases and improving the quality of care; *ii)* strengthening partnership with the health sector, and promoting ethics and clinical responsibility; *iii)* the mechanism for financing the health sector. These programmes focused on promoting maternal health and reducing infant mortality, securing pharmaceutical and consumer goods, preventing HIV/AIDS and fighting malaria and endemic diseases. The authorities have intensified pleas to their partners to redouble efforts in the fight against HIV/AIDS, which is having an increasingly greater impact on society. Indeed, they have ensured that team leaders for NGOs in the country's 12 counties (*départements*) have been trained in the community-based management of people living with HIV. According to the most recent estimates, HIV prevalence fell from 2 per cent in 2006 to 1.8 per cent in 2007.

Benin has had mixed results with regard to most MDGs. Most indicators have improved, but the likelihood of Benin truly eradicating extreme poverty by 2015 remains relatively slim. The results for some of the indicators are, on the whole, satisfactory, including those related to universal primary education (goal 2), gender disparity in primary education (goal 3) and the under-five mortality rate (goal 4); nevertheless, efforts should continue, in particular to eradicate geographical disparities across the country. The tendencies of other indicators show that it is highly unlikely that Benin will achieve all the MDGs by 2015, owing to the country's lack of resources.

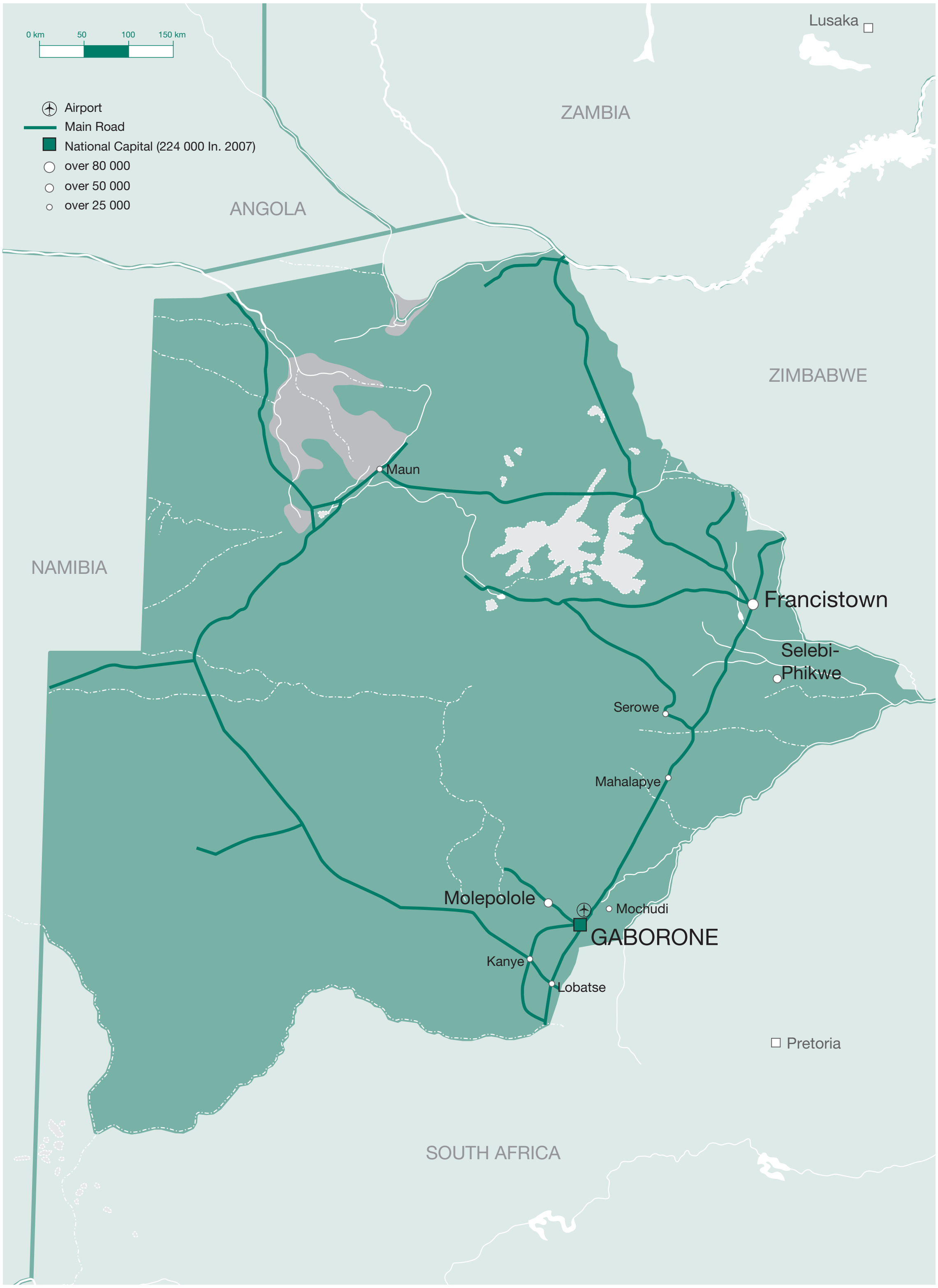
The UN secretary-general's Gleneagles initiative provides an opportunity for Benin to counter this lack of resources and make progress along the road to achieving the MDGs. This initiative aims to increase public development aid from 40 US dollars (USD) to USD 85 per capita by 2010. Benin is also one of the pilot countries for the Millennium Villages project. This new grassroots-development approach to achieving the MDGs and eradicating extreme poverty involves direct participation from beneficiary communities and inexpensive techniques and practices.

Botswana

key figures

- Land area, thousands of km^2: 567
- Population, thousands (2008): 1 921
- GDP per capita, PPP valuation, USD (2008): 13 415
- Life expectancy (2008): 54.4
- Illiteracy rate (2008): 17

Botswana



0 km
50
100
150 km
Airport
Main Road
National Capital (224 000 In. 2007)
over 80 000
over 50 000
over 25 000
Lusaka
ZAMBIA
ANGOLA
ZIMBABWE
NAMIBIA
Maun
Francistown
Selebi-Phikwe
Serowe
Mahalapye
Molepolole
Mochudi
GABORONE
Kanye
Lobatse
Pretoria
SOUTH AFRICA

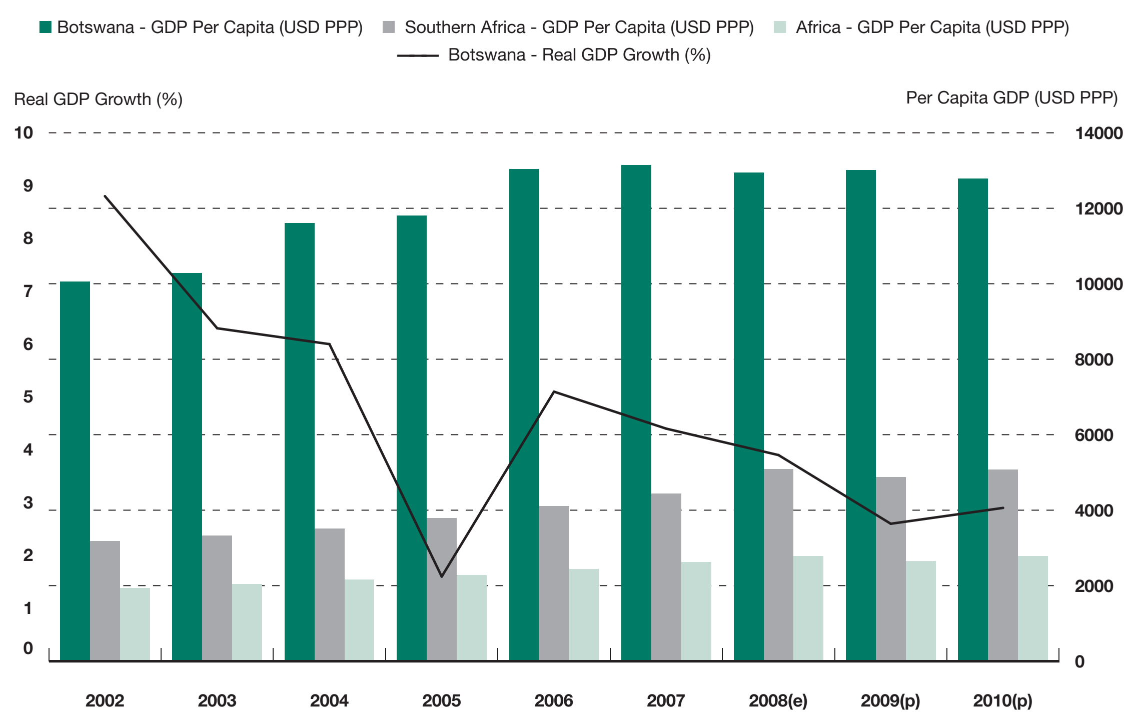
Botswana

Botswana's real economic growth is likely to slow in 2009, largely as a result of global economic conditions. The country's growth rate is estimated at 3.9 per cent for 2008 and forecast at 2.6 per cent and 2.9 per cent for 2009 and 2010 respectively. Several factors are responsible for the slowdown: inflationary pressures in 2008 resulting from rising oil, electricity and imported food prices; a decline in diamond production and an anticipated decline in international demand for diamonds; and falling international commodity prices, especially for copper and nickel. Inflationary pressures from oil prices eased towards the end of 2008, but those from electricity and food prices persisted.

Diamonds play an important role in Botswana's economy. Although revenue from minerals (mostly diamonds) has declined over time, it is still the largest contributor to government revenue (accounting for an estimated 35.8 per cent in 2008/09, down from 40.55 per cent in 2007/08). In value terms, diamonds continue to account for more than 70 per cent of the country's exports. Uncertainty over the depth and duration of the current international economic slowdown, and hence over its impact on diamond sales, therefore implies uncertainty about the future growth of Botswana's economy. The global slowdown is also likely to affect tourism – fewer tourists are expected to visit the country in 2009 than in 2008 – and to reduce foreign direct investment (FDI) inflows.

Botswana needs to diversify its economy in order to reduce dependence on diamonds.

Figure 1 - Real GDP Growth and Per Capita GDP
(USD/PPP at current prices)



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

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The main immediate challenge facing the country is to diversify its economy in order to reduce dependence on diamond production, prices and international demand trends. A second challenge concerns Botswana's business climate for investment. The country has impressive credit and investment destination ratings from international agencies such as Moody's, the World Bank and the International Monetary Fund, reflecting its sound economic management and stable macroeconomic environment. However, more needs to be done to improve business profitability and regional competitiveness. A third challenge is that of coping with the HIV/AIDS epidemic. Botswana's estimated adult HIV/AIDS prevalence rate was 23.9 per cent in 2007, the second highest in the world after Swaziland.

Recent Economic Developments

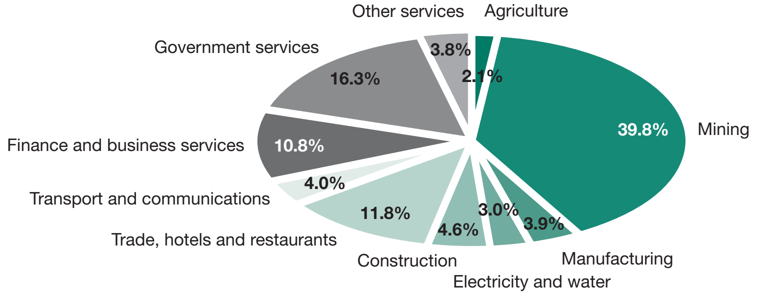
The decline in the real GDP growth rate to 3.9 per cent in 2008 from 4.4 per cent in 2007 was due to contraction in the mining and agricultural sectors and to slower growth in manufacturing and utilities (water and electricity). While the drop in mining sector value added reflects a decline in diamond production and sales, that in agricultural value added is associated with unfavourable weather conditions (drought and livestock diseases) and increased production costs stemming from energy price increases in the first part of the year. The outlook for 2009, however, is positive for both these primary sectors.

Diamond production is anticipated to increase modestly from the 32 093 000 carats estimated for 2008 to 32 952 000 carats in 2009. In addition, the Diamond Trading Company is now set to start its operations of cutting, polishing and selling stones from its newly constructed facilities in Botswana. Nonetheless, there is uncertainty about international demand for diamonds and related products due to uncertainty about the depth and length of the current global recession.

Agricultural value added is expected to recover modestly in 2009 as the government implements the Zambezi Integrated Commercial Agriculture Project (ZICAP). In addition, negotiations on an Economic Partnership Agreement to replace the expired Cotonou Agreement will be extended for another year, during which there will be no duties or quotas on Botswana's beef exports to the European Union. The Southern African Development Community (SADC) Free Trade Area, launched in August 2008, will allow free movement of goods and services produced within the region. It will open the larger SADC market to local producers, but they will also face greater competition from the rest of SADC.

The slowdown in manufacturing output in 2008 can be attributed to the higher fuel and energy prices that prevailed for most of the year, as well as to power shortages in South Africa, which supplies over 70 per cent of the electricity used in Botswana. Although fuel prices are on the decline, electricity shortages are

Figure 2 - **GDP by Sector in 2007** (percentage)



Source: Authors' estimates based on 2008 Botswana Financial Statistics data.

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expected to continue into 2009. The growth rate in manufacturing is therefore expected to be much the same in 2009 as in 2008.

The electricity shortages experienced during 2008 and the associated increase in electricity prices reduced the growth of value added in the utilities sector. The power shortage also made it necessary to postpone a rural electrification programme to 2009. When implemented, this programme will considerably increase the utilities sector's contribution to economic growth.

The sectors recording the highest growth in 2008 were services and the public sector. More specifically, value added in the banking, insurance and business services sector is estimated to have grown at almost twice the rate of 5.9 per cent posted in 2007. This impressive performance can be explained by several developments in 2008. Early in the year, the Bank of Botswana (BoB) issued additional Bank of Botswana Certificates (BoBCs) with varying maturity periods as a means of providing alternative investment instruments in the financial sector. The BoB restricted primary dealing in BoBCs to commercial banks, which provided a windfall for these primary dealers as they repackaged BoBCs for the secondary market. The year also witnessed the establishment of another commercial bank (Capital Bank) and the Non-Bank Financial Institutions Regulatory Authority (NBFIRA), which took over the supervision and oversight of all non-bank financial institutions in the country from the Ministry of Finance and Development Planning. This sector is forecast to continue its growth in 2009 as the new commercial bank and the NBFIRA consolidate their operations. These institutions will raise value added and efficiency in the sector by increasing competition in commercial banking and improving regulation of the non-bank sector. However, the possibility that the current international financial crises and economic slowdown in 2009 will have negative impacts on this sector remains very real.

Another services-oriented sector that grew significantly in 2008 was transport, post and telecommunications. Value added in this sector is estimated to have grown by around 12 per cent in 2008, up from 9.1 per cent for 2007. Rising fuel prices at the beginning of 2008 adversely affected performance, but prices have been on the decline since their peak level in July. The sector also benefited in 2008 from the introduction of a third mobile phone service, provided by the parastatal Botswana Telecommunication Corporation (BTC), the only fixed-line operator. Its growth rate is expected to increase in 2009 as the expansion and upgrading of the country's four international airports in Gaborone, Maun, Francistown and Kasane move into high gear.

In 2008, construction services and the trade, hotels, and restaurants sector are both estimated to have exceeded their respective 2007 growth rates of 8.7 and 8.1 per cent. The growth in these sectors derives from increased foreign investment in the latter sector and continued government investment expenditure. Although the football world cup in 2010 is generating positive expectations with respect to tourism, the outlook for these sectors is uncertain because of the international economic slowdown. Value added in the social and personal services sector is estimated to have grown in 2008 at more than twice its 2007 growth rate of 1.6 per cent, owing to a large increase in government expenditure on social programmes.

The government sector is estimated to have increased its growth rate from 1.7 per cent in 2007 to about 3.6 per cent in 2008, due to higher government investment expenditure and the establishment of several development hubs dedicated to education, transportation and innovation. In addition, the government implemented a salary increase of 15 per cent for all its employees and an additional 25 to 45 per cent scarce-skills allowance for all professional cadres, including engineers, physicians and economists. This rising trend in both recurrent and development expenditure is expected to continue into 2009 as the development hubs consolidate their activities and implementation of the 10th National Development Plan (NDP 10) begins.

Total consumption, the largest component of demand, is estimated to have increased slightly from 60.5 per cent of GDP in 2007 to 61 per cent in 2008, and forecast to rise to 63.5 per cent in 2009. Private

Table 1 – **Demand Composition**

	Percentage of GDP (current prices)		Percentage changes, volume			Contribution to real GDP growth		
	2000	2007	2008(e)	2009(p)	2010(p)	2008(e)	2009(p)	2010(p)
Gross capital formation	**31.8**	**26.9**	**11.9**	**6.1**	**8.3**	**3.2**	**1.8**	**2.5**
Public	12.0	7.5	11.5	6.5	9.0	0.9	0.5	0.8
Private	19.8	19.4	12.0	6.0	8.0	2.4	1.3	1.7
Consumption	**56.2**	**60.5**	**3.9**	**4.2**	**4.7**	**2.3**	**2.5**	**2.8**
Public	25.4	20.2	8.1	7.6	7.3	1.6	1.6	1.6
Private	30.8	40.3	1.8	2.4	3.2	0.7	0.9	1.2
External demand	**12.1**	**12.6**				**-1.6**	**-1.7**	**-2.4**
Exports	53.3	49.5	1.3	-1.0	-0.2	0.7	-0.5	-0.1
Imports	-41.2	-36.9	6.0	2.9	5.9	-2.3	-1.1	-2.3
Real GDP growth						**3.9**	**2.6**	**2.9**

Source: Botswana Financial Statistics data; estimates (e) and projections (p) based on authors' calculations.

StatLink http://dx.doi.org/10.1787/575450680014

consumption accounts for about two-thirds of total consumption and is mainly driven by the availability of credit from commercial banks. In 2007, loans and advances to households accounted for more than 57 per cent of all loans and advances issued by commercial banks. A similar situation is estimated for 2008 and forecast for 2009.

Gross capital formation, the second-largest component of aggregate demand, is estimated to have increased from 26.9 per cent of GDP in 2007 to 29.1 per cent in 2008 and is projected at 31.2 per cent in 2009. Private investment, the largest component of gross capital formation, increased from 19.4 per cent of GDP in 2007 to an estimated 20.9 per cent in 2008 and 22.3 per cent in 2009. It remains below the level of 24.6 per cent attained in 2004. Public capital formation increased as well, from 7.5 per cent of GDP in 2007 to an estimated 8.2 per cent in 2008, with projected shares of 8.9 per cent and 9.3 per cent for 2009 and 2010 respectively. The increase in public investment is due to infrastructure investment as the country strives to meet the challenges of its Vision 2016 policy paper. While the good macroeconomic environment and public policy reforms in the financial and trade sectors could be part of the explanation for the increase in private investment, expected increases in public investment to improve infrastructure also play an important role.

The economic outlook for 2009 includes improved performance in the primary sector. Owing to the uncertainty associated with the global economy, however, growth in 2009 is forecast to be lower than in 2008. Beyond 2009, an expected decline in diamond production will restrain Botswana's growth, but the continued development of the services sector offers potential both for diversification of the economy and for larger contributions by this sector to overall economic growth. In addition, increases in public investment and continued good economic management coupled with positive public sector reforms are expected to minimise the decline in the growth of private investment and hence to limit the decrease in real GDP growth in 2008, 2009 and 2010.

Macroeconomic Policies

Fiscal Policy

In the past, the government succeeded in running budget surpluses and accumulating substantial reserves, but the budget has come under pressure recently and has been in deficit for several years. Nevertheless, the government has made substantial efforts to maintain a sustainable budget by controlling expenditure and diversifying revenue sources.

Though modestly expansionary, the fiscal policy stance in Botswana has consistently emphasised prudence and sustainability. The government aims to keep the budget sustainability ratio, defined as the ratio of non-investment expenditure to non-mineral domestic revenues, at or below unity. It also aims to keep total public expenditure at no more than 40 per cent of GDP, deficits at a maximum of 3 per cent of GDP and development-related expenditures at 30 per cent of the total government budget. Additionally, revenue from minerals is used only to finance government investment expenditure.

The budget for 2008/09 is in broad balance, with a modest deficit of BWP 6 195 million (Botswana pula) expected for the fiscal year. The estimate for total revenue and grants in 2008/09 is 10 per cent higher than the revised budget for 2007/08. Mineral receipts account for 35.3 per cent of this total. The second-largest source of revenue is payments from the Southern African Customs Union (SACU), which are estimated to provide 27.7 per cent of the 2008/09 budget, a slight increase from the 27.5 per cent contribution to the 2007/08 budget. The revenue contributions of non-mineral income tax and value added tax are estimated to increase from 13.2 and 9.4 per cent in 2007/08 to 16.8 and 9.7 per cent, respectively, in 2008/09.

The 2008/09 budget for expenditure and net lending calls for a 14.5 per cent increase over the revised budget for 2007/08. Major factors behind the spending increase are the establishment of new government institutions, including the NBFIRA and six development hubs, and an across-the-board salary increase of 15 per cent. The latter followed a review of remuneration levels and salary structure by two separate commissions, one for the civil service and one for the political leadership.

Development spending is budgeted to increase by 10.1 per cent for 2008/09, and 6.8 per cent of the development budget for 2008/09 is expected to be financed through donor funding. The budget was overspent by 1.85 per cent in 2007/08, reversing the previous trend of underspending. It is therefore expected that the increased development budget will be spent.

Although diamond production is forecast to rise in 2009, prices are not expected to recover significantly. Stockpiling of rough diamonds is therefore expected to continue into 2009, and hence the budget is projected to be in deficit for 2009 before returning to a surplus

Table 2 - **Public Finances** (percentage of GDP at current prices)

	2000/01	2005/06	2006/07	2007/08	2008/09(e)	2009/10(p)	2010/11(p)
Total revenue and grants[a]	**50.0**	**44.7**	**47.4**	**40.7**	**37.5**	**31.0**	**32.3**
Tax revenue	42.7	40.4	43.6	36.6	33.4	27.8	29.1
Grants	0.2	0.2	0.8	0.8	0.7	0.6	0.5
Total expenditure and net lending[a]	**40.8**	**35.4**	**34.1**	**34.2**	**37.7**	**31.5**	**31.9**
Current expenditure	29.7	28.4	27.6	25.6	28.9	24.2	24.5
Excluding interest	*29.4*	*27.8*	*27.2*	*25.4*	*28.7*	*24.1*	*24.3*
Wages and salaries	9.7	10.5	10.0	9.4	9.9	8.3	8.3
Interest	0.3	0.6	0.4	0.2	0.2	0.2	0.1
Capital expenditure	11.1	7.6	7.0	9.0	9.0	7.4	7.6
Primary balance	**9.4**	**9.9**	**13.6**	**6.7**	**-0.1**	**-0.3**	**0.6**
Overall balance	**9.1**	**9.3**	**13.2**	**6.5**	**-0.3**	**-0.5**	**0.4**

a. Only major items are reported.
Source: Botswana Financial Statistics data; estimates (e) and projections (p) based on authors' calculations.

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in 2010. In addition, revenue from the SACU pool is expected to decrease in 2009 and 2010 as the effects of the SADC free trade agreement are felt.

Botswana has had no particular need to finance expenditures through debt. However, the government issues bonds domestically to increase the range of financial instruments available to long-term investors. No external public debt is expected for 2008/09, but this situation will change in 2009 and 2010, as the planned expansion of power generation capacity will be financed in part via commercial bank loans guaranteed by the World Bank and loans from the World Bank, African Development Bank and other external development assistance bodies.

Monetary Policy

The Bank of Botswana's monetary policy is aimed at keeping inflation within a medium-term target range of 3 to 6 per cent. In February 2008, it made several major changes to the monetary policy framework, with a view to focusing more closely on this medium-term inflation target. It announced that it would place less emphasis on meeting short-term objectives for inflation and credit growth, and it will no longer publish an annual inflation objective or intermediate credit growth target.

The first quarter of 2008 brought bad news on inflation, which rose sharply from 8.2 per cent at the end of 2007 to 9.8 per cent in March 2008. The rise continued, reaching a peak of 15.1 per cent in August, the highest level since July 1993 (14.3 per cent). This surge was largely driven by higher food and fuel prices: the former rose by 18 per cent, while petrol and diesel prices rose by 22.5 per cent. Inflation has slowed since September 2008, ranging from 13.1 per cent in October to 13.7 per cent in December. This decline mainly reflects the fall in international oil prices.

The BoB's bank rate, which stood at 14.5 per cent at the beginning of 2008, was raised by 50 basis points in May and again in June, bringing it to 15.5 per cent; as inflation eased, the BoB reduced this rate to 15.0 per cent in December 2008.

Inflation over the medium term (2009-10) will be influenced by domestic economic activity, imported inflation, and international economic and financial developments. The BoB will likely maintain its tight monetary policy stance, in an effort to restrain second-round effects and rein in inflationary expectations.

Botswana seeks to maintain a stable real exchange rate through a crawling peg exchange rate management system. The pula (BWP) is pegged to a currency basket comprised of the South African rand, the US dollar, the yen, the International Monetary Fund's Special Drawing Rights and the euro. As more than 80 per cent of Botswana's imports come from South Africa, the real rand/pula exchange rate is particularly important for Botswana.

In 2008, the pula's movements against the currencies of its major trading partners were quite varied. The pula depreciated against the yen (35.6 per cent), the dollar (20.1 per cent) and the euro (16.4 per cent), but appreciated by 10.6 per cent and 10.0 per cent against the pound sterling and the rand respectively. This stands in contrast to 2007, when it depreciated relatively less (10.3 per cent against the euro, 5.5 per cent against the yen, 1.3 per cent against the pound), but appreciated marginally (0.4 per cent) against the dollar.

External Position

The current account surplus was estimated at 13.5 per cent of GDP in 2008, compared to 16.6 per cent in 2007. The surplus is expected to decline further in 2009 and 2010, mainly because of an expected decrease in diamond production and exports for the years in question. While the services account deficit is estimated to remain unchanged in 2008, the factor income account deficit is estimated to have worsened. In 2009 and 2010, the services deficit is expected to decrease, but no improvement is expected in the income account as the country continues to rely on expatriate labour and foreign investment to sustain economic growth.

Total exports increased by 16.9 per cent between 2007 and 2006. Mining exports continued to perform

Table 3 - **Current Account** (percentage of GDP at current prices)

	2000	2005	2006	2007	2008(e)	2009(p)	2010(p)
Trade balance	16.0	17.1	16.9	13.7	11.2	9.5	8.5
Exports of goods (f.o.b.)	47.5	43.3	40.2	42.3	42.7	43.0	40.5
Imports of goods (f.o.b.)	31.5	26.2	23.2	28.7	31.6	33.5	32.0
Services	-4.0	-0.3	-0.6	-1.1	-1.1	-0.9	-0.8
Factor income	-6.2	-8.2	-6.9	-5.5	-6.2	-7.0	-6.7
Current transfers	3.9	6.6	7.7	9.6	9.6	9.9	9.1
Current account balance	**9.7**	**15.2**	**17.2**	**16.6**	**13.5**	**11.5**	**10.1**

Source: Botswana Financial Statistics data; estimates (e) and projections (p) based on authors' calculations.

StatLink http://dx.doi.org/10.1787/578230807618

strongly, driven by rising copper-nickel exports (+44.5 per cent). Production volumes of copper-nickel remained similar to those of 2006, with favourable price effects explaining the increase in value. Diamond exports increased by 3.9 per cent between 2006 and 2007 because of international price increases. Gold exports also benefited from record prices. Beef exports, which had begun a growth spurt in mid-2006 after several years of stagnation, continued to grow rapidly in 2007, increasing by 63.1 per cent in value terms.

Total imports increased by 36.8 per cent in 2007 due to significantly higher purchases of foreign food, beverages and tobacco, fuel, machinery and electrical equipment, and vehicles and transport equipment. Imports of machinery and electrical equipment and of

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

Source: IMF.

StatLink http://dx.doi.org/10.1787/573020571555

vehicles and transport equipment rose especially rapidly, increasing by 53.8 per cent and 61.2 per cent respectively. Imports of food, beverages and tobacco increased by 30.3 per cent in 2007 (10.9 per cent in 2006), reflecting rising food prices.

Given Botswana's new trade policy, national export strategy and export promotion programme, non-mineral exports are expected to increase and to contribute to continued current account surpluses in 2009 and 2010. In addition, the country's various trade agreements and the conclusion of the economic partnership agreements being negotiated with the European Union and United States are expected to attract export-oriented FDI. Botswana's net international investment position is positive, with significant reserve assets and investments abroad that exceed foreign investment in Botswana.

Structural Issues

Private Sector Development

The Private Sector Development Strategy (PSDS) of the Botswana Confederation of Commerce, Industry and Manpower (BOCCIM) was launched in January 2008. The PSDS lays out a roadmap for expanding and strengthening private sector participation in Botswana's economic development. The strategy identifies both the constraints to cultivating a generally supportive business climate and the institutional reforms needed to support private sector development. It also proposes specific policy solutions for removing barriers to private sector involvement in trade.

In the World Bank's *Doing Business* ranking for 2008, Botswana came in 52nd out of 181 countries. This was a slight decline from its 2006 ranking of 48th, reflecting the lack of significant improvements in various constraints affecting the start-up and/or operation of businesses in the country. For example, starting a business requires ten procedures and 78 days, as compared to six days in Mauritius and 26 days in Mozambique. Botswana has also shown little improvement in terms of trading across borders, employing workers and enforcing contracts.

The opening of Capital Bank in 2008 brought the total number of licensed banks to eight. The NBFIRA has been set up to regulate non-bank financial institutions such as micro lenders and asset managers. As some of these were previously unregulated, this new regulatory authority is expected to improve the functioning of such financial institutions.

Other Recent Developments

Implementation of the 10th National Development Plan for Botswana is expected to begin in April 2009. This plan represents a shift from previous plans in that it is based on an integrated development planning approach that uses a results-based management framework. Whereas previous plans were for five years, NDP 10 is a seven-year plan that coincides with the remaining period of the country's Vision 2016 document. The theme of this plan is "accelerating achievement of Vision 2016 through NDP 10", and its main objective is to diversify the economy.

In 2008 the government initiated the establishment of six development hubs in the areas of education, transportation, diamonds, innovation, health and agriculture. These hubs will promote and engage private sector participation in their respective areas.

Botswana is also concentrating on implementing its privatisation policy. The government is expected to start accelerating privatisation by outsourcing more services and promoting public-private partnerships in the development and/or operation of public facilities. This process is expected to stimulate further development of the capital market as changes are made to the ownership of parastatals. Thus, new financial instruments and facilitating institutions are expected to come into being. An Investment Trust Fund has been created in the form of an incorporated company to manage shares and other assets from privatised entities.

Demand for electricity in the SADC region has grown considerably faster than was forecast. Recent shortages and disruptions to electricity supply in the country and the region have led to the Morupule Power Station Expansion Project, which involves the development of a coal-fired power plant with gross capacity of 600 MW. The construction contract for the project was awarded in November 2008, with construction expected to be completed in 2010. Construction of the Mmamabula Energy Project, another power station with a planned capacity of 1 320 MW, is expected to start in 2009.

Although water is a scarce resource in Botswana, the country is firmly on course to ensuring universal access to safe drinking water. The proportion of the population with sustainable access to safe drinking water increased from 77 per cent in 1996 to 96 per cent in 2006. The government has started the development of four additional major dams across the country. Design and construction of the North-South Carrier II Pipeline project started during the 2008/09 fiscal year. The pipeline will transport water from the north to the south of the country, improving water availability in the south for both industrial and domestic use.

A substantial upgrading of major roads and the renovation and modernisation of Sir Seretse Khama Airport and three other international airports are under way. When complete, these projects will considerably improve the country's transportation infrastructure.

As natural resources in Botswana are considered to be public goods, the government is responsible for their management. Minerals are exploited by the government in partnership with private companies, mostly under monopoly agreements for mining operations. Education and public awareness about environmental issues are fairly strong, although environmental education appears under-funded and in need of stronger co-ordination. The National Conservation Strategy Agency (NCSA) co-ordinates advocacy and public awareness on environmental conservation. A number of non-governmental organisations are also active in environmental conservation and awareness raising. Environmental education has been integrated into the school curriculum. Public education seminars are held in districts and communities, and high-profile events on environmental issues are held annually. The impact of environmental education on public perceptions and practices in relation to the environment is not easy to measure, but even when the message is received and understood, it may be impossible to put into practice under conditions of poverty. Fuelwood, for instance, is the primary energy source for poor people, especially in rural areas.

Agriculture remains the mainstay of the majority of rural households. Government investments in the sector aim to improve productivity and enhance rural incomes. Over the years, the Ministry of Agriculture has introduced a number of reforms with the aim of promoting arable agriculture and dairy farming. These reforms include the National Master Plan for Arable and Dairy Development (NAMPAAD), the Integrated Support Programme for Arable Agriculture Development (ISPAAD) and the Livestock Management and Infrastructure Development (LIMID) programme.

The NAMPAAD seeks to improve the performance of the agricultural sector through the introduction of improved technologies and efficient use and management of land and water resources. It also seeks to commercialise the sector. For this to happen, agricultural policies will need to shift from the current welfare-oriented approach to a business-oriented approach. Four NAMPAAD production and training farms will become operational during 2008/09. Once they are up and running, the next phase will be to consolidate the activities of these projects in order to provide more varied demonstrations and training to farmers.

The ISPAAD aims to facilitate access to credit through the National Development Bank. Under this facility, the government will establish a fund to provide operating capital (seasonal loans) to farmers at prime interest rates. While this is an innovation as far as agriculture is concerned, the government provides a similar facility at subsidised interest rates under an economy-wide scheme called the Citizen Entrepreneurial Development Agency.

The LIMID programme is aimed at improving livestock management and productivity, including the sustainable utilisation and conversion of range resources. This programme involves support schemes ranging from the provision of production and complementary infrastructure, such as poultry abattoirs, boreholes and borehole equipment, to support for production of small stocks and poultry, notably guinea fowl.

The government has entered into an agreement with a foreign private investor to conduct a feasibility study of the Chobe-Zambezi Integrated Agro-Commercial Development Project in Pandamatenga. The private investor will invest in agro-commercial activities like fisheries, poultry, field crops, vegetables and oil plants, while the government will invest in supporting infrastructure.

Additional government initiatives in the agricultural sector have focused on improvements to infrastructure and insurance for farmers. Studies on the viability of these projects have been completed, and the government is now planning for the implementation of their recommendations. The agricultural infrastructure programme will provide supporting infrastructure such as roads and irrigation facilities to viable commercial farming areas; the farmers' insurance scheme will protect farmers against income losses resulting from natural disasters.

Innovation and ICT

Information and communication technology (ICT) in Botswana is based on an integrated services digital network (ISDN), a technology that is offered in two forms: basic rate access, a 2 x 64 kilobits per second (kbps) service that is primarily aimed at small and medium-sized enterprises, with spillover into the high-end residential and corporate market; and primary rate access, a 30 x 64 kbps service that terminates in an ISDN-compatible private automatic branch exchange (PABX) and is aimed at the corporate market. ISDN provides two primary high-speed (64 kbps) communications channels that can be used simultaneously or independently to carry combinations of data, image, video or voice calls. ISDN users can combine these two channels to achieve a data transfer rate of 128 kbps or more with software compression. ISDN also provides a third channel, known as the D channel, for low-speed data communications, which is ideal for point-of-sale, remote monitoring or telemetry applications.

As of the end of October 2008, the national penetration rate was 8.3 per cent for fixed-line telecommunication services. The Botswana Telecommunications Corporation (BTC), a parastatal, is the only fixed-line operator in Botswana. Through BTC, the government has invested extensively in infrastructure, which now allows for the provision of both national and international voice telephony; toll-free services; public pay phones; wholesale access to Internet service providers (ISPs) and corporations through virtual port dialup network (VPDN) or virtual point of presence (VPoP) service; data services including leased circuits, private wires, very small aperture terminals (VSATs), managed networks and switched data services; and customer equipment, including a range of digital PABXs. For some bigger villages, wireless telecommunication connections are provided depending on the availability of electricity.

The most recent product innovation is BTC Broadband, which brings broadband Internet access to Botswana through participating ISPs. It employs asymmetric digital subscriber line (ADSL) technology, which utilises the unused higher bandwidth of a telephone line to transmit or receive signals without interfering with normal telephone operations. However, some of these technologies, such as the VPoP and dialup networks, are available only in urban centres.

BTC has also recently started a mobile network, bringing the total number of cell phone networks in Botswana to three. The national penetration rate for these mobile services is 96 per cent. As mobile telephony is a close substitute for fixed-line telephony, with wider national coverage and relatively easy access, the fixed-line network has seen very little growth since the introduction of mobile services. Mobile operators are not yet offering banking or money transfer services, but they have contributed to the emergence of new small and medium-sized enterprises that deal in the distribution and marketing of mobile telecommunication services.

The ICT sector is regulated by the Botswana Telecommunications Authority (BTA), an independent regulatory authority established in 1996. The BTA is vested with the authority to regulate and supervise all aspects of telecommunication common carriers and service providers that fall under its jurisdiction. Although it has a broadcasting regulation department, where broadcasting is concerned the BTA effectively serves as the secretariat to the National Broadcasting Board (NBB), a separate government entity. BTA mainly advises the NBB on technical matters.

The BTA received a government appropriation of BWP 4.2 million (worth about 1 million US dollars [USD] at the time) in its first year in order to launch its operations and a grant of BWP 2.2 million in 2001 to fund the first phase of its spectrum-planning project. In addition, it received BWP 4 million from the Botswana and Swedish governments to finance the costs of two Swedish consultants during the initial phase of the BTA's operations, funding that continued through the year 2000.

Apart from these start-up funds, the BTA has been completely self-sufficient. Since its first year of operation, it has financed its budget exclusively through regulatory fees and investment income. The Authority submits an annual plan for the minister's approval at least three months before the beginning of each financial year. In addition, it submits financial reports to the auditor general, who has the right to advise the government that the BTA's books should be inspected.

Pricing of telecommunications is market-based for both the single fixed-line operator and the mobile operators. However, the government usually subsidises the initial cost of infrastructure provision in rural areas where BTC cannot justify the provision of such services on a commercial basis. Mobile telecommunications operators, in contrast, operate without regulatory strictures on service coverage or prices. All telecommunication handsets are subject to both customs duties and value added tax. The use of both fixed-line and mobile services is also subject to value added tax.

Most of the financing for ICT in Botswana comes from FDI by private companies. Capital markets in the country are extremely small and currently play no major role in raising capital for ICT ventures. However, the government allocates funds through the National Development Plans for the construction of ICT infrastructure.

Several ICT initiatives are under way to enhance Botswana's ability to compete globally. These include the establishment of the Botswana Innovation Hub, a science park that will promote private participation in technological research and development. The national radio and television stations are currently working to extend their transmission coverage to 95 per cent of the population by the end of the 2008/09 financial year. The BTC recently completed the Trans-Kalahari fibre-optic project, which required some 2 000 kilometres of fibre-optic cable and took 18 months. This project, which has changed the landscape of ICT infrastructure in Botswana, is designed to provide high-capacity, high-speed information and data transmission in order to bridge the digital divide and improve local and international connectivity and overall service delivery. In addition, BTC is involved in an international connectivity project through undersea fibre-optic cables along the east and west coastal corridors of Africa. When complete, this project will reduce the cost and increase the capacity and speed of international voice and data communication.

Political Context

Botswana's political environment is the most stable in the region. The country has a well-functioning democracy, with free media and an independent judicial system. Elections are held every five years, and each election since independence has been freely and fairly contested and has taken place on schedule. An independent Electoral Commission established in 1996 has helped to consolidate Botswana's reputation for fairness in voting. Apart from its internal stability, it enjoys good relations with neighbouring countries, particularly South Africa.

The ruling Botswana Democratic Party (BDP) has won all elections since independence. Its share of the popular vote, though always above 50 per cent, has been declining over the long term as the opposition parties have increased in influence and importance. The opposition is fragmented, however, which has hindered its ability to win parliamentary seats. In the 2004 elections, the BDP won approximately 52 per cent of the popular vote, but secured 77 per cent of the 57 elected seats in the National Assembly. The opposition parties tend to be stronger in urban areas and have benefited from long-term demographic changes as urbanisation proceeds.

Social Context and Human Resources Development

According to national sources the proportion of persons living on less than USD 1 per day increased from 19.9 per cent in 1993/94 to 23.4 per cent in 2002/03. Higher concentrations of poor are found in rural areas.

Access to education lies at the core of Botswana's long-term Vision 2016, which calls for universal and compulsory education, with options during and after the secondary level to take up vocational or technical training as an alternative to pure academic study. Other developments in the education sector include the expansion of the University of Botswana and the construction of the Botswana International University of Science and Technology as well as a medical school. Developments in vocational education include the construction of the Oodi College of Applied Arts and Technology and expansion of the Gaborone Technical College, the Auto Trades Training Centre and the Selibe Phikwe College of Applied Arts and Technology.

A National Human Resource Development Strategy (NHRDS) was adopted in December 2008. This document broadly outlines specific national and personal objectives with implementation guidelines covering various stages of human resource development: primary to tertiary education, employment, skills training and development, and lifelong learning. Key projects under the strategy include the establishment of a Human Resource Development Council and the formulation of sector-specific and national human resource development plans using the Council's planning system and database.

Botswana has eliminated gender disparity in most formal education. Girls' enrolment in primary and secondary education is on a par with that of boys'. Although political and economic power is still largely controlled by men, women are making steady progress in politics. In 2003 the cabinet included five women, who constituted 22.7 per cent of the 22-member cabinet. In 2002, 33 per cent of the directors of public enterprises and 67 per cent of the deputy chief executive officers were women. In the same year, women headed more than half of Botswana-based non-governmental organisations.

In recent years, much of the social progress made by Botswana has been undermined by HIV/AIDS, which is very widespread in the country. There is evidence that the HIV prevalence rate has stabilised and that the rate of new infection in the most vulnerable age groups has declined, indicating a change in behaviour. The prevalence rate recorded by sentinel surveys of pregnant women fell from a high of 37.4 per cent in 2003 to 32.4 per cent in 2006. The overall adult prevalence rate was 23.9 per cent in 2007.

These declining prevalence rates are the result of the government's response to the epidemic. The president has declared HIV/AIDS a national emergency, and the government has developed and implemented a national strategic framework including prevention, care and cure programmes. Public expenditure to combat the effects of the epidemic increased from 6.04 per cent of the national budget in 2002/03 to 13.22 per cent in 2006/07, before declining to 10.05 per cent in 2007/08 in response to increases in international funding.

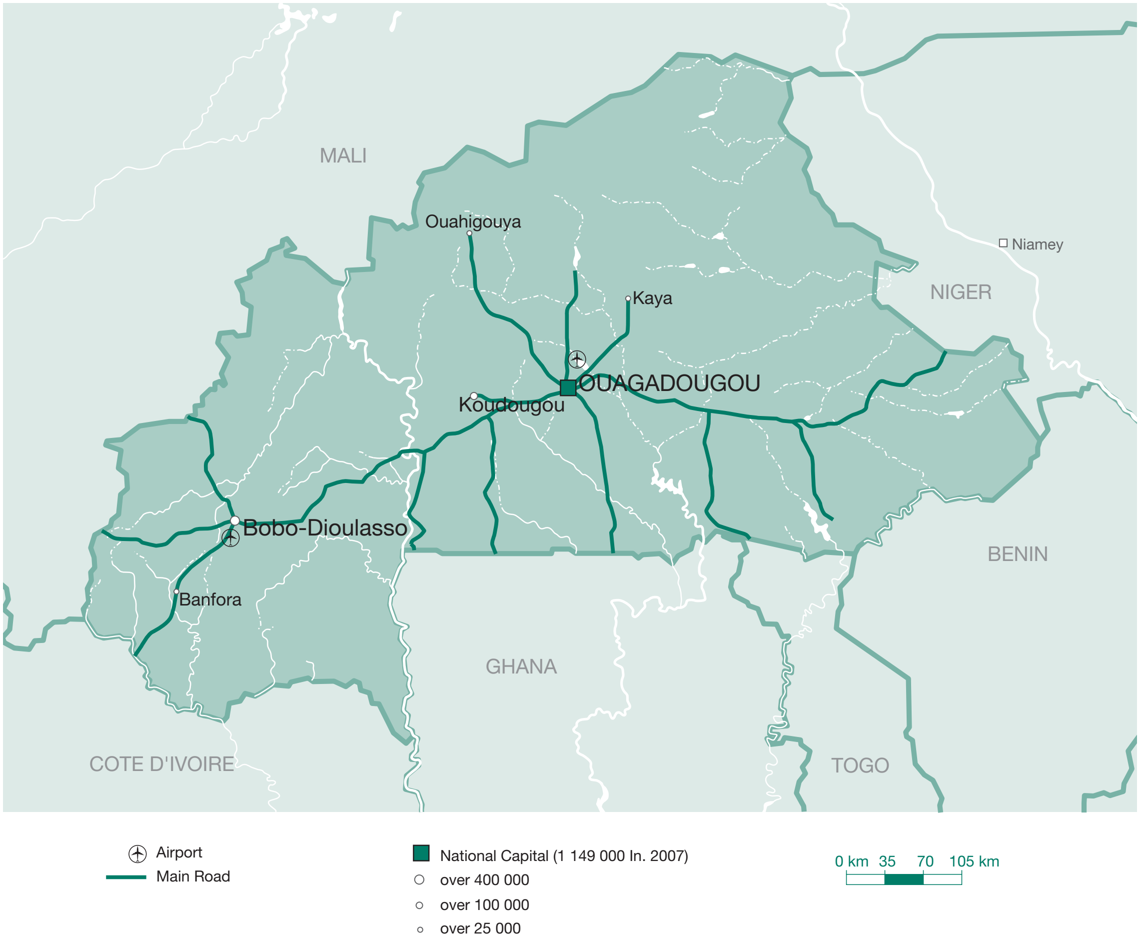
National rates of unemployment have increased. Both male and female youth face high unemployment in all regions of the country. In the 2005/06 National Labour Force Survey, the unemployment rate was 17.6 per cent for all adults, 15.3 per cent for males and 19.9 per cent for females.

Burkina Faso

key figures

• Land area, thousands of km²:	274
• Population, thousands (2008):	15 234
• GDP per capita, PPP valuation, USD (2008):	1 124
• Life expectancy (2008):	53.1
• Illiteracy rate (2008):	71

Burkina Faso

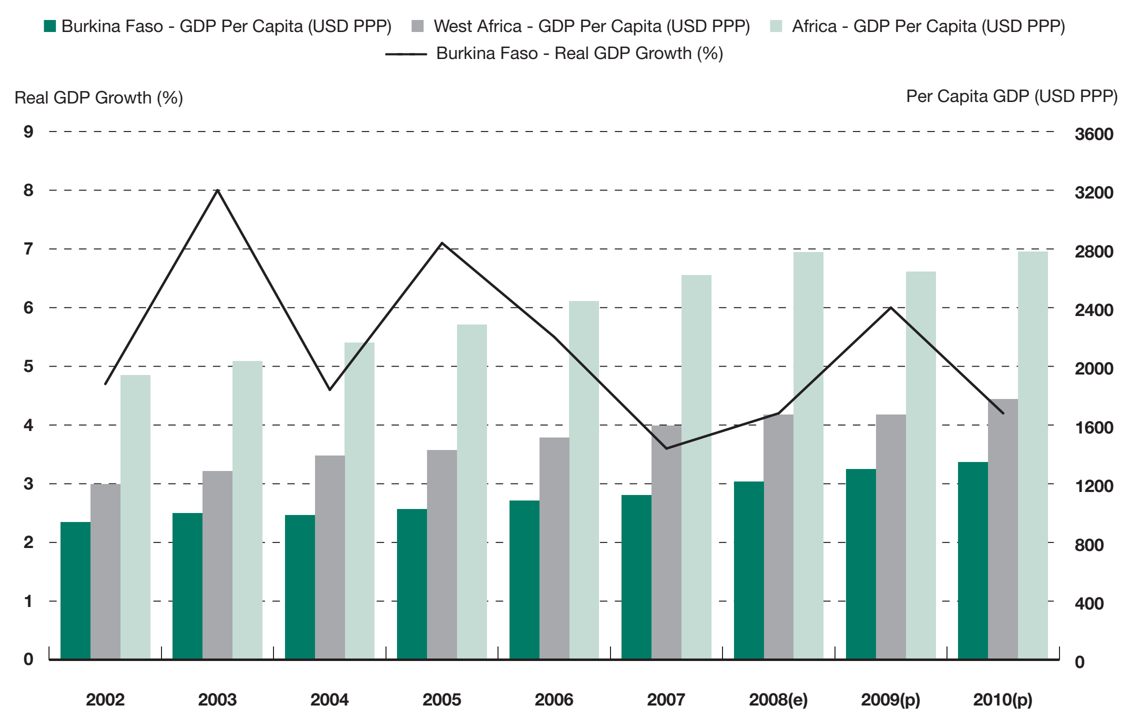


THE BURKINA FASO ECONOMY PROVED resilient in 2008 despite a difficult national and international economic and financial climate. Prudent economic policy and pragmatic and targeted structural measures supported this outcome. GDP (Gross Domestic Product) growth for 2008 is estimated at 4.2 per cent – short of earlier forecasts for 4.7 per cent – but up from 3.6 per cent in 2007. The economy should continue to be resilient in 2009, with projected growth of 6 per cent and 4.2 per cent in 2010. Growth will be driven by two factors — a decline in raw material prices, which should lead to a drop in production costs and thus spur investment, and a significant shift of revenue to rural areas due to specific support measures for agricultural production and small producers.

Inflation rose sharply due to the steep rise in consumer prices, especially food costs, during the first half of 2008. This occurred despite the suspension of customs duties and taxes on staple products. The inflation rate, near zero in 2007, rose to 9.3 per cent in 2008. Farm production support, consisting of inputs for small producers, should help ease shortages in the domestic market in 2009 by significantly increasing the supply of food-crops. At the same time, prices will be supported as efforts get underway to rebuild stocks in line with national food safety policy objectives. Inflation is expected to drop from 5.4 per cent in 2009 to 3.5 per cent in 2010.

Mechanisation has increased agricultural yields, but the fiscal deficit remains high.

Figure 1 - **Real GDP Growth and Per Capita GDP**
(USD/PPP at current prices)



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

StatLink http://dx.doi.org/10.1787/568654623734

Despite the growing strength of the mining sector, the Burkina Faso economy is still structurally and excessively dependent on cotton which remains the country's main export earner. Steps must be taken to diversify production by supporting domestic processing so as to create added value and generate employment.

Recent Economic Developments

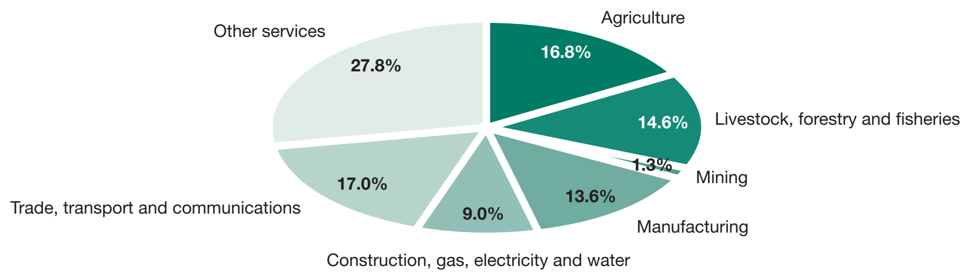
The economy showed signs of recovery in 2008, with a GDP growth rate of 4.2 per cent compared to 3.6 per cent in 2007. As in 2007, services and industry drove the Burkina Faso economy in 2008, contributing 1.97 and 1.15 percentage points to GDP growth, respectively. The agriculture sector, which accounts for 30 per cent of GDP and employs 85 per cent of the working population, contributed 0.85 points to GDP. Although down sharply compared to previous years, the contribution of the primary sector (food-crop production, cotton, livestock breeding) to real GDP growth rose significantly from 0.14 points in 2007. This increase resulted largely from special measures taken by the government to boost agricultural production as well as more favourable weather conditions.

The measures taken in a special action plan included the supply of free fertiliser and improved seed to farmers, guaranteeing a profitable price for rice above XOF 160 (CFA franc BCEAO) per kg and facilitating producers' access to farm equipment. Overall, farmers responded favourably to these measures, leading to a significant increase in sown acreage. Efforts to mechanise agriculture also raised productivity and yields.

As a result, cotton production by the country's three cotton companies increased sharply, rising from 355 394 tonnes in 2007 to 579 885 tonnes in 2008, a gain of 63.2 per cent. The rebound in cotton production stems from sector-specific measures taken by the government, measures that also benefited food-crop production. Cereal-crop production increased, rising 21.6 per cent for millet, 2.5 per cent for sorghum, 62.3 per cent for maize and 80 per cent for rice. The support measures were expected to raise 2008 rice production back to 2007 levels. The agricultural sector also reaped the benefit of the recent popularity of tubers such as yams, sweet potatoes and manioc, which have fetched good prices and can be exported to the sub-region. Livestock breeding indirectly benefited from the rebound in cotton production and increased efforts to control animal diseases, with livestock growth holding steady at 2.7 per cent. Livestock breeding contributed 0.37 points of GDP growth in 2008 and this should rise in 2009 and 2010, particularly due to the creation of a livestock feed production unit and a milk and dairy product production company that will provide new markets for breeders.

Growth in the secondary sector, which accounts for approximately 23 per cent of GDP, slowed in 2008. In recent years, the sector has been invigorated by major investments in transport and urban infrastructure projects, and buoyed by an upturn in the mining industry that began in 2007. Secondary-sector growth

Figure 2 - **GDP by Sector in 2007** (percentage)



Source: Authors' estimates based on Ministry of Economy and Finance data.

StatLink http://dx.doi.org/10.1787/571254506787

fell to 4.4 per cent in 2008 from 8.2 per cent in 2007. Growth in 2008 was mainly driven by modern manufacturing (2.22 per cent), extractive industries (1.13 per cent) and construction (1.05 per cent). Modern manufacturing industries benefited from an increase in trade and the improved political situation in Côte d'Ivoire. However, certain sub-sectors, such as tobacco and beverages, experienced a significant decline (down 4 per cent) due to the strong inflation trend in the first half of 2008. The cotton processing industry also reported a steep drop (16 per cent), stemming from the slowdown in world demand for textile fibres. In 2008, the country produced 8 tonnes of gold, a key export, as against 9 tonnes in 2007. In recent years, the extractive sector has benefited from substantial investment to upgrade existing mines (Somita, BMC, Semafo, Kalsaka Mining) and to open new facilities. The sector may, however, continue to suffer from the deteriorating global economic climate in 2009. Plans to open a new gold mine and a zinc mine were frozen in late December 2008.

The service sector, the primary engine of GDP growth, recorded 4 per cent growth in 2008 compared to 5 per cent in 2007 and 6.2 per cent in 2006. Service sector growth was driven by the telecommunications industry, which expanded 16.2 per cent in 2008, largely due to the boom in the mobile telephone market and the entry of new Internet service providers. The vitality of this sector can mainly be attributed to the authorities' decision to give free rein to competition from the end of 2007. The transport sector recorded growth of 20.5 per cent. It got a boost from the easing of tension in Côte d'Ivoire after the signing of the March 2007 Ouagadougou political agreement (APO), which led to the resumption of normal rail traffic between the two countries. Transport also benefited from the recovery in the agricultural sector.

Financial services grew 1.5 per cent rise in 2008, down 0.8 percentage points compared to 2007. Business growth in other commercial services – including tourism, which is heavily dependent on the world economy – declined 1.6 per cent in 2008.

In 2008, the economy was driven by consumption, which contributed 3.8 percentage points to GDP growth, of which private consumption accounted for 70 per cent. Total investment contributed 1.8 percentage points to GDP growth, with private investment accounting for 55 per cent of this amount. The contribution made by private consumption as a proportion of final consumption reflects the impact of price controls and efforts to boost rural purchasing

Table 1 – **Demand Composition**

	Percentage of GDP (current prices)		Percentage changes, volume			Contribution to real GDP growth		
	2000	2007	2008(e)	2009(p)	2010(p)	2008(e)	2009(p)	2010(p)
Gross capital formation	**17.9**	**15.3**	**10.1**	**4.5**	**8.0**	**1.8**	**0.8**	**1.5**
Public	10.9	5.7	12.0	3.7	8.0	0.8	0.3	0.6
Private	6.9	9.5	9.0	5.0	8.0	1.0	0.6	0.9
Consumption	**97.7**	**99.0**	**3.7**	**3.4**	**3.7**	**3.8**	**3.4**	**3.6**
Public	20.8	22.9	4.6	3.6	3.1	1.1	0.9	0.8
Private	76.9	76.2	3.4	3.3	3.8	2.6	2.5	2.8
External demand	**-15.5**	**-14.3**				**-1.4**	**1.7**	**-0.8**
Exports	9.6	10.5	4.8	5.9	4.9	0.7	0.9	0.7
Imports	-25.1	-24.8	6.2	-2.4	4.9	-2.1	0.8	-1.6
Real GDP growth						**4.2**	**6.0**	**4.2**

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

StatLink http://dx.doi.org/10.1787/575454713357

power. A slowdown in investment growth in 2008 reflected a sharp first half decrease in private investment due to the deterioration of the global and domestic economy, higher raw material prices; concerns over the profitability of planned investments and lower projections for household consumption. The contribution of investment to real GDP growth is projected to drop to around 0.8 percentage points in 2009 before rebounding to 1.5 percentage points in 2010.

In foreign trade, imports grew 6.2 per cent in 2008 while export growth fell from 6.9 per cent in 2007 to 4.5 per cent in 2008 due to declines in cotton fibre exports.

Macroeconomic Policies

Fiscal Policy

Since 2007, Burkina Faso has been the beneficiary of a three-year agreement with the International Monetary Fund (IMF) for 6.02 million special drawing rights (SDR) under the Poverty Reduction and Growth Facility (PRGF). In January 2008, the IMF approved a grant of 9.03 million SDRs, or 15 per cent of the country's IMF quota, to cope with the rise in oil prices and the negative repercussions of the poor 2007 cotton harvest. Burkina Faso's outstanding drawdown from the IMF currently stands at 27.23 million SDRs or 45.2 per cent of its IMF quota.

Despite the reduced income resulting from the government's six-month suspension of customs duties and value-added taxes (VAT) on consumer products, public revenues, including grants, amounted to 19.9 per cent of GDP in 2008, compared to 20.1 per cent in 2007. Tax revenue amounted to 12.3 per cent of GDP[1]. Grants were unchanged at 6.5 per cent of GDP. The fiscal outcome should be viewed in light of the exceptional tax measures taken by the authorities in 2008.

The authorities have made progress in revenue collection, stepping up oversight of both direct and indirect taxation (lowering the threshold for reporting imports), and improving taxpayer management (individuals and companies) by putting in place IT systems in the Ouagadougou and Bobo-Dioulasso offices. In terms of tax and customs administration, investments in the IT Taxation System (Sintax) and IT Customs System (Sydonia), and employee training have reduced the proportion of late taxpayers and tax

Table 2 - **Public Finances** (percentage of GDP at current prices)

	2000	2005	2006	2007	2008(e)	2009(p)	2010(p)
Total revenue and grants[a]	**19.5**	**17.1**	**41.0**	**20.1**	**19.9**	**18.5**	**18.4**
Tax revenue	10.9	11.5	12.0	12.5	12.3	12.0	12.0
Grants	7.7	4.6	28.1	6.5	6.5	5.5	5.4
Total expenditure and net lending[a]	**23.3**	**22.4**	**24.3**	**25.8**	**26.3**	**25.5**	**25.7**
Current expenditure	10.5	11.6	12.8	13.9	14.0	13.5	13.4
Excluding interest	*9.6*	*11. 0*	*12. 2*	*13.5*	*13.5*	*13.0*	*12.9*
Wages and salaries	4.8	4.9	5.3	5.8	5.5	5.2	5.1
Interest	0.9	0.6	0.6	0.4	0.5	0.5	0.5
Capital expenditure	12.7	11.3	12.0	11.8	11.9	12.1	12.4
Primary balance	**-2.9**	**-4.7**	**17.3**	**-5.3**	**-5.9**	**-6.4**	**-6.8**
Overall balance	**-3.8**	**-5.3**	**16.7**	**-5.7**	**-6.4**	**-6.9**	**-7.3**

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

StatLink http://*dx.doi.org/10.1787/576568573308*

1. Clear progress has nevertheless been made: tax revenue only represented 10.7 per cent of GDP in 2002.

evaders from 12 per cent at the beginning of 2007 to less than 7 per cent at the end of the third quarter of 2008. The average tax take (13 per cent) nevertheless remains lower than the 17 per cent standard set by the West African Economic and Monetary Union (WAEMU)[2].

Expenditure and lending rose to 26.3 per cent of GDP in 2008 from 25.8 per cent in 2007. The share of current expenditure (wages, salaries and interest) held steady (14 per cent in 2008 after 13.9 per cent in 2007). Despite an unfavourable economic climate, the authorities went ahead with priority expenditures to further the Millennium Development Goals (MDG). Poverty reduction expenditure, particularly for health and education, amounted to 5.5 per cent of GDP, a slight decline relative to 2007 (5.6 per cent). Overall, the budget deficit, excluding grants, is expected to rise to 12.9 per cent of GDP in 2008 from 12.2 per cent in 2007.

The continuing deterioration of the global economy, coupled with the possible resurgence of social demands, could weaken the public finances in 2009 and 2010, deepen the deficit and delay the achievement of the macroeconomic objectives set in the WAEMU Convergence, Stability, Growth and Solidarity Pact that came into force in January 2000. Due to the global financial crisis, the government cannot rely on the possibility of earning additional revenue from privatisation, such as the income generated when the National Telecommunications Office (Onatel) was sold in 2006. It will also have to cope with financial obligations resulting from the recapitalisation and structural reforms of the Société des Fibres et Textiles (Sofitex), the country's main cotton company. Income from external sources, particularly the Millennium Challenge Corporation (MCC), should provide additional revenues essential to the state's public service commitments. MCC investments planned for 2009 and 2010 should be equal to 1 per cent and 1.1 per cent of GDP, respectively. Overall, in the absence of any significant increase in tax revenues, the budget deficit, excluding grants, is projected at 12.4 per cent of GDP in 2009 and 12.7 per cent in 2010.

Monetary Policy

Controlling inflation is the top priority of Burkina Faso's monetary policy, which is managed by the Central Bank of West African States (BCEAO). Because the currency is linked to the euro at fixed parity, the WAEMU and euro zone monetary policies are aligned. Net external assets rose 2.2 per cent compared to 21.3 per cent in 2007, a year marked by a significant debt cancellation under the Multilateral Debt Relief Initiative (MDRI) begun in 2006. Net internal assets increased 9.9 per cent in 2008 as against a 5.5 per cent drop in 2007. This upturn is the direct result of the improved situation not only of the cotton sector but also of the financial institutions that were overly exposed to cotton companies. Bank lending to the public sector rose 1.8 per cent in 2008 after dropping 9.6 per cent in 2007, while lending to the private sector grew 8.1 per cent, an indicator of the business recovery that began in 2008.

The money supply climbed 9.8 per cent in 2008 compared to 22.9 per cent in 2007. Inflation rose sharply in the wake of the food crisis and production problems in the agricultural sector. By the end of the first half of 2008, the WAEMU harmonised index of consumer prices (HICP) had risen 9.2 per cent relative to the first half of 2007. The first half of 2008 was marked by a sharp spike in prices, mainly for food and non-alcoholic beverages. However, the recent increase in agricultural production, particularly of food crops, coupled with the decline in oil prices, should reduce the cost of imported products and help reduce overall inflation to around 5.4 per cent in 2009 and 3.5 per cent in 2010.

External Position

The balance of payments deteriorated significantly due to the drop in agricultural production and cotton

2. For example, Senegal had a tax burden ratio of 20 per cent in 2008 and is planning on a ratio of 22 per cent in 2010.

exports. The surplus is expected at XOF 12 billion in 2008 against XOF 180 billion in 2007[3]. The current account deficit for 2008 is estimated at 10.2 per cent of GDP, up from 9.1 per cent in 2007. This poor performance can be attributed to the deterioration of the trade balance and the lag between the reported upturn in cotton production and the absorption of this increased output by global markets. According to the IMF, cotton exports will likely fall to XOF 101 billion in 2008 from XOF 169 billion in 2007. Total imports should rise to XOF 724.9 billion in 2008 from XOF 585.2 billion in 2007. The trade deficit stood at 9.6 per cent of GDP in 2008. An improvement is expected in 2009 and 2010, driven by increased cotton shipments and a sharp upturn in exports of mining products, whose value is projected

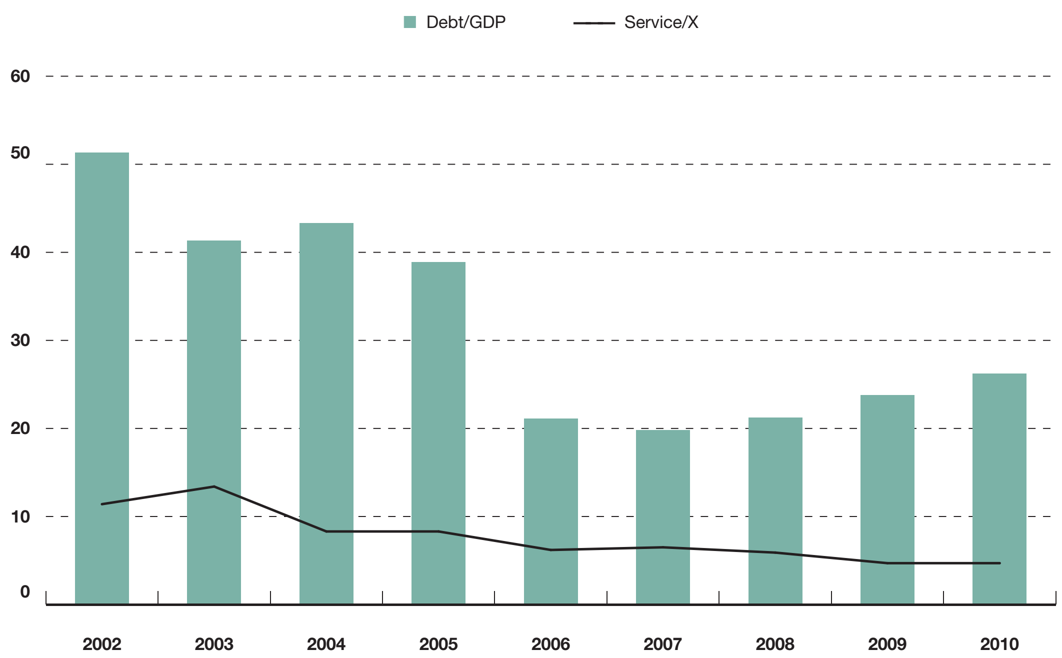
Table 3 - **Current Account** (percentage of GDP at current prices)

	2000	2005	2006	2007	2008(e)	2009(p)	2010(p)
Trade balance	-11.9	-10.3	-8.4	-8.8	-9.6	-6.6	-6.8
Exports of goods (f.o.b.)	7.9	8.6	10.2	9.1	8.5	9.4	9.2
Imports of goods (f.o.b.)	19.8	18.9	18.6	18.0	18.1	15.9	16.0
Services	-4.1	-5.4	-5.6	-5.4	-5.1	-5.0	-4.8
Factor income	-0.8	-0.4	0.0	-0.2	-0.2	-0.3	-0.4
Current transfers	4.7	4.3	4.4	5.3	4.7	3.2	3.0
Current account balance	**-12.2**	**-11.7**	**-9.6**	**-9.1**	**-10.2**	**-8.7**	**-9.0**

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

StatLink http://dx.doi.org/10.1787/578316843406

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



Source: IMF.

StatLink http://dx.doi.org/10.1787/573065080806

3. A year that generated exceptional revenues from Onatel's privatisation.

to rise to XOF 119.6 billion in 2010 from XOF 85 billion in 2008 and XOF 16.1 billion in 2007. As a result, the trade deficit should decline to 6.6 per cent and 6.8 per cent of GDP in 2009 and 2010, respectively.

External debt was equal to 21.4 per cent of GDP, a 1.6 percentage points increase over 2007. The external debt service ratio against exports of goods and services stood at 9.6 per cent in 2008, up from 7.4 per cent in 2007 due to the slow recovery in cotton exports. In 2008, external debt represented 87 per cent of public debt. At net present value (NPV), external debt in 2008 was equal to 123.2 per cent of exports as against 113.9 per cent in 2007. External debt as a proportion of tax revenues rose to 93 per cent in 2008 from 88 per cent in 2007. This deterioration reflected an increase in disbursements from foreign aid sources and continuing MDG-related expenditure.

According to IMF projections, external debt at end-2008 is estimated at XOF 906 billion compared to XOF 700 billion in 2006, and is set to rise to 131.3 per cent of exports in 2009 and 138.6 per cent in 2010. Outstanding external debt would amount to 23.5 per cent of GDP in 2009 and 26.8 per cent in 2010. In the absence of an increase in tax revenues of 3 to 4 per cent, exceptional privatisation revenues and/or new massive multilateral debt relief programmes, such as those that came to Burkina Faso's aid in previous years, these forecasts point to the need for drastic belt-tightening measures by 2010 or 2011 in order to reduce the public deficit.

Structural Issues

Private Sector Development

There has been major progress in improving the business climate to support private investment. The transfer of the one-stop shops (CGU) to the Burkina Faso business centre (MEBF) and the creation of business registration centres (CEFORE) have shortened the time necessary for registering a company to 23 days. Legislation creating one-stop shops for registering land title (GUTF) and centres for streamlining the building permit process (CEFAC) was adopted during the first half of 2008.

CEFAC should reduce the time to process the technical file and to obtain building permits from 90 to a maximum of 20 days, and from 226 to a maximum of 30 days, respectively. Plans call for a building permit centre in Bobo Dioulasso in 2009, followed by other centres in the northern and east central regions. The 2008 finance law includes tax measures that simplify the procedures and reduce the costs involved in obtaining title deeds, such as eliminating the registration formality and stamp duty for company articles of association, and reducing the transfer duty on real estate transactions from 10 to 8 per cent. Lastly, efforts continued in 2008 to create a trade and real estate credit register (RCCM) to bring Burkina Faso into compliance with the Organisation for the Harmonisation of Business Law in Africa (OHADA). The government also took further steps to stimulate the economy by approving plans aimed at making the labour market more flexible. The legislation was submitted to parliament in April 2008.

Eleven commercial banks, subsidiaries of major multinational private banks, mainly French (BNP Paribas, Société Générale) and African (Bank of Africa, Ecobank), comprise Burkina Faso's banking sector. At the beginning of 2008, the state held approximately 23 per cent of the sector's total capital as against 16 per cent held by WAEMU. Despite compliance with prudential standards and ratios, the banking sector's solvency seems to have been weakened. Return on equity (ROE) stood at 11.9 per cent in June 2008 as against 6.8 per cent in December 2007 and 16.4 per cent in December 2006. The return on assets remains structurally weak, amounting to 1 per cent in 2008 compared to 0.6 per cent at end 2007 and 1.2 per cent at end 2006. The banking market slowdown continued, with private sector lending falling to 17.9 per cent of GDP in 2007 from a peak of 19.5 per cent at end 2006. Credit provision is hindered by the financial sector's difficulty in mobilising long-term resources, which are mainly granted by donors. As a result, 58 per cent of all loans issued by the banking sector at the end of the first quarter of 2008 were short-term as against 57 per cent in 2007 and 68 per cent in 2006. At the beginning of the first quarter of 2008, nine of the 11 banks, accounting for 82 per cent of the sector, had capital adequacy levels in compliance with international norms.

The global financial crisis should not, at first, significantly affect the Burkina Faso banking sector due to its limited exposure to international financial markets and toxic financial products. On the other hand, the banks are highly exposed in the domestic market, particularly with regard to the cotton sector, which absorbs a large amount of existing short-term credit. The structural problems faced by the cotton sector since 2004 have required state intervention to guarantee the bank loans taken out by cotton companies. Despite rising production, the state could become the guarantor of last resort depending on how world demand for textile fibres develops through 2009-10. According to the IMF, the Burkina Faso banking sector will likely have to set up securitisation and financial risk management mechanisms for the cotton sector and improve the quality of the financial infrastructure in the medium term in order to remain solvent. The cost of recapitalising the banking sector in the event major borrowers default on their loans, particularly in the agricultural sector, is estimated at 2.4 per cent of GDP by the IMF.

At the same time, microfinance institutions will require better oversight during the 2009-10 period. The commercial banking sector provides them with refinancing facilities and recycles a substantial proportion of their deposits.

Other Recent Developments

Reforming governance and improving administrative efficiency are two priorities for the authorities. After the National Assembly adopted a law creating a High Authority for State Supervision (ASCE) in December 2007, the government in 2008 focused on developing the law's implementing orders. The ASCE will be granted greater independence and will have the power to investigate the entire public sector. This new institution arose from the merger of the State Inspectorate General, the High Authority for the Co-ordination of the Fight against Corruption and the National Commission for the Fight Against Fraud. As part of the national good governance plan (PNBG), a comprehensive diagnostic study of governance and the fight against corruption was conducted with the support of the World Bank. After Burkina Faso joined the Extractive Industries Transparency Initiative (EITI) in September 2007, the government worked to develop an institutional system for monitoring mining activities with the support of the Ministry of Mining, Quarrying and Energy.

The deterioration of the global economic and financial climate in late 2008 put a stop to the privatisation programme. The privatisation and leasing programmes at the Ouagadougou and Bobo Dioulasso international airport and the new Ouagadougou-Donsin airport were suspended, as were plans for the further sale of Onatel and Sonabel, the national electric company.

Energy supplies get special attention. Burkina Faso remains structurally dependent for 70 per cent of its energy needs on hydrocarbons, used in power plants. It meets the rest of its energy needs (30 per cent) from hydroelectric sources and electricity imported from neighbouring countries. The need to diversify into alternative energy sources such as solar power remains a major economic and social challenge. Due to the steep hike in oil prices, the government raised prices at the pump in January 2008 but at lower rates than those set by the automatic pricing mechanism for oil products implemented with the help of the World Bank. SONABHY, the national oil and gas company, assumed the cost of the difference, leading to plummeting margins. The share fall in oil prices to below USD 40 in the fourth quarter of 2008 was not fully passed on to the consumer in order to allow SONABHY to rebuild its margins.

Upgrading of the national and cross-border road network continued in 2008. The government resumed work on projects that had been suspended due to a lack of funds and high cost of raw materials, particularly links with Mali, Burkina Faso and Ghana. Completion of this road network, to which the African Development Bank (AfDB) is contributing USD 21 million, will promote regional integration. A framework law on land transport was adopted by parliament in May 2008. Training sessions on transport regulations, procedures and financing were held for 350 industry stakeholders during the first half of 2008. The national road safety policy was approved by the cabinet and the newly created National Road Safety Office (ONSR). In line with its commitments to WAEMU and the Economic Community of West African States (Cedeao), the government implemented a new standardised system to significantly reduce road checks and thus improve traffic flow.

In agriculture, the cotton sector continued to undergo reform. A new system for setting producer prices brought local rates into line with world prices via a price-smoothing fund. Uncertainties remain concerning the capitalisation and contribution mechanism for this fund, which will be carefully reviewed in 2009 and 2010. The authorities are actively seeking a strategic partner to take over Sofitex, the country's main cotton company. One of the government's priorities for 2009-10 is improving productivity in the cotton sector with the support of the World Bank.

Innovation and ICT

Information and communication technologies (ICT) are necessary for good administrative, economic, local and political governance, and the government has developed a national strategy to take full advantage of them during the 2004-2010 period.

The telecommunications sector was reformed in 1998 with a law setting out implementing regulations, which define its legal framework, the conditions for opening up the sector to competition and the measures required for universal access to telecommunications services. The law also created the National Telecommunications Regulatory Authority (Artel) as a public administrative body with legal personality and financial autonomy. A policy for the telecommunications sector was adopted in July 1999.

A decree issued in 2000 established the procedures for providing universal telecommunications access, defined as "a minimum provision of telecommunications services to the public nationwide at an affordable price in accordance with the principles of equality, continuity and universality". The law set down three legal frameworks for the telecommunications sector. The first was an exclusive rights scheme for fixed-line telephone, international, telex and telegraph services which granted a monopoly to Onatel until 31 December 2005 so that it could "prepare for competition and the privatisation process". Onatel no longer enjoys a monopoly and was privatised in 2006, with Maroc-Telecom now the majority shareholder owning 51 per cent of the company. A regulated competition scheme covers the mobile telephone sector. This market is now competitive with three private operators. A free competition scheme covers value-added services such as the Internet and information networks.

Deregulation of the sector has changed the market. Onatel, the traditional operator, was created in 1987 as a public utility before being converted in 1994 into a company wholly owned by the state and then privatised in 2006. Artel is responsible for regulating the telecommunications sector. In conjunction with donors, the state provided most of the original capital for the industry. Market liberalisation led to substantial private investment with the arrival of two large private operators (Celtel, Telecel) providing Global System for Mobile Communications (GSM) networks. Nearly XOF 47 billion was invested in the mobile telephone sector in 2007, an increase of some 35 per cent and compared to only XOF 3.4 billion for fixed-line telephones, in clear decline since 2006 (down 52.4 per cent). Average annual investment in the telecoms sector amounted to XOF 11 billion or 4.34 per cent of the country's investments during the 1987-1997 period.

The telecoms sector has experienced a real boom since it was deregulated in 1998. The number of fixed-line telephones grew from 44 325 in 1998 to 116 746 in 2007. There were 1 858 039 mobile telephone subscribers in 2007. The total penetration rate (mobile and fixed-line) is 14.38 telephones per 100 inhabitants, compared to only 0.13 in 1987 and 0.38 in 1998. Burkina Faso has largely outperformed the WAEMU average, which stood at 8.6 telephones per 100 inhabitants between 2001 and 2005. The sector's rapid growth has been driven by the advent of the mobile telephone. Three private operators (Telmob, Celtel — now Zain — and Telecel) have shared the market since 2000. The total number of mobile telephone subscribers grew nearly 83 per cent in 2007, giving a penetration rate of 13.53 mobile telephones per 100 inhabitants. Fixed-line telephones have lost considerable market share, dropping to only 6 per cent. In terms of revenue, fixed-line telephones represent 19.92 per cent of the market. The number of "mobile payphones" has soared to 7 794, with a 252 per cent increase from 2006 to 2007. At the end of 2007, 20 150 fixed-line and mobile telecentres were operating throughout Burkina Faso, 51.81 per cent of them in the capital and 15.92 per cent in the country's second largest city, Bobo Dioulasso.

Regulated rates for fixed-line telephones have dropped considerably since 2000. The inter-city rate fell from XOF 288 per minute, excluding tax, in 2000 to XOF 100 per minute, excluding tax, in 2007. International calls dropped from XOF 1 883 per minute, excluding tax, in 2000 to XOF 210 per minute, excluding tax, in 2007. Burkina Faso remains competitive compared to other countries in the region. Mobile telephone charges experienced a moderate downward trend between 2006 and 2007.

The Internet market is also growing rapidly. In a 2007 report, Artel listed some 30 registered Internet service providers (ISP) of which 15 were active, including Fasonet, Onatel's Internet division, which dominates the market. At the end of 2007, the country had 113 cybercafes. Public access to the Internet was made possible by the Canadian company Teleglobe in 1997. In 1989, researchers at the French Scientific Research Institute for Co-operative Development (Orstom) installed a Unix server and a TCP/IP computer network, which was connected by modem to the rest of the global network. This small system later gave rise to the Orstom (Rio) IT network, forerunner of the African Internet.

National capacity climbed from speeds of 64 kilobits per second (kbps) at the outset to 256 kbps in January 1998 and to 1 megabit per second (mbps) in November 1999. Since July 2005, the international connection rate has soared to 46 mbps for uploading and 64 mpbs for downloading. Onatel is planning to install upload bandwidth of 201 mbps and download bandwidth of 219 mbps by 2011-12. The first specialised link was installed in Ouagadougou in March 1998. Since 1999, Internet connections have gradually been extended to inland towns, including Bobo Dioulasso, Banfora, Koudougou, Ouahigouya, Fada, Koupela, Pô, Manga and Dedougou. Burkina Faso is also linked to Mali, Togo and Côte d'Ivoire by fibre-optic cable. Plans call for links to the other bordering countries — Benin, Niger and Ghana. Despite this rapid growth, the Internet still faces many hurdles, including IT equipment costs that are prohibitive for local populations[4].

The authorities have not established any explicit national strategy on e-government. Instead, major objectives were developed as part of the national cyberstrategy and its implementation plan. E-government is addressed as an aspect of strategic objective No. 3 ("Good governance and social action").

A committee has been set up to review this issue. The main objectives concern improving government efficiency, computerising work methods and procedures, providing online services to citizens, the private sector and other partners, and improving the management of public finances. Priority projects include a public administration intranet system called Resina (national

4. Types of connections used in Burkina Faso: Dial-up, ADSL (asymmetric digital subscriber line), BLR (local loop radio system), WiFi, VSAT (satellite antenna), fibre optics and PLC (powerline communications).

administrative computer network), which will link the various ministerial departments through a fibre-optic and local loop radio system. In addition, IT applications developed within the administration enable users to share information and data — STresor, an integrated accounting system used by the Treasury (CIE); an integrated public expenditure system in the Budget Office (CID); an integrated system for administrative and state employee payroll management (Sigapse); and Sydonia. Several ministerial websites have also been developed. These sites mainly focus on providing information and, to a certain extent, communicating with the public. Few sites are devoted to transactions or other online services.

An in-depth survey on current Internet use has yet to be conducted. Trends indicate that private uses are limited to e-mail and data transfer. The financial sector allows customers to transfer money online. The Banque internationale du Burkina (BIB) now has prepaid card systems for purchasing goods and services online. Many small and medium-sized enterprises (SMEs) have grown up around cybercafes. To date, there are no call centres in Burkina Faso.

Some initiatives have received the support of donors and specialised agencies in recent years. The "Inforoutes communales" project has enabled certain towns to digitise birth certificates drawn up since independence and to facilitate archival research. With the support of the International Institute for Communication and Development (IICD), six rural organisations were provided with IT equipment for agricultural development projects, such as the dissemination of farm prices.

Programmes have also been set up in Burkina Faso secondary schools. The French Ministry of Foreign Affairs, for example, funded 16 centres to boost access (ADEN). These centres provide IT equipment and a VSAT Internet connection to populations living in areas lacking access to digital infrastructures. The rural telecentre projects of the United National Development Programme (UNDP); the United Nations Education, Science and Cultural Organisation (Unesco); the International Development Research Centre (IDRC); Oxfam; Cyberpost; and Cyberkiosk generally combine traditional tools (radio, television, multimedia) with ICT resources to reach as large a proportion of the population as possible.

The ICT sector mainly contributes to the national economy by providing the public with access to the means of communication, which is a key factor in exchanging products and services. Furthermore, it spurs commercial growth in the banking and agricultural sectors. Revenue generated by the mobile telephone sector was estimated XOF 91.1 billion in 2007 as against XOF 54 billion in 2006. Revenue generated by fixed-line telephones stood at XOF 22.65 billion.

The sector also contributes to the fight against poverty by creating jobs in urban areas. Artel estimates that some 1 811 jobs were created by the end of 2007 in the telecoms sector compared to 1 773 in 2006. It is estimated that several thousand jobs were created overall, including "mini-jobs" in private telecentres and the distribution of rechargeable phone cards. The total payroll in the mobile and fixed-line telephone sector is estimated at XOF 11.7 billion for 2006. The sector's tax contribution to the economy stood at XOF 31.5 billion in 2005 and XOF 22 billion in 2007. Privatisation generated XOF 143.4 billion.

Political Context

Despite recent disturbances, including mass rioting in February 2008, Burkina Faso remains one of Africa's most stable countries. The current President, Blaise Compaore, who came to power in 1984, was re-elected to a new five-year term in November 2005. The president's party – the Congress for Democracy and Progress (CDP) – has enjoyed a comfortable majority (73 seats) in the National Assembly since the last parliamentary elections in 2007. The CDP is supported by the Alliance pour la Mouvance Présidentielle (AMP), a diverse coalition of small parties with 11 seats in the National Assembly. The current government, led by Tertius Zongo, is the product of a political reshuffle in September 2008 that ushered in younger members. The government includes a number of technocrats with recognised experience, including Minister of Economy and Finance Lucien Marie Noël Bembamba, former head of the Treasury and Public Accountancy and former executive at BCEAO. Even though the CDP's dominance in the nation's political life was called into question, the party's influence was unquestionably weakened by the mass riots in February 2008. The riots were triggered by the high cost of living and supported by trade unions and certain trade associations opposed to tax reform. Moreover, divisions appeared in the CDP, with the emergence of dissident voices and the exclusion of certain longstanding members. The President, who plans to run for a second and theoretically last term – as now mandated by the constitution – in polls scheduled for 2010, will likely seek to expand his majority's political base by forging alliances with other parties.

Transparency International's 2008 annual report ranks Burkina Faso as a country with systemic corruption but notes an improvement over 2007. In 2008, its corruption perception index (CPI) stood at 3.5 ("a worrying level of corruption") compared to 2.9 ("rampant corruption") in 2007. The country moved up 25 places in the international ranking, from 105th to 80th.

Social Context and Human Resources Development

2008 was marked by a rise in social demands stemming from climbing prices for raw materials and daily needs. The higher cost of living triggered riots in February 2008. However, the government, with the support of donors, took concrete measures that helped alleviate social tensions. The authorities temporarily suspended the automatic mechanism for setting oil prices, distributed food aid from food reserves, issued three-month, renewable exemptions from customs duties and VAT on the main staple foods, and set indicative prices based on reasonable profit margins for imported goods.

Despite an unfavourable environment, the fight against poverty continued, with ongoing investments in social programmes. The poverty rate declined from 46.4 per cent in 2006 to 45.4 per cent in 2008. This reduction can largely be attributed to higher incomes in rural areas due to an increase in prices paid to producers. The 2009-11 priority action programme should help remove the restrictions and obstacles that limit economic and social progress and thus accelerate progress towards meeting the country's MDGs by 2015. The goal for 2011 is to reduce the overall poverty rate to 39.6 per cent, with a rural poverty rate of 45.9 per cent and an urban rate of 18.5 per cent.

In the area of education, the Ten-Year Basic Education Development Plan (PDDEDB, 2001-2010) has made progress, notably in terms of school infrastructure. Primary schools can now accommodate more children. The number of schools rose from 8 182 in 2006-07 to 8 778 in 2007-08, an increase of 7.3 per cent. During the same period, the number of classrooms grew from 28 925 to 31 809, a rise of 9.8 per cent.

The gross school enrolment rate climbed from 66.5 per cent in 2007 to 72.5 per cent in 2008. The enrolment rate for girls took a similar path, growing more than 7 per cent from 2007 to 2008. There are, however, major regional disparities.

By contributing 14.41 per cent of the costs involved in opening schools, the private sector remains a key partner in implementing education policy, especially at the basic level.

Progress made under the 2001-2010 National Health Development Plan (PNDS) has not led to reduced morbidity and mortality rates. Child and infant mortality went from 151 to 138 per thousand between 2006 and 2008. Infant mortality rose from 77 to 79.6 per thousand over the same period. Significant progress was made in fighting HIV/AIDS due to the implementation of a 2006-2010 strategic framework. The 2008 prevalence rate is estimated at 1.8 per cent as against 2.03 per cent in 2006. Significant progress was made in controlling and treating epidemic diseases such as meningitis and measles as well as endemic diseases like river blindness thanks to prevention and public awareness efforts and improved hygiene.

The job market remained sluggish in 2008 despite the adoption of a law designed to create greater flexibility. Farming remained the major source of jobs in 2008, employing 85 per cent of the working population.

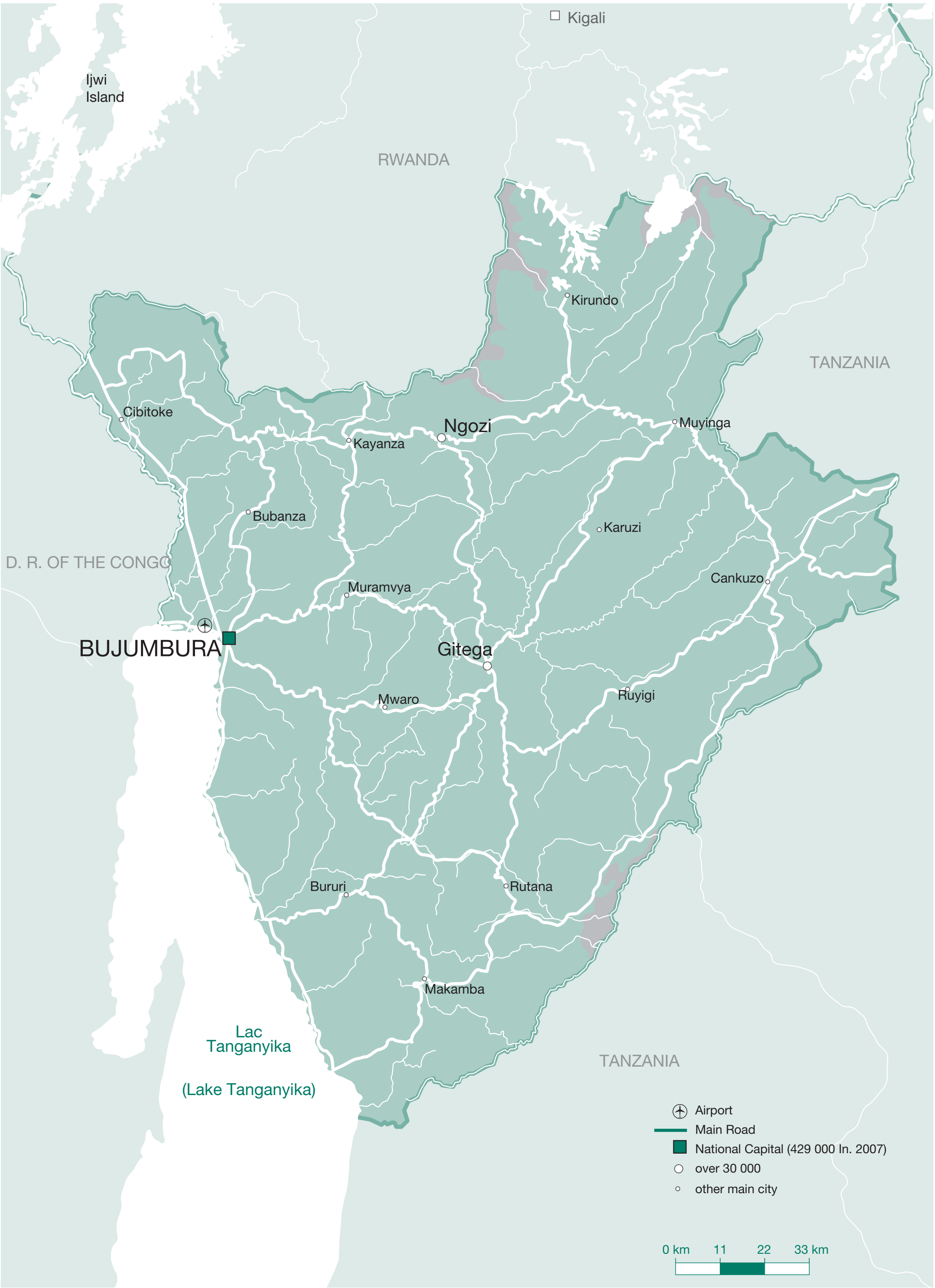
Seventy per cent of non-agricultural workers operate in the informal urban sector. The unemployment rate in the 15-24 age group reached 30 per cent and is likely to worsen in 2009-10 given the deteriorating economic climate. Integrating young graduates into the workforce will likely pose a major challenge for the government during 2009-10.

Burundi

key figures

- Land area, thousands of km^2: 26
- Population, thousands (2008): 8 074
- GDP per capita, PPP valuation, USD (2008): 341
- Life expectancy (2008): 50.5
- Illiteracy rate (2008): n.a.

Burundi



Kigali
Ijwi
Island
RWANDA
Kirundo
TANZANIA
Cibitoke
Ngozi
Muyinga
Kayanza
Bubanza
Karuzi
D. R. OF THE CONGO
Cankuzo
Muramvya
BUJUMBURA
Gitega
Mwaro
Ruyigi
Bururi
Rutana
Makamba
Lac
Tanganyika
(Lake Tanganyika)
TANZANIA
Airport
Main Road
National Capital (429 000 In. 2007)
over 30 000
other main city
0 km
11
22
33 km

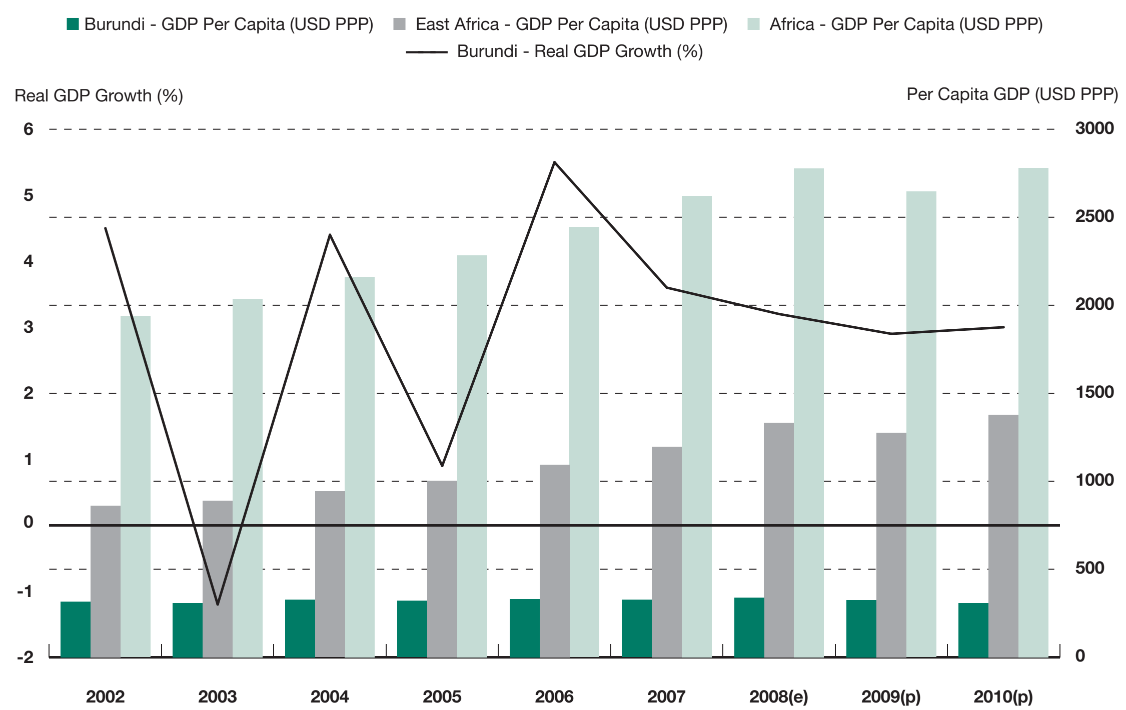
THE MAIN EVENT OF 2008 WAS the signing of peace treaties between the government and the National Liberation Forces, the country's last rebel movement. These agreements ratify the movement's participation in the country's political institutions, security organisations and the release of its prisoners. Nonetheless, on the eve of the 2010 elections, the slow pace of implementing the agreements and an increasingly tense political climate, as a result of numerous restrictions on political freedoms, have had an impact on the country's social and political stability.

A slowdown in the rate of GDP growth since 2006 continued in 2008. The rate of GDP growth is 3.2 per cent. It is set to fall further in 2009 at a rate of 2.9 per cent and to stabilise in 2010 at around 3 per cent. Burundi's economy is very vulnerable and exposed to external shocks. The country's economic performance is heavily dependent on the coffee sector.

Potential engines of growth are very scarce, and the economy is highly exposed to external shocks.

If a sharp drop in coffee prices, due to the financial crisis, were to continue on the international market (36 per cent in four months), it would hinder economic growth in 2009 and 2010 severely. Any improvement in the performance of the Burundian economy over the next few years would depend heavily on the country's ability to diversify its productive activities.

Figure 1 - **Real GDP Growth and Per Capita GDP**
(USD/PPP at current prices)



Source: IMF and Burundi Institute of Statistics and Economic Studies data; estimates (e) and projections (p) based on authors' calculations.

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Inflation accelerated to reach 24.5 per cent by the end of 2008 because of a rise in the cost of foodstuffs and oil on international markets. During the first four months of 2008 fuel and staple product prices on the domestic market increased by an average of 23 per cent. With the exception of food and oil, there was only a 3.5 per cent increase in the consumer price index, according to the International Monetary Fund IMF).

Reaching the completion point of the Heavily Indebted Poor Countries Initiative (HIPCI) in January 2009 marked a decisive step. Resources for debt reduction should help implement the "pro-poor" development strategy. As a result the government should intensify structural reforms that are required for the country's development: renewed investment in development infrastructure – which is currently a major obstacle to production and commercial activities, continued efforts to introduce legal and institutional reforms into the business environment and reviving the privatisation process.

Recent Economic Developments

The Burundian economy slowed during 2007, with real GDP growth of 3.6 per cent compared with 5.2 per cent the previous year. The primary sector, which is heavily dependent on coffee production, was the main cause for a slowdown in growth, with a growth rate of just 0.1 per cent in 2007 compared with 5 per cent in 2006. The secondary and tertiary sectors saw relatively steady growth of 6.2 and 7.2 per cent respectively in 2007, compared with 4.7 and 6.3 per cent in 2006. The growth rate of GDP is set to be 3.2 per cent in 2008, 2.9 per cent in 2009 and 3 per cent in 2010. Growth will depend primarily on changes in coffee prices on international markets and on the level of national production.

Inflation reached 24.5 per cent in 2008 as a result of sharp rises in international food and oil prices. Between April 2007 and April 2008, domestic prices for fuel rose by 50 per cent. The inflation rate should fall to 13.1 per cent in 2009 and then continue to drop to reach 3.7 per cent by 2010.

Agriculture is still the mainstay of the Burundian economy. Its contribution to GDP in 2007 was 48 per cent. It is a source of income and employment for around 80 per cent of the population. Due to a lack of irrigation and water-storage systems, the agricultural sector suffers from low productivity and remains subject to the whims of the climate. Burundi has also suffered quite heavily from the recent increase in world food prices. As far as food is concerned, it is structurally in deficit. Poor rainfall suggests that there will be another drought in the future. With the support of the international community, the authorities are putting in place projects to develop rural infrastructure, to diversify agricultural production and to improve yields through research and by using small-scale irrigation systems.

During 2007 the added value of agricultural exports declined by 59.3 per cent, following the collapse of Arabica coffee production during the 2007/08 growing season (-73.2 per cent) as a result of cycles, an aging coffee-grower population, and a drop in cotton-fibre production (-8.4 per cent). A strong performance in tea cultivation (up by 8 per cent) was not enough to offset the decline.

Export sales for the 2007/08 coffee-growing season began in August 2007 in a positive pricing environment. Prices held up well as a result of the depreciation of the dollar and speculative movements in the market following the announcement of a decline in harvests in principal coffee-exporting countries, notably Brazil. Nonetheless, since the end of July 2008, coffee prices have fallen as a result of the international financial crisis and a reduced demand from countries that usually import coffee. This fall of roughly 36.2 per cent in four months will cancel out the positive effects of deregulating the coffee sector as anticipated in 2009.

The process of deregulating and privatising the industry continued during the 2007/08 growing season. Coffee is now marketed through calls to tender and through direct sales rather than at auction, which has allowed producers to achieve higher market prices.

Circumstances were more favourable for the 2008/09 coffee season. Up until the end of September, production increased from 8 837 tonnes in 2007 to 25 656 tonnes in 2008. Exports increased from 995 to 4 356 tonnes over the same period. Average prices for initial contracts were 121.49 cents per pound compared with 111.63 cents per pound during the previous season, an increase of 8.8 per cent. Prices have continued an upward trend, reaching 131.86 cents per pound at the start of August before falling to 125.98 cents per pound in September and then to 96.75 cents per pound by mid-December (i.e. a fall of 36.2 per cent).

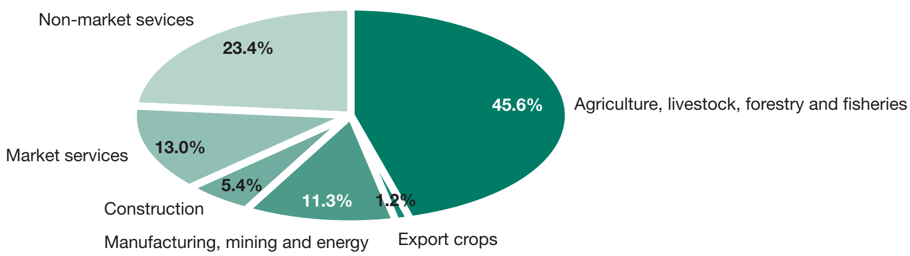
By contrast, the production of green leaf tea dropped by 10.8 per cent between the third quarter of 2007 and the same period in 2008, falling from 27 261 to 24 309 tonnes because of low rainfall and fertilisers being applied at the last minute. Although dried tea sales fell by 5 per cent from 5 530 to 5 254 tonnes, income from sales increased sharply by 75.6 per cent, as a result of a steep rise in prices on international markets (261 cents per pound compared with 164.3 cents per pound the previous year, i.e. a rise of 58.9 per cent), due to a decrease in world supply because of poor climatic conditions in Kenya.

The secondary sector contributed 16 per cent to GDP in 2007. Its added value increased by 6.2 per cent in 2007 compared with 4.7 per cent the previous year, with differing results depending on the area of activity. Growth in the construction industry fell back slightly (7 per cent in 2007 compared with 8.3 per cent in 2006), whereas growth in industry, mining and energy increased (5.8 per cent in 2007 compared with 3.1 per cent in 2006), primarily as a result of increased production in the energy and mining sectors (growth of 27 per cent compared with 8 per cent in 2006). The energy sector benefited from steady production from hydroelectric power stations (111.4 compared with 89.4 megawatt-hours (MWh)) as a result of an increase in the volume of water. Nonetheless, the deficit persists and the country continues to rely on imports (77.4 compared with 58.5 MWh) in order to meet demand.

In 2008 the industrial sector recorded an improvement compared with the same period the previous year because of increased activity in the food and chemical sectors. The average weighted index for industrial production rose by 3.4 per cent, increasing from 91.1 to 94.2 per cent.

According to the government, during this post-conflict period, a return to growth will rely on three factors: *i)* continually removing main economic distortions in order to increase total-factor productivity, particularly in the coffee sector; *ii)* substantially increasing investment, which would be driven by international aid and consist mainly in infrastructure redevelopment, in order to reduce the main bottlenecks; and *iii)* ensuring further improvements in trade deregulation, by taking further steps towards inclusion in the East African Community (EAC), which will contribute to economic diversification, stimulate competition and attract more investment.

Figure 2 - **GDP by Sector in 2007** (percentage)



Source: Authors' estimates based on Bank of the Republic of Burundi data.

StatLink http://dx.doi.org/10.1787/572824865644

Table 1 – **Demand Composition**

	Percentage of GDP (current prices)		Percentage changes, volume			Contribution to real GDP growth		
	2000	2007	2008(e)	2009(p)	2010(p)	2008(e)	2009(p)	2010(p)
Gross capital formation	**7.5**	**11.6**	**6.2**	**6.6**	**10.0**	**0.7**	**0.8**	**1.2**
Public	6.4	9.3	6.0	7.0	11.0	0.6	0.7	1.1
Private	1.2	2.3	7.0	5.0	6.0	0.2	0.1	0.1
Consumption	**105.9**	**115.7**	**2.7**	**0.9**	**2.1**	**3.0**	**1.0**	**2.2**
Public	14.8	30.7	21.4	11.0	9.8	4.4	2.7	2.6
Private	91.1	85.1	-1.7	-2.0	-0.4	-1.5	-1.7	-0.4
External demand	**-13.5**	**-27.3**				**-0.5**	**1.1**	**-0.5**
Exports	7.8	6.8	0.6	3.7	0.5	0.0	0.2	0.0
Imports	-21.2	-34.2	1.9	-3.2	2.0	-0.5	0.9	-0.5
Real GDP growth						**3.2**	**2.9**	**3.0**

Source: Bank of the Republic of Burundi data; estimates (e) and projections (p) based on authors' calculations.

StatLink http://dx.doi.org/10.1787/576385802483

Gross capital formation accounted for 11.6 per cent of GDP in 2007. Investment growth should be 6.2 per cent in 2008, driven by both the private and public sectors; this is largely reliant on strong business performance in the construction sector. The growth rate for public investment should reach 11 per cent by 2010 once it has reached the completion point in 2009 and once HIPCI funds have been allocated to finance pro-poor infrastructure. Household consumption, which remains the main component of demand (85.1 per cent of GDP in 2007) should fall back in 2008, 2009 and 2010 (down 1.7 per cent, 2 per cent and 0.2 per cent by volume respectively), principally because of worsening budget constraints due to a sharp increase in food and oil prices. As far as foreign trade is concerned, imports should increase by 1.9 per cent by volume and exports should rise by 0.6 per cent in 2008. Exports should grow by 3.7 per cent in 2009 and broadly stagnate in 2010 (up by 0.5 per cent). Imports should fall sharply in 2009 (-3.2 per cent) and increase again in 2010 (up by 2 per cent). Moreover, sources of growth for the Burundian economy are extremely limited, as potential investors both at home and abroad play a waiting game. This has been exacerbated by the fact that planned reforms to improve the business environment have been slow to come into effect.

Macroeconomic Policies

Fiscal Policy

Public finances deteriorated significantly in 2008, with the overall balance (including grants) moving from -3 per cent to -8.9 per cent of GDP. Excluding grants, the 2008 figure was -20.7 per cent of GDP. This was the result of a relative decrease in grants, which fell from 16 per cent of GDP in 2007 to 11.8 per cent in 2008, and an increase in current expenditure, which represented 27.9 and 26.2 per cent of GDP in 2007 and 2008 respectively, after it was driven by salary increases that were granted to various civil service categories. Civil servants' salaries have increased significantly over recent years, from 28 per cent of the total of ministerial credits in 2002 to 35 per cent in 2008.

The share of tax revenue in the composition of GDP has remained stable, dropping slightly to 17.7 per cent of GDP in 2008 compared with 18.3 per cent in 2007. In spite of a continued downward trend in tax revenue (16.6 per cent of GDP expected in 2009), the overall balance should improve significantly and move out of deficit in 2009 (to 32.4 per cent of GDP) once

Table 2 - **Public Finances** (percentage of GDP at current prices)

	2000	2005	2006	2007	2008(e)	2009(p)	2010(p)
Total revenue and grants[a]	**22.3**	**32.4**	**30.8**	**35.9**	**31.1**	**69.3**	**30.1**
Tax revenue	16.9	18.4	17.5	18.3	17.7	16.6	16.4
Grants	3.1	11.9	11.2	16.0	11.8	51.1	12.1
Total expenditure and net lending[a]	**24.7**	**34.7**	**34.1**	**38.8**	**40.0**	**36.9**	**39.8**
Current expenditure	17.5	25.7	24.3	26.2	27.9	25.7	27.7
Excluding interest	*15.2*	*22.0*	*22.1*	*23.2*	*26.4*	*25.6*	*27.6*
Wages and salaries	6.6	8.5	9.6	11.0	10.1	9.3	9.2
Interest	2.2	3.7	2.2	2.9	1.5	0.1	0.1
Capital expenditure	7.9	9.0	9.8	12.7	12.1	11.2	12.1
Primary balance	**-0.1**	**1.4**	**-1.1**	**0.0**	**-7.4**	**32.5**	**-9.6**
Overall balance	**-2.3**	**-2.3**	**-3.3**	**-3.0**	**-8.9**	**32.4**	**-9.8**

a. Only major items are reported.
Source: Bank of the Republic of Burundi data; estimates (e) and projections (p) based on authors' calculations.

StatLink http://dx.doi.org/10.1787/578077256425

it has reached the completion point of the HIPCI. It is expected to drop back to -9.8 per cent of GDP from 2010.

The government has stated its determination to control public deficit over the next few years. It has made a commitment to maintaining a cautious approach to the budget, by relying primarily on grants and soft loans at highly favourable rates to avoid triggering a cycle of external and domestic debts.

The government has also stated its objective to increase national revenue gradually to around 19.2 per cent of GDP by 2011, based on revenue administration and tax policy reforms. On July 1 2009 tax on transactions will be replaced by Value Added Tax (VAT) and the East African Community's (EAC) Common External Tariff (CET) will be applied. A computerised tax system – a prerequisite for the introduction of VAT – which aims to recover tax more efficiently and to compensate for the potential loss of customs revenue resulting from EAC membership is due to be completed in early 2009. The structure of customs duties will change with the application of the CET. Burundi's four-band tariff, which was 30 per cent for finished products, 15 per cent for intermediate products, 10 per cent for capital goods and 5 per cent for raw materials, will be replaced by a three-band tariff of 0 per cent for raw materials and capital goods, 10 per cent for inputs and 25 per cent for finished consumer goods. The government has also made a commitment to putting an end to all indirect tax exemptions and maintaining maximum deadlines for Investment Code exemptions.

As far as tax administration is concerned, two major initiatives to broaden the tax base have been launched: a census of all taxpayers, including informal sector workers, and collecting income tax from local staff working for international agencies. Creating a revenue office, which is due to happen in 2009, represents a major reform, which will contribute to national revenue in the medium term. Drawing on the experiences of other EAC countries, the office would reduce corruption and improve incentives for tax and customs officers.

Controlling expenditure primarily involves controlling salaries. During 2008 the government acted on the outcome of a report on the management system for public expenditure and financial accounts, by adopting some of its measures, in particular by: *i)* freezing the recruitment of civil servants, except within healthcare, education, agriculture and justice; *ii)* establishing a coherent framework for increasing salaries, taking into account national budgetary resources; *iii)* only filling a proportion of vacancies once staff have retired; *iv)* centralising recruitment by strengthening the powers of the Recruitment Commission; *v)* completing a census for government civil servants; and *vi)* identifying the number of people employed in the police and armed services. The censuses will make it possible to: *i)* help carry out the remaining computerisation work; *ii)* eliminate "ghost" employees; and *iii)* improve managing wage bills. In addition, the Ministry of Finance will take control of payroll management by taking charge of the relevant database by the end of March 2009. Rigorously applying these measures should help bring the ratio of salaries to GDP to below 10 per cent.

The unstable rise in food and oil prices has derailed the budget forecasts for 2008. The immediate annual impact of these shocks on the budget is estimated at around 1.5 per cent of GDP[1]. The government has reacted to an increase in oil prices by approving an adjustment of fuel prices on the basis of a formula agreed with stakeholders. The authorities also intend to gradually re-establish a 20 per cent tax rate on oil products, bearing in mind the social impact of a rise in international oil product prices. They would often begin the process by increasing the tax rate on oil products consumed primarily by high-income households from 10 to 16 per cent. The government needs to embark on reforming the oil sector during 2009, primarily by setting up an automatic fixing mechanism for oil prices.

Monetary Policy

Implementing monetary policy falls within the remittance rights of the Bank of the Republic of Burundi (BRB). Burundi does not participate in any form of regional monetary union. The Central Bank has made a commitment to retaining a moderate rate of growth for the money supply in order to control inflationary pressure. As a result it should maintain an appropriate level of domestic assets and official reserves. In addition, an increase in domestic credit in 2009 should only affect credit to the economy, as net loans to the government fall significantly.

Burundi operates a controlled floating exchange rate system. The intervention currency is the US dollar (USD). The BRB operates a multiple exchange-rate system: the exchange rate applied to government transactions can differ from the market rate by over 2 per cent.

Although the external position has worsened with deterioration in trade of 20.3 per cent in 2007, the authorities have achieved their target for official foreign currency, the franc (BIF), reserves, which increased from 3.6 months of import cover in 2006 to 3.9 months in 2007. Burundi's currency has remained stable and, according to estimates, the Real Effective Exchange Rate (REER) fell by 8.6 per cent in 2007. The REER appears to be in line with its breakdown level. According to IMF estimates, the REER has changed largely in line with the clearing rate since 2002 and was only 3 per cent lower than its estimated breakdown value at the end of 2007.

The government has made a commitment to managing its foreign exchange reserves over 2009 and 2010 actively and to neutralising currency transactions in the context of a controlled float in order to meet its inflation target. The BRB will also need to try to smooth out the monetary impact of concentrated external borrowing payments, while it allows the exchange rate to rise if the external net assets target is achieved. Given the overall global increase in food and oil prices, the BRB recognises that an increase in the exchange rate could help control inflation.

The BRB understands the necessity of making use of all available monetary and exchange rate policies in order to bring down liquidity. Moreover, managing foreign exchange reserves more dynamically would also make it easier to achieve the inflation target. The BRB is trying to make banks interested in currency auctions in order to absorb liquidity and to encourage banks to offer a fair price, leaving the nominal exchange rate to float.

External Position

The trade balance deficit in 2008 remained at 21.9 per cent of GDP. Positive changes are expected in 2009, as a result of a drop in imports (21.1 per cent

1. According to the IMF.

in 2009 compared with 27.4 per cent in 2008) and an increase in current transfers once the HIPCI completion point was achieved (25 per cent in 2009 compared with 16.9 per cent in 2008), which will contribute to a significant improvement in the balance of current operations.

During 2008, Burundi embarked on discussions with other EAC countries as part of preparations for negotiations on the services section of the Economic Partnership Agreement between the EAC and the European Union, which should be signed in 2009. Burundi is also playing an active role in negotiating the establishment of a common market in the EAC.

At the end of the third quarter of 2008, outstanding external government debt fell by USD 13.4 billion compared with the previous year, from

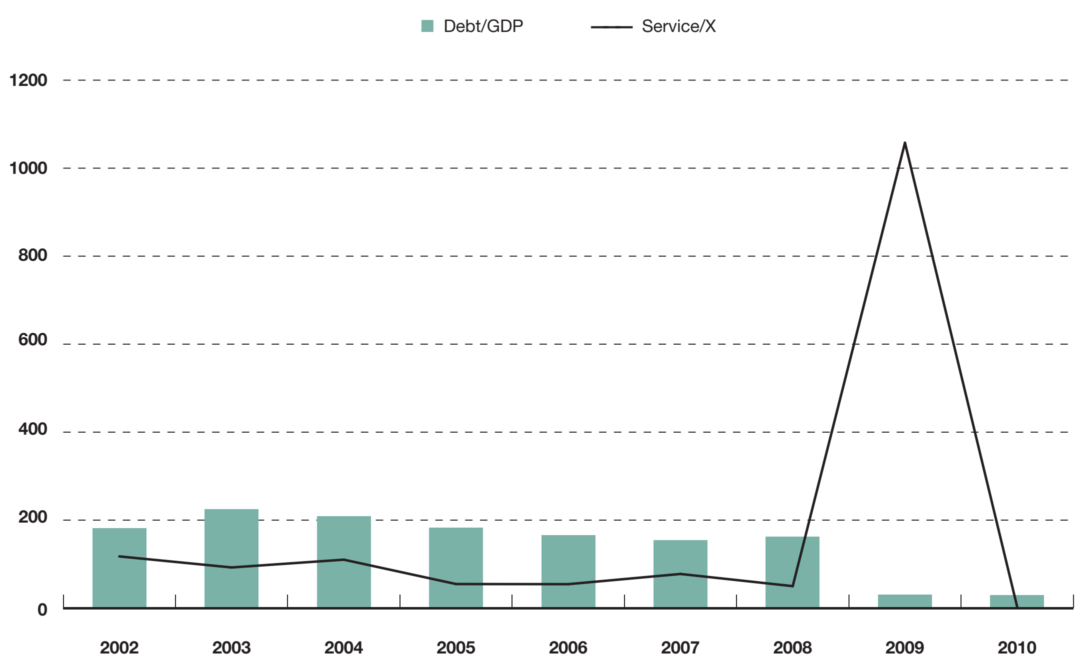
Table 3 - **Current Account** (percentage of GDP at current prices)

	2000	2005	2006	2007	2008(e)	2009(p)	2010(p)
Trade balance	-8.3	-16.6	-20.5	-21.9	-21.9	-16.3	-16.9
Exports of goods (f.o.b.)	6.9	7.1	6.5	5.7	5.5	4.8	4.6
Imports of goods (f.o.b.)	15.2	23.7	26.9	27.5	27.4	21.1	21.5
Services	-5.2	-12.5	-18.5	-15.6	-11.0	-16.6	-18.6
Factor income	-1.7	-2.2	-1.0	-0.6	-0.6	-0.5	-0.6
Current transfers	8.4	30.0	25.2	25.8	16.9	25.0	23.7
Current account balance	**-6.8**	**-1.2**	**-14.7**	**-12.4**	**-16.6**	**-8.4**	**-12.4**

Source: Bank of the Republic of Burundi data; estimates (e) and projections (p) based on authors' calculations.

StatLink http://dx.doi.org/10.1787/580304530532

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



Source: IMF.

StatLink http://dx.doi.org/10.1787/574271184478

USD 1 319.2 billion to USD 1 305.8 billion. This reduction is the result, on the one hand, of an increase in the price of the dollar compared with other currencies and due to the cancellation of debts to China and Austria. Multilateral creditors represent 90.3 per cent of outstanding external debt.

Before the HIPCI relief and the Multilateral Debt Relief Initiative, the debt service ratio as a percentage of exports was 46 in 2008 and will be 47.6 in 2009 and 10.4 in 2010. With the HIPCI and MDRI relief, these proportions would fall to 4.9 per cent in 2009.

Structural Issues

Private Sector Development

In the current context, as Burundi comes out of a long-term crisis, it is crucial to ensure significant improvement in the business environment for economic activity to develop and for the private sector to play its full part in rebuilding the economy. The World Bank's *Doing Business* survey ranks Burundi in 177th place out of 181 countries as opposed to 174th in 2008, in terms of how easy it is to do business. Compared to 2008, Burundi has made progress in only two of the ten criteria that determined the ranking: registering property and trading across borders.

In 2008 the Burundian government embarked on reforming the business environment with the World Bank's support, through an economic management support project (PAGE) and an economic reform support grant (DARE). As a result, a legal and institutional framework for dialogue between the public and private sectors has been put in place, whilst all commercial and industrial groups and associations have been merged into a federal chamber. A new Investment Code has also been adopted. Other reforms are expected in 2009 including the Companies Code, creating an investment and export promotion agency and a competition law.

After steps to discharge arrears in domestic government payments, the financial sector remains in a very fragile state. Although non-performing loans had been reduced considerably since 2005, by the end of 2007, they rose once again to 18.8 per cent of gross total lending. The minimum mandatory level of capital adequacy for banks has been increased from BIF 1 billion to BIF 2.5 billion. All banks complied with this threshold as of 1 January 2008. The Central Bank's evaluation of financial safeguards was updated in January 2008.

The Burundian financial sector is narrow and characterised by a somewhat oligopolistic banking sector, a very low level of penetration for insurance services and limited diversification of financial products. Other structural and financial difficulties remain including wide variations in interest rates, weak interest rates for savings, a largely inadequate volume of long-term capital, unregulated pension schemes and an unsatisfactory payments system. In the spirit of chapter 14 of the treaty that created the EAC, in the next few years, the government should embark on reforms that aim to support savings, to create necessary conditions and institutions to promote the development of long-term financial instruments, to set up an efficient financial market and to modernise the national payments system.

Other Recent Developments

Structural reforms progressed at a slower pace than expected during 2008. The inadequacy of the country's institutional capacities – which need to be strengthened – and resistance by particular interest groups to some recommended measures, especially within the coffee and oil sectors, have contributed to the slow pace of reforms. Reforms in the coffee sector are of major macroeconomic importance. This sector is the main source of income for almost 800 000 Burundian households. Coffee represents around half of the country's exports. In spite of the involvement of the World Bank and its technical assistance, the government was not able to finalise its strategy for the coffee sector at the end of 2008.

Ensuring adequate supplies of oil products for the Burundian market and setting up an automatic fixing mechanism for oil prices are of prime importance, given their significant impact at budgetary, macroeconomic and social levels. To avoid frequent supply shortages and sudden price rises for oil products in the domestic market, the government has already begun to apply a new price adjustment mechanism, based on a formula agreed with principal stakeholders. Nevertheless, this policy requires social support measures. The World Bank has agreed to support the first steps to reform the oil sector in 2009.

Reforms towards privatising public companies continue to experience significant delays as some companies that are still seen as a strategic part of public services prompt strong resistance to reform. No privatisation schedule has yet been drawn up for a public company that has a monopoly in the water and electricity sector – the national water and electricity company (REGIDESO) – beyond a simple analysis of its financial situation in order to establish a financial adjustment mechanism. Furthermore, selling a share of the stock in the public telephone company, the national telecommunications office (ONATEL), has been continually postponed.

Innovation and ICT

The fixed telephony network in Burundi is operated as a monopoly by ONATEL, a publicly owned company. The network covers all the country's provinces, but primarily serves urban centres. The network operates over pairs of copper wires. The technology used to access the Internet relies on satellite dishes and cable. Telephone operators share some infrastructure such as masts. New entrants into the mobile telephone sector often rely on ONATEL - the oldest operator's infrastructures.

Cross-border connections to neighbouring countries require further improvement. It is also necessary to increase co-operation between cross-border operators. The end of the construction of the Eastern Africa Submarine Cable System represents an opportunity for the country, as it will allow Burundi to be better connected to its neighbours and the wider world and thus offer high-quality Internet services and international communications.

Infrastructure coverage is poor and there are frequent saturation problems. Infrastructure replacement and the extension of networks still face uncertain prospects with regard to profits in relation to the country's space, a predominantly poor population, and how impossible it is to access electricity throughout most of the country.

The policy of developing Information and Communications Technologies (ICTs) is fairly recent in Burundi. The government only set up the relevant structures at the end of 2007. Government organisations and the World Bank have drawn up a strategy and action plan to develop ICTs in Burundi.

A World Bank-financed regional communications infrastructure programme in Africa, which provides Burundi with USD 20.1 million, aims to mobilise private-sector participation in order to improve international connections in eastern and southern Africa. It is primarily a matter of filling gaps in terms of land-based connections, broadening the geographical coverage of broadband networks and contributing to lowering prices in order to increase international capacity. This programme is in line with the Centre stratégique de lutte contre la pauvreté and aims to define a national strategic plan for ICTs in 2009, an e-government strategy, a regulatory framework for the development and operation of telecommunications infrastructure and information and communications technologies as well as developing a Burundi fibre-optic cable system (Burundi Backbone System/BBS).

The regulatory and legal framework for the ICT sector in Burundi is primarily prescribed in decrees that created the agency that regulates and controls telecommunications (ARCT), the national commission for the information society (CNSI) and the executive secretariat for information and communications technologies (SETIC). Political authorities appoint senior managers at the ARCT. This could raise doubts about the independence of the body. The ARCT is exclusively responsible for regulating the telecommunications sector, and derives its income primarily from licence fees. In addition, one runs the risk of confusing the role of these bodies, particularly between the ARCT, the department responsible for

ICTs at the Ministry of Transport, Post and Telecommunications, and the CNSI.

The costs of connections between operators are regulated by a commercial connection agreement that is signed by operators and approved by the ARCT. These agreements are often a source of conflict between operators and frequently require arbitration through the ARCT.

The state-owned fixed-line operator is also the sole shareholder in Burundi's second-largest mobile telephone operator, the national office for mobile telephony (ONAMOB). Other mobile operators are wholly in private ownership with local and/or international shareholders. Like its neighbours Burundi uses the Global System for Mobile Communications, which facilitates roaming. One of the regulator's tasks is to ensure adherence to pricing policies. A relatively high number of operators on the mobile network and the ensuing competition results in the ARCT having to intervene in practice to impose prices on operators.

Mobile phones are taxed similarly to other products, in so far as tax is applied both on imports and exports. Smuggling is broadly limited, and firms specialising in mobile phone sales operate in the formal sector. Other fixed-line or broadband infrastructure and services are also taxed. Barriers to entering the sector are mainly economic and do not deal with regulatory risk.

Deregulating the telecommunications sector was formalised by a legal framework drawn up in September 1997. Burundi currently has six mobile telephone operators and two wired and Code Division Multiple Access (CDMA) fixed-line operators. Deregulation has provided access to mobile telephone communications to a section of the population that was unable to access the fixed-line telephone network because of the cost since coverage is mainly limited to urban centres. Due to ever-increasing competitive pressure, the public operator (ONATEL and ONAMOB) has been obliged to take into greater consideration economic return as a criterion for investment decisions.

Three main players are involved in financing telecommunications infrastructure and service provision: the government, donors (principally the World Bank) and the private sector through Foreign Direct Investment. The development of integrated service offerings by certain operators – Internet and mobile telephony – with the use of CDMA technology, is helping reduce the cost of access to ICTs.

The socio-economic environment for innovation and telecommunications in Burundi is still crippled by extreme poverty and by the lack, until recently, of a national development strategy for ICTs. Overall, the education sector has not made adequate use of ICTs in the curriculum. As a result, successful candidates at different levels have a serious lack of understanding of the subject, which has a direct impact on the effective use of ICTs in business and the public sector.

Political Context

A transitional government was established following the signature of the Arusha Agreement for Peace and Reconciliation in Burundi on 28 August 2000. A series of institutional reforms were also introduced. Above all, these included elections, reforming public administration, tackling corruption, reforming the legal sector, the defence and the security corps. After the 2005 elections, these reforms made up the legislature's political manifesto. On the eve of municipal, legislative and presidential elections scheduled for 2010, these reforms are far from complete.

The aim of these prospective institutional reforms was to get Burundi out of a cycle of violence and to rebuild the country. It was understood that this could only be achieved if the process was legitimised by democratic elections. The last municipal and legislative elections took place in 2005 and ended in victory for the National Coalition for the Defence of Democracy-Democratic Defence Forces party. The elections were deemed to be transparent by all parties involved and by independent observers. There was a climate of relative peace throughout the whole country apart from some parts of the west, where attacks were still being carried out by an armed movement known as the Party for the Liberation of the Hutu People-National Liberation Front.

A decentralisation policy has been put in place, in line with the stipulations of the Arusha Agreement and the post-transition constitution. In the absence of an overall legal framework, this is articulated by municipal law and in a policy paper. Municipalities are legally and financially independent. However, the way they are divided up has more to do with keeping political paymasters happy and less to do with using resources rationally. The decentralisation policy has thus fallen victim to procrastination and to strategic political calculations about territorial occupation, blocking decentralisation laws and the support fund. As long as there is no real decentralisation and no significant source of material and financial resources (a support fund for decentralisation is being looked into), most of the country's municipalities will continue to face challenges and will not even be able to pay their staff.

Another major reform within the administrative sector looks at how to manage central government. As a result, a general government inspectorate, a national audit office, and an anti-corruption court and task force have been created to fight corruption, economic and financial malpractice. An anti-corruption law has also been passed.

To ensure that serious crimes committed in Burundi did not go unpunished and to achieve social reconciliation, the Arusha Agreement recommended setting up an enquiring commission, a special criminal court and a truth and reconciliation commission (Transitional Justice). Over three years have passed and none of these measures has been implemented. The United Nations and the government disagreed on how to set up the truth commission.

Although Defence and Security Corps reforms began through the Disarmament, Demobilisation and Reintegration programme (DDR), with World Bank funding, this has been unsuccessful, due to fears that in the end, it only involved demobilisation. The integration element has gone ahead chaotically (primarily because of a lack of professional training and funds being diverted away from the DDR project). As far as demobilisation is concerned, it has taken pressure off the World Bank to speed up the process. Although the policy of reforming the security sector has been legitimised by the Arusha Agreement and the constitution, it appears to be motivated more by external incentives and imperatives and less by internal determination.

Reforming such a sensitive sector required a co-ordinated system, by combining projects involving security, good governance and an overall reform of central government. A more political and less technical approach to reform could have certainly prevented numerous pitfalls.

Social Context and Human Resources Development

The country is facing huge challenges in order to tackle widespread poverty. This is not only because certain social infrastructures have been destroyed, due to productive capital during the conflict, but also because of Burundi's structural constraints. The population, which was estimated at 7.8 million in 2006, doubles every 30 years, and almost half of Burundians are under the age of 15.

In addition, 89 per cent of the population lives in rural areas although agriculture can no longer absorb this many people. Urbanisation is increasing at a rate of 6.8 per cent per year, whilst the economy has very limited capacity to offer non-agricultural jobs. Furthermore, the country has to shelter people coming from Tanzanian refugee camps.

Poverty is particularly acute in rural areas. Data from a questionnaire on basic wellbeing indicators (QUIBB) in 2006 showed that 68.8 per cent of rural households live below the poverty line (around BIF 525 per day) compared with 34 per cent of urban households (around BIF 820 per day).

The budgets for 2008 and 2009 are increasingly taking into consideration the Millennium Development

Goals (MDG) with regard to education and health. In the 2008 budget, 22.6 per cent of expenditure was allocated to education compared with 17.1 per cent in 2007. At face value, spending within the education sector increased from BIF 74 billion in 2007 to BIF 100.8 billion in 2008. Education spending represented 7.69 per cent of GDP in 2008 compared with only 6.99 per cent in 2007.

However, among seven to 15 year-olds, the level of current education spending (at constant money value) per child, fell from BIF 38 784 in 2006 to just BIF 21 333 in 2008, i.e. a drop of almost 45 per cent.

Net secondary-school enrolment rates are low at 12.3 per cent for the whole country. Compared with 2002, net enrolment rates for girls increased from 7.4 per cent to 11.2 per cent in 2006, while boys' net enrolment rates increased from 8.9 per cent to 13.5 per cent. Illiteracy is slightly higher among women (56.8 per cent) than men (44.8 per cent) and the net primary school enrolment rate is practically the same for boys (74.1 per cent) and girls (73 per cent).

The MDG on universal primary education is highly likely to be achieved by 2015, given political commitment in this area over the past three years, especially where scrapping school fees in the primary sector is concerned.

The secondary education network is skewed in favour of general education. Between 1991 and 2008, 443 community colleges were built compared with only five technical community colleges. This gap is set to widen with the new government programme, which advocates that local authorities build one community college in each municipality for the 2008-09 school year. In addition to political choices, this gap can also be explained by the high cost of setting up and running technical colleges. In terms of higher education, the number of universities and institutes is increasing based on private initiatives, which has helped increase the number of students with access to university education.

Although gender is recognised as a cross-cutting issue within numerous sectors, with budgetary provisions for women to the sum of BIF 33.6 million, which was included in the 2008 budget for departments in charge of gender-related matters, gender equality is virtually non existent.

The healthcare budget was BIF 23.8 billion, i.e. 5.5 per cent of the government budget and 0.52 per cent of GDP in 2007. In 2008, the healthcare sector 's budget increased significantly at face value, to BIF 29.9 billion, i.e. 2.3 per cent of GDP and around 7.7 per cent of the government budget.

The mortality rate for children under the age of five was around 169 per thousand in 2008, compared with 118.4 per thousand in 1990. Considering the significant rise in recent years, the objective of reaching 67 per thousand by 2015 (a decrease of two-thirds between 1990 and 2015) will be hard to achieve.

Maternal mortality, which was 80 per 100 000 in 1990, remained at this level until 2004, before falling to 61.5 per 100 000 in 2006. The performance of the last two years is undoubtedly due to measures taken by the government in 2005 to make maternity care free of charge; this has encouraged pregnant women to seek more advice and assistance than before. In light of the government's political will and partners' support in this matter, the objective of reaching a maternal mortality rate of 20 per 100 000, i.e. a reduction of three-quarters between 1990 and 2015, is attainable.

Malaria is the main cause of mortality in Burundi, particularly among children under the age of five. In 2006, 2 279 383 cases of malaria were recorded, compared with 2 230 134 in 2005. The fight against tuberculosis remains a public health challenge in Burundi, with 6 585 cases in 2007 compared with 2 446 in 2005.

A long-term (2005-2015) national health policy and a national health development plan (PNDS 2006-10) have been drawn up. The government has adopted a medium-term action plan to implement the PNDS (2007-2009).

According to provisional data from the National Survey of Seroprevalence of AIDS carried out in 2008 by an executive AIDS organisation (SEP/CNLS), seroprevalence is estimated at 4.59 per cent in urban areas, 4.4 per cent in semi-urban areas and 2.82 per cent in rural areas. This survey confirms the vulnerability of women, with the overall prevalence of AIDS among women standing at 2.91 per cent against 2.81 per cent for men. However, these figures do show a drop in the prevalence rate. The SEP/CNLS co-ordinates activities to combat AIDS with donor-funded projects. The SEP/CNLS recruits and supervises units working on these projects.

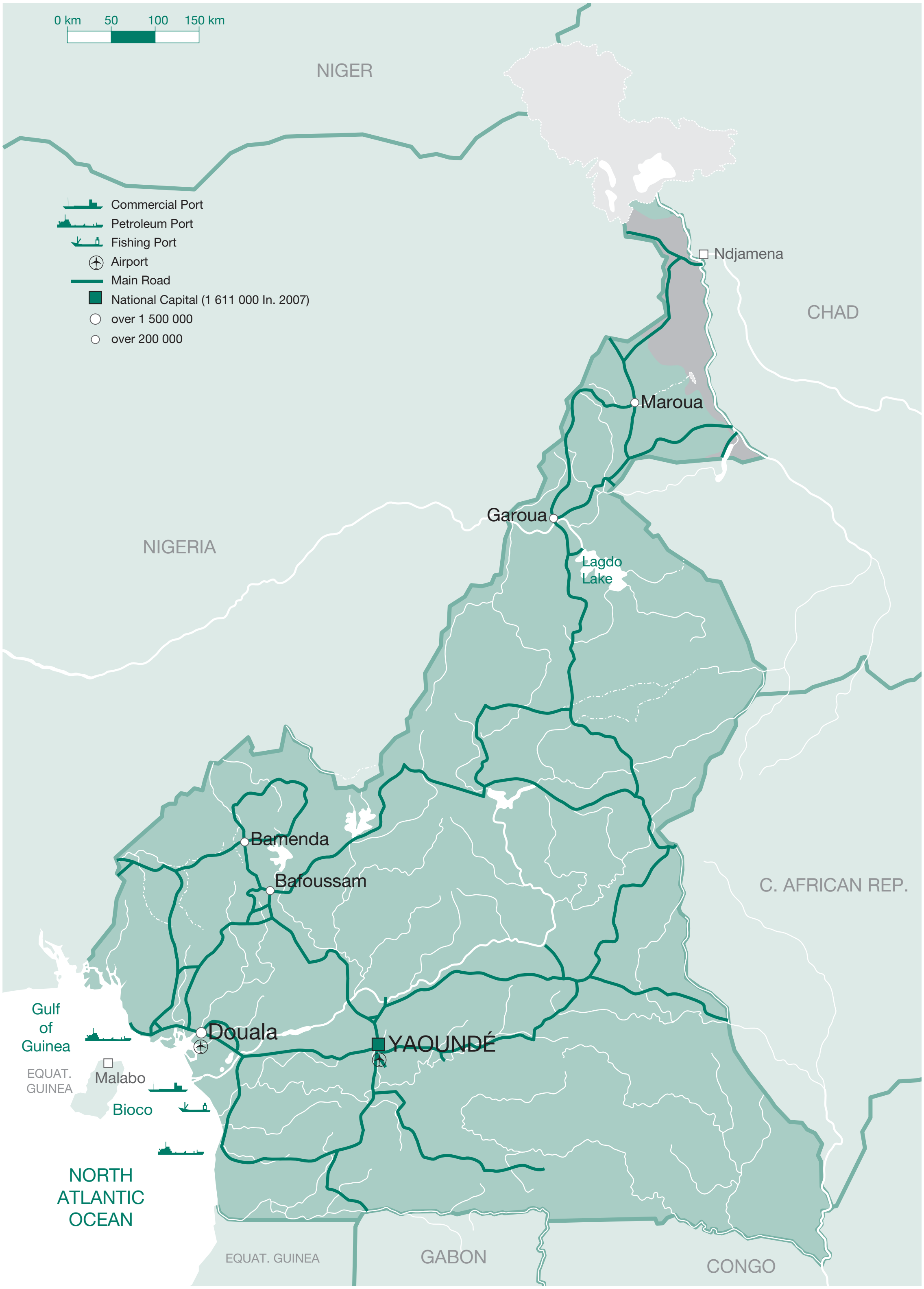
There is no clear employment policy. At 4.5 per cent, the unemployment rate is a primarily urban phenomenon, compared with an estimated 2.1 per cent in rural areas. Although the QUIBB 2006 survey calculated unemployment in the city of Bujumbura at 5.5 per cent, the 2007 report from Burundi's confederation of free trade unions (CSB and COSYBU) put it at 19.5 per cent. The labour market is characterised by a predominant informal sector, which is naturally influenced by the national economy.

Cameroon

key figures

- Land area, thousands of km²: 465
- Population, thousands (2008): 19 088
- GDP per capita, PPP valuation, USD (2008): 2 124
- Life expectancy (2008): 51.1
- Illiteracy rate (2008): n.a.

Cameroon

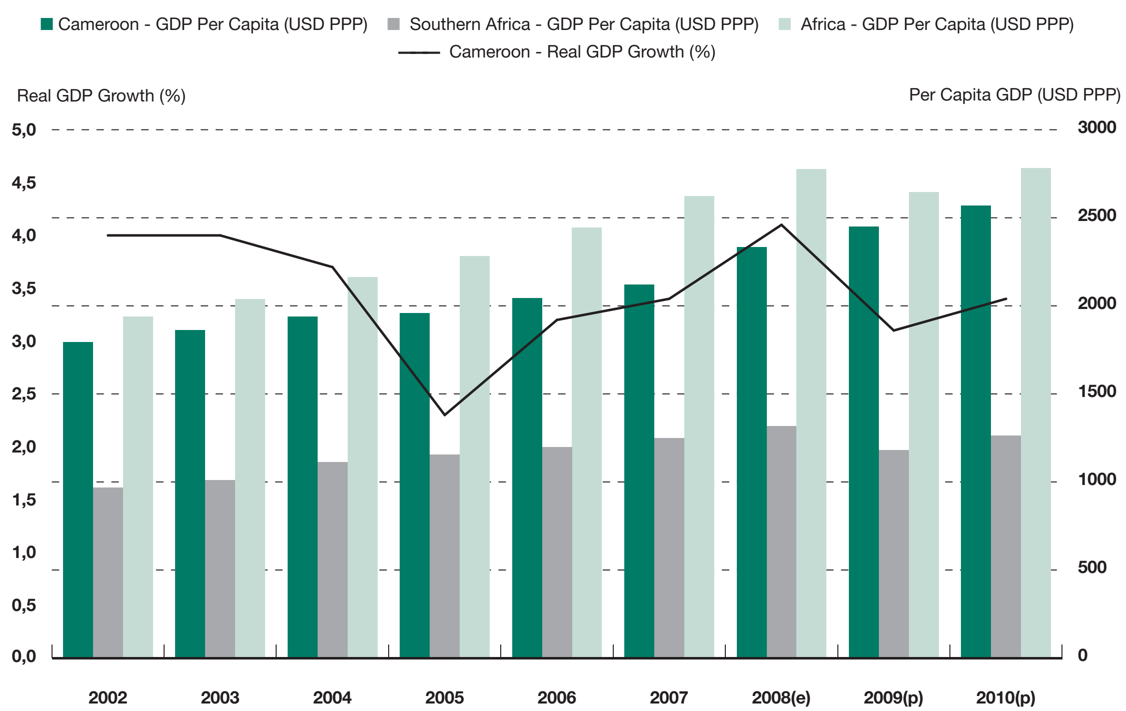


0 km 50 100 150 km
NIGER
Commercial Port
Petroleum Port
Fishing Port
Airport
Main Road
National Capital (1 611 000 In. 2007)
over 1 500 000
over 200 000
Ndjamena
CHAD
Maroua
Garoua
NIGERIA
Lagdo Lake
Bamenda
Bafoussam
C. AFRICAN REP.
Gulf of Guinea
Douala
YAOUNDÉ
EQUAT. GUINEA
Malabo
Bioco
NORTH ATLANTIC OCEAN
EQUAT. GUINEA
GABON
CONGO

REAL ECONOMIC GROWTH ACCELERATED to 4.1 per cent in 2008, up from 3.4 per cent in 2007, thanks to good results in the oil sector, ongoing infrastructure work, increased energy supply and programmes to boost agriculture, livestock and fisheries. It is expected to slow to 3.1 per cent in 2009 due to the global recession pushing down prices and demand for the country's main commodities exports (chiefly oil, wood, cotton and rubber) and to electricity supply problems resulting from severe drought, but should pick up again in 2010 to reach 3.4 per cent. In view of the economy's extreme – and growth-compromising – dependence on oil, a major challenge facing the government in 2009 is to increase revenue from the non-oil sector.

Falling commodity prices and insufficient local processing of raw materials are holding back efforts to revive growth.

Figure 1 - **Real GDP Growth and Per Capita GDP**
(USD in PPP at current prices)



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

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Recent Economic Developments

The government adopted a poverty reduction strategy paper in 2003 in which it undertook to speed up economic diversification and boost gross domestic product (GDP) growth to an annual average of 6 per cent over the 2005-15 period. This target is unlikely to be met, as GDP expanded by only 3.4 per cent in 2007 and an estimated 4.1 per cent in 2008 (4.1 per cent and 4.6 per cent respectively in the non-oil sector).

The primary sector accounted for about 23 per cent of GDP in 2008 and grew just 3.6 per cent (down from 5.9 per cent in 2007) due to a drop in world demand for commodities such as wood and cotton. Agriculture, which contributed about 20 per cent of GDP in both 2007 and 2008, grew by an estimated 6.9 per cent in 2008. Food crops accounted for 5.2 per cent of this growth, and export crops (mainly cocoa, coffee, bananas, cotton, rubber and palm oil) for 1.7 per cent.

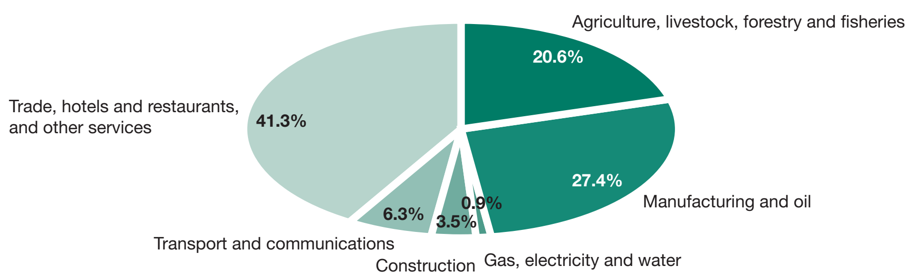
Government efforts are focused on increasing and broadening the supply of agricultural and livestock products. Free distribution of pesticides and selected seeds to farmers' organisations under programmes funded by the Heavily Indebted Poor Countries (HIPC) Initiative should maintain the growth trend in subsistence agriculture at an annual 5 per cent from 2009. Cash-crop output is expected to rise 3.1 per cent, mainly as a result of new plantations developed with the assistance of the national cocoa development firm Sodecao, the abolition of European Union (EU) banana import quotas in January 2008 and distribution of improved seedlings. Increased harvesting of new species could help revive the forestry sector, but this is uncertain owing to the economic crisis in timber-importing countries, with the long-term depression in markets such as housing.

Cocoa production increased 28 per cent in 2008 (after a 4.5 per cent rise in 2007) to 239 000 tonnes, as planters responded to good prices. Robusta coffee output increased 7.1 per cent in 2007 to 45 434 tonnes, while Arabica was down 7.3 per cent (from 5 211 tonnes in 2006).

The downward trend in cotton production continued in 2008 as output fell to only 110 000 tonnes (as against 306 000 tonnes in 2005 and 208 000 tonnes in 2006). The decline was due to a drop in cotton fibre prices, which pushed down the producer price of cottonseed, as well as to the steep rise in fertiliser prices.

After a slight year-on-year increase in 2006, banana production for export fell 9.8 per cent in 2007 (from 259 500 tonnes in 2006 to 234 084 tonnes). The sector revived after the abolition of EU import quotas and licences in January 2008, and production grew 21.1 per cent during the year, helped also by a 1.2 per cent rise in the world price. Industrial palm oil output was up 15 per cent in 2008 thanks to new agro-industrial plantations (mainly for biofuel) and better production methods.

Figure 2 - **GDP by Sector in 2007** (percentage)



Source: Authors' estimates based on Ministry of Finance data.

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Forestry accounted for 20 per cent of export earnings in 2008, in second place after oil. Output fell to an estimated 2 009 482 cubic metres sawn in 2008, down from 2 082 336 cubic metres in 2007, mainly due to a drop in the number of active forestry concessions (down from 77 to 69) and sales of standing timber (down from 14 to 9) and to the worldwide housing recession. This decline may continue in 2009 because of the global crisis and the resulting drop in sector investment.

In 2007, the country had some 5.6 million head of cattle, 7 million small ruminants, 1.2 million pigs and 26 million fowl. The poultry sector is recovering slowly from a bird flu outbreak in 2006. Production was estimated at 33 million birds in 2008, and several programmes and projects are under way to boost poultry output and thus food security.

The fisheries sector comprises industrial, traditional offshore and inshore fishing, plus aquaculture. About 200 000 people were active in traditional offshore and inshore fishing in 2008. The country's total catch amounted to 168 000 tonnes (93 000 offshore and 75 000 inshore), up from 120 000 tonnes in 2007 (10 000 tonnes industrial, 60 000 tonnes offshore and 50 000 tonnes inshore). This is not enough to meet domestic demand of about 298 000 tonnes a year.

The secondary sector (29 per cent of GDP) grew 1 per cent in 2008, as the good performance of agro-food industry and electricity was offset by a decline in construction. The Finance Ministry projects growth of 2.2 per cent in 2009 for the sector.

Animal feed output rose 28.2 per cent in 2008 because of stronger local demand, and sugar production was up 16.2 per cent after a sharp drought-related drop in 2007. Output of beverages increased 4.5 per cent, but refined oils were down 0.9 per cent because of lower cottonseed production.

Aluminium output was estimated to be up 5.6 per cent in 2008 due to better productivity and electricity supply at the Alucam plant, but forecasts for 2009 were tricky because of expected power supply problems. Cement production increased only 0.6 per cent in 2008. In the first half, it fell 7.9 per cent year-on-year, badly disrupting the market and halting many construction sites. The country's only active cement plant cannot meet local and sub-regional demand, which has been boosted by large construction projects and a revival in residential housing. A new grinder that begun operating in December 2008 should ease the shortage. Textile production was down 0.4 per cent in 2008, after a big 10.1 per cent jump in 2007 due to higher demand stemming from campaigns for the 22 July 2007 parliamentary elections.

Electric power output has increased steadily over the past three years thanks to an XAF 434.6 billion (CFA francs BEAC) investment programme over the 2005-09 period by the national power company AES Sonel. It should reach 4 429 megawatts (MW) by the end of 2008, 4.1 per cent more than in 2007, but poor rainfall in 2008 may reduce generation capacity in 2009.

Mining (7 per cent of GDP) grew 0.3 per cent in 2008, driven mainly by oil. Production of crude oil amounted to 32.1 million barrels, up from 31.2 million in 2007, which in turn represented a 2 per cent drop from 2006. The reserves of the country's active oilfields were estimated at 227.1 million barrels in December 2007.

Extraction of nickel (estimated reserves of 3 000 tonnes), manganese (5 000 tonnes) and cobalt (4 000 tonnes) is due to start in 2010, while mining of the Mbalam iron ore deposit (reserves of 2.4 billion tonnes) is slated for 2012. High-quality bauxite reserves are put at 1.2 billion tonnes and mining should start in 2013.

The tertiary sector (48 per cent of GDP) grew 6.5 per cent in 2008 (up from 5 per cent in 2007), driven by non-profit public services, which expanded 7.1 per cent due to civil service hiring and the upgrading of temporary workers to full-time employees.

Telecommunications expanded 29.5 per cent in 2007, owing to a 44.7 per cent increase in mobile phone

Table 1 – **Demand Composition**

	Percentage of GDP (current prices)		Percentage changes, volume			Contribution to real GDP growth		
	2000	2007	2008(e)	2009(p)	2010(p)	2008(e)	2009(p)	2010(p)
Gross capital formation	**16.7**	**16.8**	**6.9**	**4.7**	**4.7**	**1.2**	**0.8**	**0.8**
Public	2.8	2.2	13.0	2.7	2.7	0.3	0.1	0.1
Private	13.9	14.5	6.0	5.0	5.0	0.9	0.8	0.8
Consumption	**79.7**	**81.4**	**2.6**	**3.1**	**2.9**	**2.2**	**2.5**	**2.4**
Public	9.5	10.1	6.0	5.0	5.1	0.6	0.5	0.5
Private	70.2	71.3	2.2	2.8	2.6	1.6	2.0	1.9
External demand	**3.6**	**1.9**				**0.7**	**-0.3**	**0.2**
Exports	23.3	24.2	6.6	1.7	4.0	1.4	0.4	0.9
Imports	-19.7	-22.4	3.2	3.0	3.2	-0.7	-0.6	-0.7
Real GDP growth						**4.1**	**3.1**	**3.4**

Source: National Institute of Statistics data; estimates (e) and projections (p) based on authors' calculations.

StatLink http://dx.doi.org/10.1787/575456471600

subscribers and a 48.7 per cent rise in fixed-line subscribers. An overall 16.5 per cent increase in subscribers is expected in 2008, along with 7.4 per cent growth in turnover. These good results are due to modernisation of infrastructure, wider geographical coverage, the spread of fibre-optic lines, denser mobile and fixed networks, better service and more attractive products.

Air passenger traffic grew 25 per cent in 2008 and freight 6.2 per cent, because of more frequent international flights and resumption of domestic ones. As part of the break-up of Cameroon Airlines (Camair), the government bought the firm's only aircraft, a leased Boeing 767, and backed the new national carrier, Cameroon Airlines Corporation (Camair Co).

Rail transport turnover increased 5.1 per cent, with passenger traffic up 4.1 per cent thanks to better timetables and anti-fraud efforts. Freight was down 0.2 per cent, however, because falling production reduced shipments of major items such as wood and cotton by the national rail company Camrail.

Overall tonnage shipped by sea rose 2.2 per cent, including a 3.1 per cent increase in exports and 1.8 per cent in imports, owing to increased exports of bananas, cocoa and aluminium. The sector was helped by investment to dredge the channel into the port of Douala to keep it deep enough for big ships.

Economic growth continues to be underpinned by domestic demand, which contributed 3.4 percentage points to GDP growth in 2008. Overall consumption accounted for 80.3 per cent of GDP in 2008 and private consumption 70 per cent (forecast to be 70.4 per cent in 2009). Public consumption rose 6 per cent in 2008, mainly due to civil service hiring and pay increases.

Investment accounted for 16.9 per cent of GDP in 2008 (up from 16.8 per cent in 2007) and is forecast at 16.7 per cent in 2009. Private investment grew 6 per cent in 2008 due to non-oil sector investments, chiefly mobile telephony, cement, electricity and agro-industry. Oil exploration is continuing in the Ekoundou Horst, Bakingili and Rio Del Rey blocks. Private investment was steady at 14.3 per cent of GDP in 2008 (14.5 per cent in 2007) and should dip to 14.1 per cent of GDP in 2009. Government investment (2.6 per cent of GDP) was up 13 per cent in 2008 and expected to grow 2.7 per cent in 2009, helped by infrastructure upgrading in Yaounde and Douala. Social sectors got 60 per cent of the public investment budget in 2008, including 41 per cent for infrastructure, 13 per cent for education, training and research, and 4.9 per cent for health.

Macroeconomic Policies

Fiscal Policy

Fiscal policy in 2008 focused on raising more revenue from the non-oil sector. The budget was balanced at XAF 2 482 billion, with execution rates of 96 per cent for revenue and 96.1 per cent for expenditure. The overall balance showed a surplus of 4.4 per cent of GDP in 2007 and is expected to remain positive, at 5.9 per cent of GDP in 2008 and 2.8 per cent in 2009.

Government revenue increased from 19.9 per cent of GDP in 2007 to 21.7 per cent in 2008, owing to the rise in the US dollar (USD) price of oil, the country's main export. Revenue is projected to fall back to 18.8 per cent in 2009 as a result of the subsequent drop in oil prices.

Oil revenue accounted for 38 per cent of government revenue (up from 33 per cent in 2007). The 100.5 per cent collection rate for oil offset the revenue losses from import duty and tax exemptions granted in 2008 on some staples. The exemptions, aimed at easing the effect of high world food prices, amounted to an estimated 0.3 per cent of GDP.

External resources, comprising loans for projects and programmes, along with grants, were expected to be 1 per cent of GDP in 2008, with a disbursement rate of 70.5 per cent.

Government spending amounted to 15.7 per cent of GDP (15.6 per cent in 2007) and focused in priority on infrastructure, education, job creation and health. The increase was linked to higher capital spending, which almost doubled in three years to reach 4.1 per cent of GDP. To keep consumer petrol prices down, the government raised its subsidy to the national refinery company, Sonara, to 2 per cent of GDP at the end of 2007.

The stock of public debt fell to 12.2 per cent of GDP in 2008 (20.8 per cent in 2007), as Cameroon cut back sharply on its external debt (from XAF 3 652.1 billion in 2005 to XAF 882.4 billion in 2008), thanks to HIPC debt relief obtained after the country achieved completion point, a cautious external debt policy in line with the macroeconomic framework and adherence to external debt repayment schedules. An estimate based on disbursements as at the end of June 2008 suggested that public debt will continue to decline (to 9.4 per cent of GDP in 2009 and 7.7 per cent in 2010).

Domestic debt also fell, to 5.4 per cent of GDP in 2008 (from 14.2 per cent in 2005), because the government contracted no new debts, serviced existing

Table 2 - **Public Finances** (percentage of GDP at current prices)

	2000	2005	2006	2007	2008(e)	2009(p)	2010(p)
Total revenue and grants[a]	**20.0**	**18.2**	**47.6**	**19.9**	**21.7**	**18.8**	**18.7**
Tax revenue	10.5	10.4	10.6	10.8	10.7	10.2	10.2
Oil revenue	6.6	5.0	6.8	6.4	8.3	5.9	6.0
Total expenditure and net lending[a]	**15.6**	**14.6**	**14.6**	**15.6**	**15.7**	**16.0**	**16.0**
Current expenditure	11.8	12.1	11.7	11.6	11.7	11.9	12.1
Excluding interest	*10.0*	*10.6*	*10.7*	*11.1*	*11.2*	*11.5*	*11.7*
Wages and salaries	4.9	4.7	4.5	4.4	4.4	4.5	4.5
Interest	1.8	1.5	0.9	0.5	0.4	0.4	0.4
Capital expenditure	3.3	2.4	2.9	3.9	4.1	4.0	3.9
Primary balance	**6.2**	**5.1**	**34.0**	**4.9**	**6.4**	**3.2**	**3.1**
Overall balance	**4.4**	**3.6**	**33.1**	**4.4**	**5.9**	**2.8**	**2.7**

a. Only major items are reported.
Source: Ministry of Finance data; estimates (e) and projections (p) based on authors' calculations.

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debts on schedule and used the extra funds generated by high oil prices to make reimbursements that were much greater than planned.

Monetary Policy

The Bank of Central African States (BEAC) controls the monetary policy of the six member states of the Central African Economic and Monetary Community (CEMAC), including Cameroon, and focuses on price stability and curbing excess liquidity.

High world food prices pushed the inflation rate to 5.7 per cent in 2008, well above CEMAC's 3 per cent ceiling. The consumer food price index rose about 9 per cent, mainly because of a 38 per cent rise in imported cereal prices over the year.

The operations account fell to XAF 937.3 billion in 2008 (from 1 074.5 billion in 2007), chiefly because of a new rule that reduces the share of external reserves to be placed in this account from 65 per cent to 50 per cent. The currency's external coverage rate rose to 93.8 per cent in June 2008 (from 82 per cent a year earlier), an improvement largely due to high oil prices.

Apart from its penalty rates for banks and national treasuries, the BEAC raised its intervention rates on 3 July 2008. The bank refinancing rate, repurchase rate and deposit rate were raised 0.25 of a point. Rates for credit to governments rose from 5.25 to 5.50 per cent. The interest on public deposits when the government borrows from the BEAC was abolished, but rates on other public deposits were raised 0.20 point. For banks, the maximum lending rate was abolished and the minimum deposit rate reduced from 4.25 to 3.25 per cent. The government is to replace statutory advances, which it did not use in 2008, by short- and medium-term bond issues. The BEAC abolished the maximum lending rate to give banks more latitude to manage risk themselves.

External Position

The current account surplus improved to 2.3 per cent of GDP in 2008 (up from 0.4 per cent in 2007), mainly because of higher oil export earnings, capital transfers after HIPC Initiative completion point was reached and foreign direct investment (FDI) in the mining, oil and energy sectors.

Trade in goods performed better in 2008, showing a surplus of 4.3 per cent of GDP (1.6 per cent in 2007), thanks to higher oil prices in the first half and improved wood and cocoa export earnings. But Cameroon's goods exports are undiversified and low in value added, so they are vulnerable to world commodity price fluctuations. On 15 January 2009, the government signed an interim economic partnership agreement with the EU, the country's main trade partner (54.2 per cent of all non-oil trade), undertaking to reduce tariffs on 80 per cent of its EU imports over 15 years in exchange for tariff-free exports to the EU and assistance with reforms needed to bring about regional integration. The pact will enable continued exports of bananas and aluminium to the EU.

Table 3 - **Current Account** (percentage of GDP at current prices)

	2000	2005	2006	2007	2008(e)	2009(p)	2010(p)
Trade balance	7.0	0.3	3.0	1.6	4.3	2.7	2.6
Exports of goods (f.o.b.)	20.7	17.7	20.6	19.6	23.2	17.9	17.8
Imports of goods (f.o.b.)	13.7	17.4	17.6	18.1	18.9	15.2	15.2
Services	-2.7	-2.1	-2.4	-2.7	-2.5	-2.9	-2.9
Factor income	-2.3	-2.8	-1.4	-0.4	-1.3	-1.4	-1.1
Current transfers	1.1	1.3	1.4	1.9	1.8	1.8	1.7
Current account balance	**3.1**	**-3.4**	**0.7**	**0.4**	**2.3**	**0.2**	**0.2**

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

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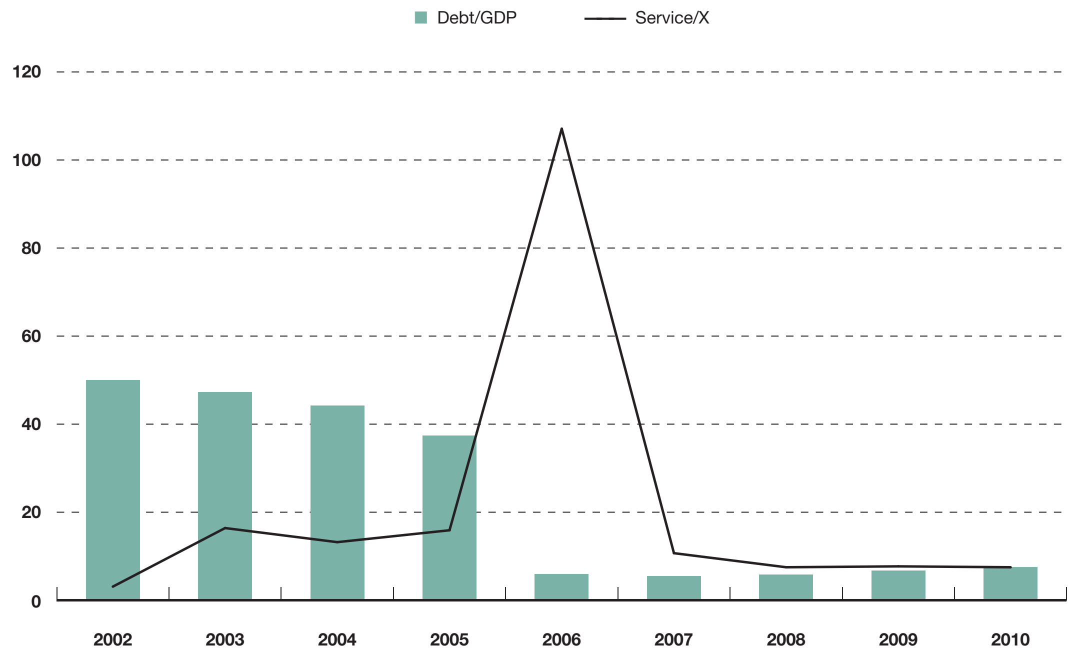
Figure 3 - **Stock of Total External Debt** (percentage of GDP) **and Debt Service** (percentage of exports of goods and services)



Source: IMF.

StatLink http://dx.doi.org/10.1787/573086086363

Cameroon is strengthening its ties with East Asia, its second-largest trade partner (18.7 per cent of the total). It trades mainly with China, Japan, India and Thailand. The country's non-oil trade deficit with China was about 1.2 per cent of GDP in 2008 and its surplus with other CEMAC member states 1.3 per cent.

The services account is structurally in deficit (2.5 per cent of GDP in 2008, versus 2.7 per cent in 2007). The deficit in 2008 is mainly attributable to the travel and transport sectors, which were affected by higher freight charges and the shutdown of the national airline, but insurance, communications and technical assistance also contributed.

The continuing deficit on the factor income account increased from 0.4 per cent of GDP in 2007 to an estimated 1.3 per cent in 2008 (with 1.4 per cent projected for 2009). The account was affected by a 65 per cent drop in interest payments on external debt after HIPC Initiative completion point was reached. Current transfers remained in surplus, at 1.8 per cent of GDP in 2008 (1.9 per cent in 2007), largely due to better income tax collection from non-residents and to remittances from Cameroonian workers abroad.

The net inflow of FDI was steady in 2007 and 2008, at about 1.2 per cent of GDP, with most of it going to extractive industries, especially oil, and coming mainly from the United States and France.

Structural Issues

Private Sector Development

The business climate worsened in 2008, and the World Bank's 2009 *Doing Business* report ranked Cameroon 164th out of 181 countries (158th out of 178 countries in 2007). A survey of investment conditions, conducted by development partners, showed that the tax burden was the greatest obstacle for 21.5 per cent of business people, followed by lack of financing (for 13 per cent) and bad governance and corruption (10 per cent). The government, working with the private sector and the World Bank, has drafted a plan to improve conditions, with priority given to addressing corruption, the lack of infrastructure, and complex and conflicting tax rules.

The government continued in 2008 with its action plan drawn up in 2007 to bolster financial intermediation by helping banks to withstand shocks better, setting up a regional market in government bonds, increasing supervision of microfinance, broadening access to banking services, diversifying bank products and improving information and the legal framework. Banks control 86 per cent of the intermediation sector, non-insurance financial institutions 5.6 per cent, insurance companies 4.5 per cent and microfinance 3.6 per cent. Banking services are not widely available, and small and medium-sized firms have little access to financial services. Banks have excess liquidity but prudential ratios are improving.

Long-term loans were still at a low level (2.3 per cent of total loans) by 30 June 2008 but had nearly doubled year-on-year, while short- and medium-term loans increased by 14 per cent. Medium-term loans accounted for 36.1 per cent of the total. Bad loans had grown to 14 per cent of the total as of 30 June 2008. Private firms contracted 73.7 per cent of loans, private individuals 10.2 per cent and state-owned firms 6.9 per cent.

Other Recent Developments

The process of privatising the national airline, Camair, led to its shutdown in February 2008, with full-time workers being paid off. Where Cameroon Telecommunications (Camtel) is concerned, detailed bids from two firms to run the company provisionally under contract are under consideration.

In the interest of transparency, the government regularly publishes (both in the press and online) quarterly budget execution reports, the quarterly operating results of the national oil company SNH and reports on violations of forestry laws and regulations, for which 27 operators lost their licences in 2008.

The national power company, AES Sonel, has drafted an XAF 434.6 billion investment plan for 2005-09 that aimed to boost output to 4 429 MW by the end of 2008 (4.1 per cent more than in 2007). In 2008, the plan focused on building a gas-fired power plant at Kribi (330 MW) and a heavy fuel oil one at Dibamba-Yassa (86 MW), which should start operating in early 2009. The delay in starting work on the Kribi plant may hold up many planned investments in the country in 2009, including expansion of the aluminium factory.

The roads programme continued with upgrading in Yaounde and Douala, but rural areas are still isolated despite an extensive, dense road network of some 50 000 kilometres, 4 000 kilometres of them paved and 21 000 kilometres getting priority maintenance. Many projects are under way to link the country to its neighbours. The government and privately owned Camrail have begun talks on investment and altering the 1999 franchise agreement. The government and development partners are expected to increase their financial participation, and rail service should improve considerably by 2020.

Clean water is still in short supply because of the outdated mains network and fast-growing urban population. The government investment budget funded the building of 140 public wells and 32 new mains in 2008. Money released under the HIPC Initiative and the Multilateral Debt Reduction Initiative paid for 425 more wells and 57 mains. The African Development Bank has also funded 16 water purification centres, and Chinese aid is building one in Douala with a daily output of 50 000 cubic metres.

Environmental and conservation efforts in 2008 concentrated on fighting rapid desertification in northern Cameroon through Operation Green Sahel. Seedlings and special equipment were bought and reforestation campaigns conducted. The legislative basis for a climate-change monitoring centre has also been drafted.

The overall aim of agricultural and rural development policy is to double output of key commodities by 2015, in line with the MDGs. Despite the government's efforts, however, the world food crisis, reflected in higher local staple prices, has revealed the weakness of the country's farming systems and methods.

To cope with this threat to food security and civil peace, the government in February 2008 changed the goals and deadlines of its rural development programme with a view to obtaining a substantial, rapid increase in food supply, including an emergency plan to revive food production by 2012. This will include expanding and supervising the cocoa and coffee sectors through a project to protect existing plantations (*projet de protection du verger cacao-café*) and a seeding project (*projet semencier cacao/café*); running programmes to boost production of maize, manioc, macabo and plantains; and increasing agricultural output by an average of 12 per cent a year (from the initial target of 7 per cent). It should meet all the country's food needs, supply at least 3 per cent of the sub-regional market and win some customers further afield. The agricultural and rural development budget was a steady 1.7 per cent of GDP in 2007 and 2008, and is projected to rise to 2.4 per cent in 2009 to cover the cost of the emergency plan.

Innovation and ICT

Information and communication technology (ICT) covers telecommunications (especially telephony), broadcasting (radio and television) and the Internet.

The semi-public firm Camtel operates all fixed phone lines and covers 107 towns with six subscriber connection units, 37 group centres and seven regional, two national, two international and 107 rural exchanges. These are linked by a microwave system to 79 relay stations and several urban fibre-optic lines for national communications. International traffic is by satellite and the SAT-3 undersea fibre-optic cable.

The mobile phone network, run by Camtel, South Africa's Mobile Telephone Networks (MTN) and the Anglo-French firm Orange Cameroon, has boomed in recent years, overtaking fixed lines and serving 239 towns, 99 of them with two operators present. Service is provided through networks including message-switching centres in Yaounde and Douala, base station controllers, base transceiver stations, interurban PDH (plesiochronous digital hierarchy) and SDH (synchronous digital hierarchy) microwave links, as well as satellite links.

About 5.5 million people (a third of the population) had telephone access in 2008, 5.2 million of them through either MTN or Orange. Camtel had 500 000 subscribers, 240 000 with its Cityphone mobile service and just over 300 000 with fixed lines.

Call rates are high for the average Cameroonian. Camtel's fixed-line hourly charges range from 0.7 to 2.3 per cent of average annual income (AAI). Mobile rates are even higher: MTN's hourly charges range from 1.8 to 2.9 per cent of AAI, those of Orange Cameroon from 2 to 3.9 per cent.

The most popular Internet services are the Web, site-hosting, e-mail, discussion forums and voice over Internet protocol (VoIP) service (though the last is not yet official). Connections are by very small aperture terminal (VSAT) technology, public switched network, radio or wire leased line, or wireless (Wifi).

Camtel offers the widest range of Internet access options. They include fixed-line asymmetric digital subscriber line (ADSL) service for a monthly charge of 11.4 per cent of AAI and a similar installation fee; fixed-line dialup; wireless service through Cityphone for 13 per cent of AAI; and WIMax (worldwide interoperability for microwave access), a high-speed wireless connection costing 81.3 per cent of AAI to install with a terminal or 32.5 per cent without. Orange's main product is its Livebox, a Wifi router offering speeds up to 2 megabits and marketed in two forms: a business/professional option costing between 65 and 390.1 per cent of AAI per month, and one for the general public costing from 11.4 to 32.5 per cent of AAI. MTN's Nomad offers wireless Internet access with a kit that costs a monthly 8.1 per cent of AAI.

About 26.8 per cent of employees in government departments have Internet access at work. Nationwide, a slightly higher proportion of people have at-work access in private firms (10.8 per cent) than in the public sector (9.2 per cent). The government has set up 34 multifunction public telecentres with ICT access in rural areas that are not fully served by the main telecommunications operators.

The telecommunications regulator ART supervises the sector, monitors operators and ensures that all telecoms firms comply with the principle of equal treatment of users. The national agency for information and communication technology (Antic) promotes the use of ICT nationwide as a tool of economic and personal growth.

A Special Telecommunications Fund has been set up to boost ICT funding. Its resources stem from annual levies on operators and users, various government contributions, and grants. In accordance with government priorities, the funds are used towards nationwide telecommunications service provision and development. The government has created multimedia centres in schools to familiarise children with ICT. Private and public colleges train engineers and senior technicians to use computer and telecommunication technology.

Political Context

The national constitution was amended in 2008 to abolish Article 6-2, which bars the president from a third successive term. The dominance of the ruling Cameroon People's Democratic Movement (*Rassemblement Démocratique du Peuple Camerounais*) was confirmed in municipal elections, as it won in all six towns where voting was held. In addition, Nigeria returned control of the disputed Bakassi Peninsula to Cameroon on 14 August 2008 in Calabar, pursuant to a decision by the International Court of Justice. The situation in the peninsula remains troubled.

With the constitution amended, President Paul Biya, in power since 1982, could now run for re-election for another seven years when his term ends in 2011. The members of the new electoral council, *Elections Cameroun* (Elecam), created in 2007, have been appointed and sworn in. Decentralisation continued, with administrative regions replacing provinces.

Cost-of-living riots in February 2008 killed 40 people (according to official figures) in Yaounde and Douala, and hundreds were arrested. The president then decided to suspend import duties on basic commodities to keep prices down and gave government workers a 15 per cent pay rise.

A campaign against corruption and embezzlement of public funds continued in 2008 with the arrest of several top officials during a public morality campaign called Operation Sparrow Hawk (*Opération Epervier*). Trials of these officials are in progress, but the results of the campaign are mixed and Cameroon continues to lose ground in Transparency International's Corruption Perceptions Index, falling three places in 2008 to 141st place among 180 countries.

Social Context and Human Resources Development

Cameroon aims to halve its poverty rate, from 53.3 per cent (1996) to 25.2 per cent by 2015 as part of the Millennium Development Goals (MDG). The target is still far from being reached, with the rate still 39.9 per cent in 2008. The government is thus giving priority to social sectors, which in 2008 received a budget appropriation of XAF 459.4 billion, up 1.5 per cent from 2007 (XAF 452.6 billion). The money went towards achieving universal primary education, better health care, job creation and providing affordable housing.

The government continues efforts to raise quality and efficiency in the education sector by expanding access, raising retention rates and removing disparities. Education got 15.6 per cent of the central budget in 2008, an increase of 9 per cent to XAF 352.8 billion. Investment has focused on increasing capacity by building classrooms and workshops at the primary and secondary levels, and also halls, special work-rooms, teachers' offices and student housing at the tertiary level.

The gross primary enrolment rate was 104.5 per cent in the 2007/08 school year (up from 101.8 per cent in 2006/07) and the completion rate 71.5 per cent (down from 75.3 per cent). The student/teacher ratio worsened in 2008 to 46 (from 43 in 2007), as did the pupil/classroom ratio, which rose from 48 to 51. To reach the norm of 40 pupils for every teacher and classroom, 14 142 teachers and 19 288 classrooms would be needed. Examination pass rates fell from 80.7 to 79.5 per cent in 2008 for the CEP primary school certificate and from 86.5 to 82.5 per cent for the First School Leaving Certificate.

Secondary schools had 19 173 classrooms, including 10 771 in the state sector, and 1 002 852 pupils taught by 49 982 teachers, with a pupil/classroom ratio of 52. The number of teachers increased 18.1 per cent in 2007-08 and the number of pupils by 22.2 per cent.

Efforts in higher education in 2008 included gradual introduction of the French LMD system (bachelor's, master's and doctorate), hiring 1 000 state university teachers, opening a university and a teacher training college in Maroua, a fishing science institute at Douala University, and a fine arts school and pharmacy and medical faculties at Dschang University. The number of higher education students rose 13.1 per cent in 2007-08 to 131 341, with 3 049 teachers.

Health care got 3.7 per cent of the overall budget in 2008 (down from 4.4 per cent in 2007). Many foreign partners fund programmes, mainly in the areas of disease control, the extended immunisation programme and infrastructure upgrading.

The HIV/AIDS prevalence rate was 5.5 per cent in 2008. AIDS is a serious public health problem in Cameroon. Care of people living with HIV improved with better-trained staff and free anti-retroviral (ARV) drugs. The national anti-HIV/AIDS committee (CNLS) aims to provide 75 per cent of eligible infected people with ARV drugs by 2010. In March 2008, 50 005 patients (48 002 adults and 2 003 children) were being treated, raising the proportion of eligible people to 54.7 per cent.

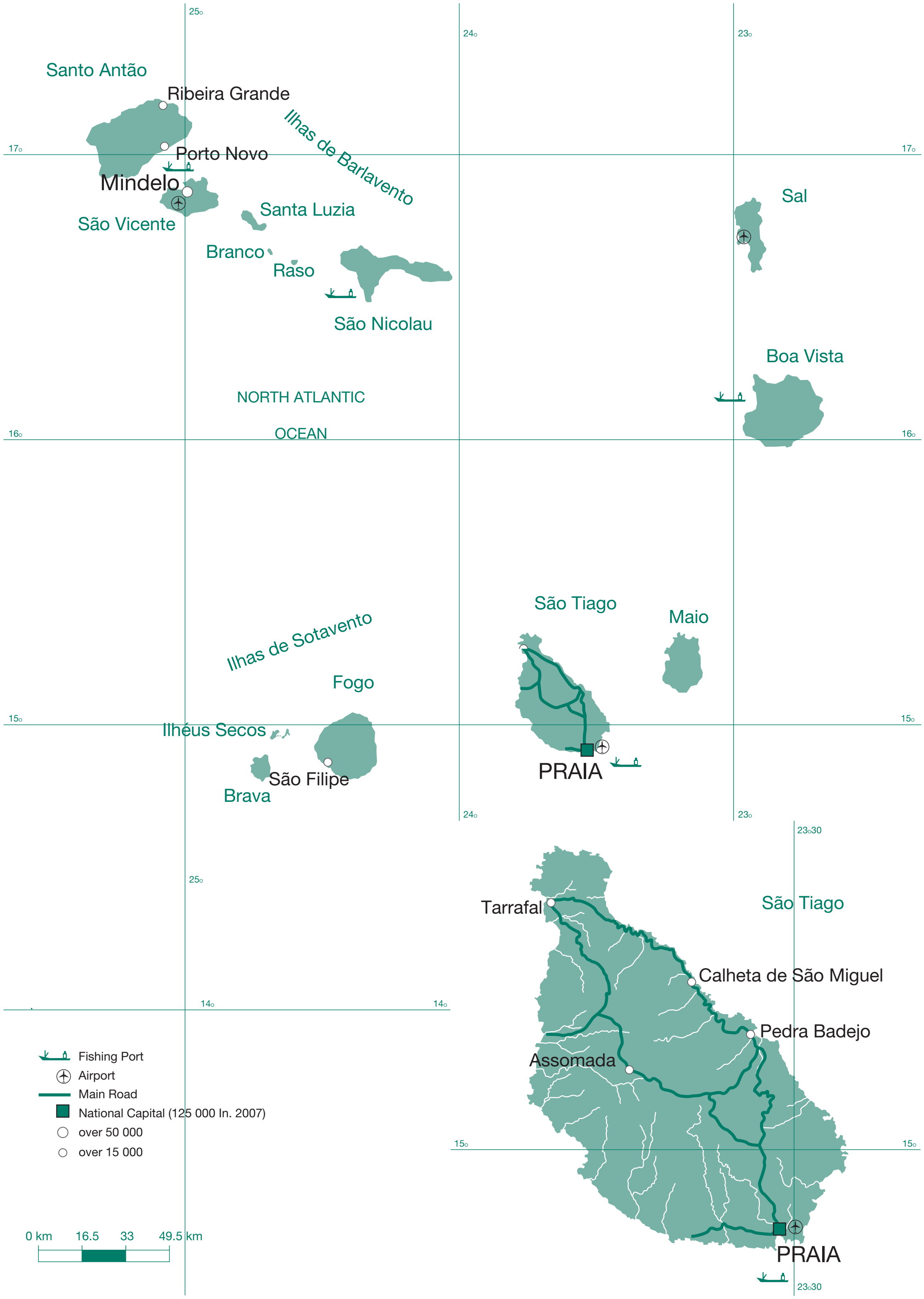
The third national household survey in 2007 showed unemployment in the working population to be 5.4 per cent and under-employment 69 per cent. The informal sector employs an estimated 92 per cent of the workforce. The government is tackling the situation with studies of job creation and vocational training (including a national policy paper on employment), vocational guidance and back-to-work schemes, and a capacity-building strategy for the Labour Ministry.

Cape Verde

key figures

• Land area, thousands of km²:	4
• Population, thousands (2008):	499
• GDP per capita, PPP valuation, USD (2008):	3 042
• Life expectancy (2008):	71.4
• Illiteracy rate (2008):	16

Cape Verde



25°
24°
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17°
16°
15°
14°
Santo Antão
Ribeira Grande
Porto Novo
Mindelo
São Vicente
Ilhas de Barlavento
Santa Luzia
Branco
Raso
São Nicolau
Sal
Boa Vista
NORTH ATLANTIC
OCEAN
Ilhas de Sotavento
Fogo
Ilhéus Secos
São Filipe
Brava
São Tiago
Maio
PRAIA
23°30
Tarrafal
São Tiago
Calheta de São Miguel
Pedra Badejo
Assomada
PRAIA
Fishing Port
Airport
Main Road
National Capital (125 000 In. 2007)
over 50 000
over 15 000
0 km
16.5
33
49.5 km

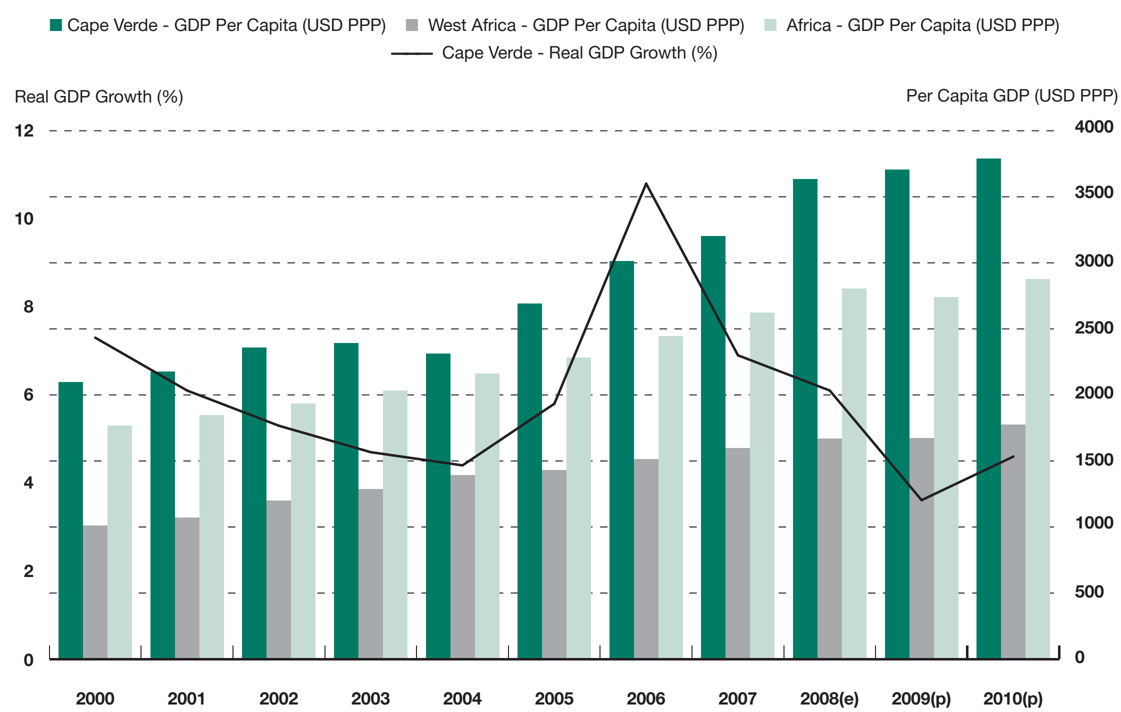
CAPE VERDE'S STRONG PERFORMANCE in recent years has left it well placed to weather a slowdown. GDP is estimated to have expanded by 6.1 per cent in 2008. It is expected to slow to 3.6 per cent in 2009, and to register somewhat stronger growth in 2010. That forecast is, however, subject to downside risk, as it is based on the assumption of a 10 per cent decline in tourism receipts in 2009, which may fall yet further as the global economic crisis unfolds.

Despite pressures stemming from the volatility of international food and fuel prices over the past year, the country has managed to sustain high growth without falling prey to strong inflation. This is due in part to the Cape Verdean escudo's peg to the euro but also to the dismantling of wage indexation. Inflation was a moderate 6.7 per cent in 2008, and is expected to fall in 2009 and again in 2010.

The strong growth of recent years could be compromised by a decline in tourism.

Cape Verde's economic performance is all the more impressive given the significant costs that result from its small size, insularity and geographic make-up. The country passed a fifth review of the International Monetary Fund's Policy Support Instrument (PSI) in December 2008. The PSI helps countries design effective economic programmes that, once approved by the IMF, signal to donors, development banks, and markets that the Fund endorses its policies. Cape Verde also graduated in 2008

Figure 1 - **Real GDP Growth and Per Capita GDP**
(USD/PPP at current prices)



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

StatLink http://dx.doi.org/10.1787/568667128112

from Least Developed Country (LDC) status on a United Nations' scale to Middle Income Country (MIC) status. That was an impressive achievement, but the country remains highly dependent on international donor support. If aid flows dry up as a consequence of this graduation, the country will be exposed to serious risks, due especially to its relatively high debt-to-GDP ratio and its low level of reserves. Another new challenge that has arisen for the West African state is how to cope with security challenges related to international drug trafficking in the sub-region, which could divert resources from other important development needs.

Recent Economic Developments

Cape Verde faces a number of challenges. Slower growth, combined with a still high level of debt, a currency peg and a large balance of payments deficit warrant caution, especially in a difficult global economic climate. Nevertheless, beyond the uncertainties of 2009, the country is on track over the medium term, with tourism likely to exhibit strong growth and infrastructure investments, particularly road and port upgrades, set to unlock further productive potential.

The growth of tourism in recent years has contributed significantly to Cape Verde's strong economic performance, and the industry is the single most important source of foreign currency. According to the World Travel and Tourism Council (WTTC), tourism in Cape Verde was expected to account for 15.9 per cent of total GDP in 2008, and for 14 000 jobs representing 14.6 per cent of total employment. Tourism was also estimated to have accounted for 99 per cent of foreign direct investment (FDI) inflows in 2008.

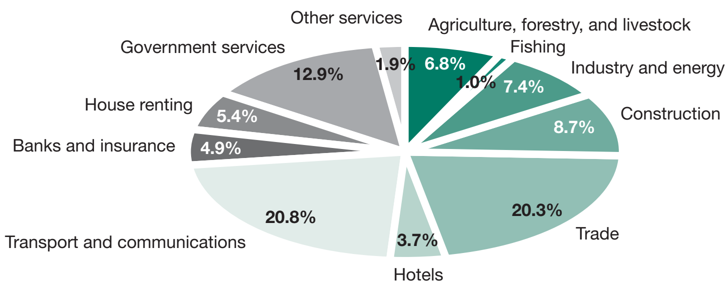
However, WTTC figures also show that Cape Verdean tourism in 2008 was expected to contract by 2.4 per cent in real terms, causing employment in the sector to decline by 6.2 per cent. Over the first half of 2008, exports of services in general registered an increase of around 11 per cent, with tourism-related services increasing by 22 per cent. But this impressive increase was significantly lower than the increase of 36 per cent in 2007

The downside risk of strong dependency on tourism is the sensitivity of the sector to economic conditions in the countries where the tourists come from. This underscores the importance of promoting high-value tourism and expanding the customer base which has so far been dominated by visitors from Europe – set to be hard hit by the global downturn in 2009.

Cape Verdean officials remain optimistic, however, predicting growth for the industry over the coming decade at an annualised 5.8 per cent.

Cape Verde's construction industry has been bolstered by the tourist boom and further fuelled by construction of second homes by the country's large diaspora. Large-scale projects and developments have been coming on

Figure 2 - **GDP by Sector in 2007** (percentage)



Source: Authors' estimates based on IMF and Central Statistical Office data.

StatLink http://dx.doi.org/10.1787/571271856276

stream at a sustained rate. October 2008 saw the opening of the largest hotel complex in Cape Verde, in Boa Vista, and the same year saw the start of the USD 1 billion (US dollars) Cesaria resort in Sao Vicente. A number of projects are, however, reported to be temporarily stalled due to credit constraints, with a significant number of planned resorts (up to five in Sal alone) being postponed. Only those projects already well advanced are currently moving forward.

Growth in public investment has also been supporting the construction sector. A USD 55 million cement plant, financed by Chinese investors, set to come on stream in 2009, is expected to satisfy domestic demand and even export to West African markets.

Even with external aid, there has been little investment in agriculture and productivity remains very low. Only 10 per cent of the land is arable because of Cape Verde's arid climate and nutrient-poor soil. While yields have improved somewhat as a result of drip irrigation and improved links with urban markets, even with the abundant rainfall of 2008, agriculture accounted for only about 10 cent of GDP. The country relied on imports for 80 per cent of its food requirements.

Fishing is one of the country's few natural resources with strong potential. Although still underdeveloped, the sector accounted for nearly 10 per cent of Cape Verde's total exports in value for 2007. Capacity increases and investment in the sector led to fish exports growing by 62 per cent over 2008. Chinese investors have committed to the renovation of Cabnave, a shipyard on the island of Sao Vicente. Spanish investors were said to be interested in Interbase, a cold-storage plant on the same island. Interbase was destroyed by a fire in September 2008, but is due to be rebuilt at an estimated cost of EUR 14 million (euros) drawn from a support package granted by the Spanish government. Reconstruction is expected to take two years, after which time the company will be privatised.

Real GDP growth is projected to slow to 3.6 per cent in 2009, which is mirrored in the main components of domestic demand. Private investment growth is expected to slow to 7 per cent, from 14 per cent in 2008. Overall consumption is also expected to exhibit slower growth in 2009, but to rebound in 2010 as the economy recovers. Private consumption is not expected to fall by much during the downturn as the past decade of strong growth has considerably improved the overall

Table 1 – **Demand Composition**

	Percentage of GDP (current prices)		Percentage changes, volume			Contribution to real GDP growth		
	2000	2007	2008(e)	2009(p)	2010(p)	2008(e)	2009(p)	2010(p)
Gross capital formation	**34.6**	**45.3**	**14.6**	**8.2**	**9.3**	**6.9**	**4.2**	**4.9**
Public	5.8	4.9	20.0	18.0	4.0	1.0	1.0	0.3
Private	28.8	40.5	14.0	7.0	10.0	5.9	3.2	4.7
Consumption	**99.8**	**94.1**	**4.3**	**4.5**	**2.5**	**4.3**	**4.4**	**2.4**
Public	17.9	18.5	4.5	9.8	0.1	0.8	1.8	0.0
Private	81.9	75.7	4.3	3.2	3.1	3.4	2.5	2.4
External demand	**-34.3**	**-39.5**				**-5.1**	**-4.9**	**-2.7**
Exports	19.8	17.7	14.9	-16.7	10.1	2.7	-3.3	1.6
Imports	-54.1	-57.2	12.1	2.4	6.5	-7.8	-1.6	-4.4
Real GDP growth						**6.1**	**3.6**	**4.6**

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

StatLink http://dx.doi.org/10.1787/575582866786

situation of households. A government plan to stimulate the economy was forecast to result in public investment increasing by 18 per cent in 2009 and public consumption increasing by 9.8 per cent. Financing the increase in the fiscal deficit resulting from the fiscal stimulus is not expected to pose a major problem.

Real exports are expected to contract sharply in 2009 due to worldwide economic conditions. But import growth is also expected to slow considerably, resulting in little change in the trade deficit. Growth in private investment is expected to pick up again in 2010 on the strength of renewed dynamism in tourism exports.

Macroeconomic Policies

Fiscal Policy

Expenditures in the 2009 budget are set to increase by 2.3 per cent of GDP, to 31.8 per cent of GDP. Capital expenditures are set to rise by 1 per cent of GDP, to 11.3 per cent of GDP, reflecting the government's ambitious public investment programme. Current expenditures are also set to rise by 1 per cent of GDP, although wage and salary expenditures are set to remain stable. Government income will remain stable between 2008 and 2009, at 28.2 per cent of GDP. Commitments from multilateral and bilateral donors over 2009 will reach CVE 20 billion (Cape Verdean escudos), approximately 15 per cent of the country's GDP. The budget deficit in 2009 is set to increase significantly from 1.2 per cent of GDP to 3.7 per cent, and is forecast to remain at that level through 2010. Strengthened tax administration has contributed to higher tax revenues. A lowering of the corporate and personal income tax rate from 30 to 25 per cent and of the tax on small businesses from 20 to 15 per cent is planned for 2009. Three tax codes, the Código Geral Tributário, the Código do Processo Judicial Tributário and the Código de Execução Tributária are set to be revised, leading to simplification in payments and revenue administration. This reduction of business costs is expected to help boost competitiveness and employment.

In 2007, the government conceded tax breaks amounting to CVE 773.2 million to 95 companies. Nearly half of this was to a single company in the tourism industry. Partly in reaction to such shortcomings, a draft revised General Tax Code was submitted to the National Assembly in August 2008 and a new tax exemption code was to be submitted to the National Assembly in 2009. Pending the passage of this legislation, a moratorium has been put in place on the granting of new tax exemptions.

According to IMF estimates, total nominal debt-to-GDP ratio is estimated to fall from 67 per cent at

Table 2 - **Public Finances** (percentage of GDP at current prices)

	2000	2005	2006	2007	2008(e)	2009(p)	2010(p)
Total revenue and grants[a]	**25.1**	**28.2**	**27.4**	**28.5**	**28.3**	**28.2**	**26.8**
Tax revenue	17.2	19.7	20.4	21.6	21.5	21.0	20.9
Grants	5.7	6.0	5.2	4.6	4.4	4.8	3.6
Total expenditure and net lending[a]	**32.5**	**31.9**	**31.9**	**29.3**	**29.5**	**31.8**	**30.5**
Current expenditure	21.8	20.0	20.6	19.2	18.6	19.5	18.4
Excluding interest	*19.5*	*18.0*	*18.9*	*17.6*	*17.1*	*18.0*	*16.9*
Wages and salaries	9.6	11.4	10.3	10.2	9.4	9.4	9.1
Interest	2.2	2.0	1.7	1.5	1.5	1.5	1.5
Capital expenditure	10.7	11.7	11.1	10.0	11.3	12.3	12.1
Primary balance	**-5.2**	**-1.7**	**-2.8**	**0.7**	**0.2**	**-2.2**	**-2.2**
Overall balance	**-7.4**	**-3.7**	**-4.5**	**-0.8**	**-1.2**	**-3.7**	**-3.7**

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

StatLink http://dx.doi.org/10.1787/576671838061

the end of 2007 to 49 per cent by 2013. With the government's goal of domestic debt-to-GDP ratio of 20 per cent reached in 2007, two years ahead of schedule, Cape Verde has fiscal space to allow expenditures to run up through the downturn. Estimated at 16 per cent of GDP at end-2008, domestic debt will continue to fall as a share of total public debt, in favour of concessional external debt.

The preparation of sectoral medium-term expenditure frameworks (MTEFs), carried out in close co-ordination with the Cape Verdean government's second Growth and Poverty Reduction Strategy paper (GPRSP-II), was completed in May 2008. GPRSP-II should help ensure that annual budgets are in line with priorities set forth in the strategy. However, there is still need to approve the new Budget Framework Law to legally require the annual update of the MTEF.

Graduation from Least Developed Country status is a major challenge as it may presage a gradual reduction in access to official development assistance. Furthermore, Cape Verde's graduation from LDC was only secured after meeting two of the three required criteria: per capita income and human development. The country was not able to meet the vulnerability criteria. This failure was due to over-dependency on imports, environmental challenges, insularity and fragmentation (leading to high costs), over-dependency on external transfers, and the rise in global security risks and trans-national crime. External grants in the budget fell from 5.2 per cent of GDP in 2006 to 4.6 per cent in 2007, and are projected to stay at this level until 2010, when they are expected to fall to 3.6 per cent. In the short term, therefore, budgetary support is guaranteed. Graduation out of the LDC category also provides opportunities. Cape Verde is now considered a "blend" economy, and as such will have opportunities for financing that were hitherto unavailable.

Over the medium term, the country will have to shift from depending on external support to reliance on domestic revenues to finance public investment. It will thus need to maintain better budgetary discipline by, for example, trimming government expenditure and running costs, as well as improving tax collection.

Monetary Policy

The central responsibility of the independent Banco Central de Cabo Verde (BCV) is to oversee the stability and credibility of the escudo's peg to the euro. Currently, risks to the peg are minor due to limited exposure to international capital movements and the very small size of the Cape Verdean economy. The peg is managed by an exchange-rate commission and covered by a Portuguese credit facility of EUR 150 million, which can be raised to EUR 250 million if necessary. The appreciation of the dollar in the second half of 2008 also helped limit the appreciation of the real effective exchange rate of the escudo. Nevertheless, a drop in tourism receipts, such as may well occur in 2009, would lower the level of reserves and put the peg under strain.

The inflation rate for 2008 was 6.7 per cent, up from 4.3 per cent in 2007. The evolution of the monthly inflation rate was strongly affected by major food and fuel price increases as evidenced by the jump from 3.8 per cent monthly inflation in January 2008 to a peak of over 8 per cent in August 2008.

Cape Verde's financial system appears relatively resilient to the international crisis, mostly due to its limited interaction with international capital markets and its commercial banks' relatively high ratio of deposits to outstanding loans.

Over 2009, the BCV intends to improve its monitoring of external flows, including non-resident deposits, and is ready to change interest rates, if necessary, to prevent destabilising capital flows.

External Position

Skyrocketing oil prices through 2008 might have been expected to have a strong impact on Cape Verde's import balance. But this was not the case as fuel re-exports represent over 80 per cent of its total fuel bill. A good harvest year and lower international prices are expected to mitigate the food import bill in 2009.

Trade links with Portugal have strengthened, accounting for 23 per cent of all exports and 41 per

Table 3 - **Current Account** (percentage of GDP at current prices)

	2000	2005	2006	2007	2008(e)	2009(p)	2010(p)
Trade balance	-32.8	-32.7	-36.3	-43.8	-45.6	-41.9	-41.9
Exports of goods (f.o.b.)	6.7	8.3	7.5	5.0	4.3	4.3	4.1
Imports of goods (f.o.b.)	39.6	41.1	43.8	48.8	49.9	46.2	46.0
Services	1.2	6.5	12.3	16.5	18.5	19.0	21.8
Factor income	-2.5	-3.2	-3.5	-1.7	-1.5	-1.5	-1.5
Current transfers	23.8	26.4	22.6	20.3	17.6	14.7	15.0
Current account balance	**-10.3**	**-3.0**	**-4.8**	**-8.7**	**-11.0**	**-9.6**	**-6.6**

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

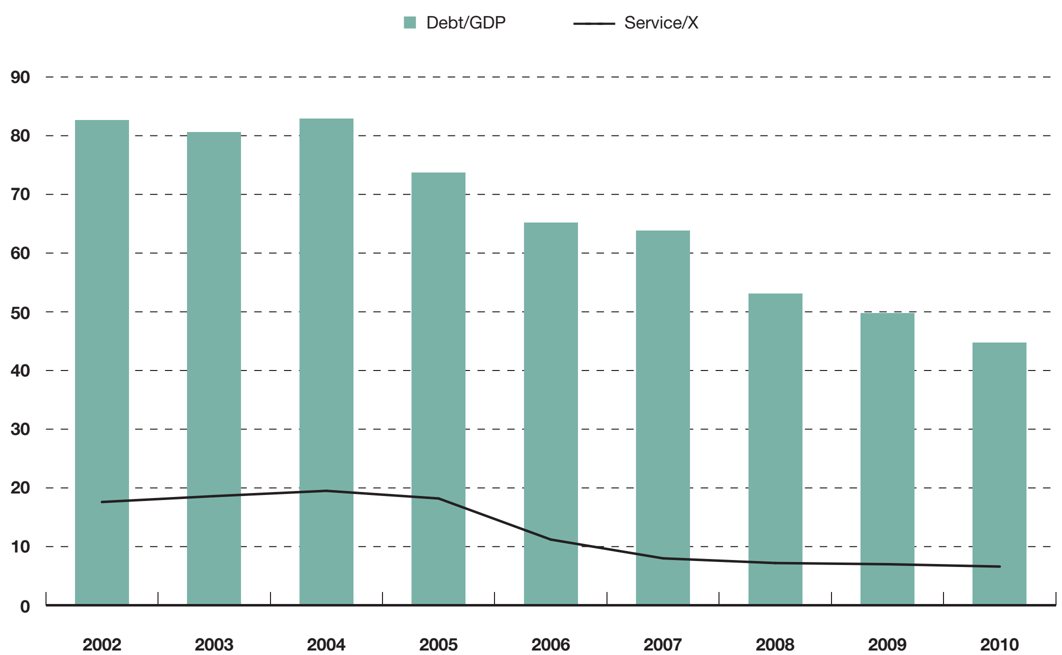
StatLink http://dx.doi.org/10.1787/578340770067

cent of imports in 2006. Spain has become the main market for Cape Verde's exports owing to the proximity of the Canary Islands. Merchandise trade with Economic Community Of West African States (ECOWAS) partners remains very limited, averaging less than 2 per cent of imports or exports.

Cape Verde has reduced its level of external debt drastically over recent years. External debt, although relatively high at 63 per cent of GDP (down from 70 per cent in 2007) is renegotiable and mainly owed to multilateral organisations and governments, notably Portugal. It is projected to decline to 48 per cent of GDP in 2009.

There is a risk to the banking system if non-resident deposits, at 40 per cent of total deposits, were to decline sharply. Most of these deposits are from remittances,

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



Source: IMF.

StatLink http://dx.doi.org/10.1787/573105577566

which limits the risk of capital flight as these are less volatile than portfolio investments. Nevertheless, remittances motivated by investment opportunities are unlikely at present, and a limited repatriation cannot be ruled out.

International reserves rose from CVE 28.4 to CVE 30.7 billion from December 2007 to December 2008, an increase of 8 per cent. Nevertheless, the CBV barely made the minimum level stipulated in the PSI programme, leading to two increases in central bank rates (by 25 basis points in June, and by 50 basis points in September) to reduce imports and safeguard the level of international reserves. This had a beneficial impact on inflation as it drained some liquidity from the financial system.

The international crisis has, as yet, exerted little visible impact on FDI to Cape Verde. Data show that flows from January through September 2008 were already higher than in the whole of 2007, with a substantial increase of credit to private investment. However, a slowdown for 2009 is probable, with important construction projects in the tourist sector having already been postponed. Furthermore, migrants' investment in the country (also counted as FDI) also appears to be slowing.

Cape Verde became a full member of the World Trade Organization (WTO) in July 2008. As the country exports almost exclusively services, WTO membership will not open any significant new commercial opportunities. But it will serve to enhance credibility, and it provided extensive experience for Cape Verdean officials in the complexities of international trade negotiations. Cape Verde already has preferential access to US and European markets under the African Growth and Opportunity Act and the Lomé/Cotonou agreements, although exports to those markets remain very low.

Although still on the table, an economic partnership agreement with African, Caribbean, Pacific (ACP) countries and ECOWAS was not signed as planned in 2008, due to Cape Verde's uncertainty about the impact the agreement, especially its common tariff levels, would have on its insular, import-dependent economy. Loss of fiscal revenue from lower tariffs to ECOWAS would result in significant budgetary shortfalls. Cape Verde is thus pushing for special status within any ECOWAS agreement. Free movement of people is also problematic within the agreement.

Structural Issues

Private Sector Development

According to the World Bank's *Doing Business* report 2009, the business environment in Cape Verde remains unsatisfactory, even regressing from 137th to 143rd position from 2008 to 2009. However, this state of affairs may be about to change. Of particular note are recent initiatives in e-government by the Núcleo Operacional de la Sociedad de la Información (Operational nucleus of the information society - NOSI), the establishment of Casa do Cidadão (Citizens' House) as a one-stop shop centralising and simplifying administrative procedures, such as those required for establishing a business (now a one-hour procedure) and obtaining official documents and certificates. On-line payment of taxes is set to be introduced in 2009. A measure of these programmes' success is that the electronic documents issued by these institutions are now accepted as legitimate legal documents for official use by some foreign governments, such as Portugal.

On the downside, the labour reform approved in 2008, although intended to increase competitiveness, appears to have curtailed the use of fixed-term contracts and increased notice periods to 45 days, reducing labour flexibility. According to the World Bank's 2009 *Doing Business* database, this damaged Cape Verde's business environment. The absence of an effective bankruptcy law is another factor explaining the low ranking in the World Bank business indicators.

Two commercial banks, Banco Commercial do Atlantico and Banco Inter-Atlantico, account for around 90 per cent of assets and deposits in Cape Verde. Credit to the private sector is increasing, and is allocated on market terms and available to foreign and domestic investors without discrimination. The non-performing loan ratio, although still relatively high, has been improving.

Cape Verde's stock market has grown considerably since its creation in 2005, with equity and bond market capitalisation reaching CVE 16.6 billion (14 per cent of GDP) by the end of September 2007.

A comprehensive Financial Sector Assessment Programme is also being undertaken in collaboration with the IMF, and is set for completion in 2009. It is expected to help build capacity and improve liquidity management.

Due to rising concerns as to Cape Verde's potential role in international money laundering activities and drug trafficking, the Ministry of Justice established a special investigation unit in January 2008 and passed a law facilitating prosecution of money laundering cases in late October. The Central Bank has also established a unit to monitor potential laundering activities.

October 2008 also saw the opening of a new, joint-owned Angolan and Cape Verdean investment bank. The Banco Africano de Investimentos (BAI) Cabo Verde, established with a capital of EUR 90 million, is jointly owned by BAI Angola (71 per cent), Sonangol (19 per cent) and SOGEI, a Cape Verdean firm with 10 per cent ownership. Thirty per cent of the bank's ownership is to be transferred from Angolan to Cape Verdean ownership in the coming months. Ecobank, a Nigerian bank, is also establishing a presence in Cape Verde.

Other Recent Developments

The process of privatising state-owned enterprises is now nearing completion, with only a few enterprises remaining in government hands, notably the state pharmaceutical companies and the national airline, Transportes Aéreos de Cabo Verde (TACV). While the privatisation of Inpharma, the national pharmaceutical firm, is progressing, that of the national carrier is currently at a standstill. The government had to inject capital recently, and a new competitor, Alcyonair, has entered the market, which may further undermine the commercial viability of TACV.

Civil service reform is under way, notably with the implementation of a new wage structure for state employees.

The revision of the country's customs regulations is set for completion in 2009. In July 2008 the country abolished capital requirements, simplified registration and revised fiscal regimes for import-export businesses. The shift to the most recent version of the UN Conference on Trade and Development's customs management software, ASYCUDA World, is also planned for the coming year.

Cape Verde's 2005-2010 public investment programme is supported by international donors and engages on a range of projects. It includes a road infrastructure development programme costing EUR 40 million, and port and airport infrastructure development at EUR 100 million, financed by concessional loans from the Portuguese government over the period 2007-2011. A road project in the island of Fogo is also being financed through loans from the African Development Bank (AfDB) and the United Kingdom's Department for International Development.

The World Bank is supporting the PRSP programme with loans of USD 93.5 million over the 2009-2012 period, with priority for wind energy, fishing, biodiversity and road infrastructure. This will be a mix of project finance and budgetary support. The AfDB 2008-2010 programme will also provide support with loans of USD 20 million. OPEC, AfDB and Japan have all committed to financing the development of Cape Verde's energy production and distribution capacity. The US Millennium Challenge Account facility is engaged in expanding and modernising the port in Praia and in smaller infrastructure projects.

Steps are also being taken to improve the national energy grid. A primary goal is to increase the percentage of the population with access to electricity from 76 per cent to 90 per cent. The government also plans to generate 25 per cent of its electricity from renewable energy sources by 2011 and 50 per cent by 2020. In 2009, construction is set to begin on five wind farms, which are expected to come on stream in 2010. Another project seeks to render the island of Boa Vista entirely self-sufficient in energy production. Five windmill farms will be located in several other islands in 2009 with the assistance of the Dutch government, based upon a public-private partnership. The government has also launched a tender to build eight wind farms on Santiago, six on São Vicente and six on Sal.

Chinese businesses, notably from the formerly Portuguese island of Macau, have committed considerable resources to projects (particularly tourism) in Cape Verde. Chinese firms are in negotiations over a port investment project (CABNAVE) to develop fishing activities. Over recent years, the Chinese government has sponsored, among other projects, the construction of the national parliament, a stadium and two dams. Cape Verde has also been shortlisted as one of five potential Chinese special economic zones in Africa, which would lead to further investment. However, after the visit of a delegation from China in 2007, this project appears to have stalled. The government of Cape Verde signed an agreement in September 2008 with the China Exim Bank which committed USD 17 million to finance e-government projects in Cape Verde.

Innovation and ICT

There are 71 000 fixed lines in all the islands that make up the state of Cape Verde today. Between 2000 and 2007 the number of fixed telephone lines increased slightly, from 12 per 100 people to 13.8 per 100. But it had been falling since 2004, reflecting the shift towards mobile phones. Revenue from ADSL provision has breathed new life into CV Telecom's fixed-line operations, and its management of Cape Verde's broadband connection to the international system is another source of revenue. CV Telecom also provides cable TV services, but on a very limited scale, with few services and only around 300 subscribers.

Cape Verde is linked to the international Internet system through a connection to the Atlantis 2 fibre optic cable, established in 2002. It is CV Telecom that manages access to international Internet provision, currently renting 155 megabits worth of international link. The islands in turn are connected between themselves by an underwater fibre-optic cable, sponsored by Chinese funds.

Dial-up Internet access became available in 1997, ADSL in 2004 and IP-TV in September 2006. Internet provision remains fraught, suffering as other telecommunications from high prices, low quality of service and lack of competition. CV Multimedia is the only official, country-wide provider. A specificity of Internet access in Cape Verde, particularly grating to users, is that beyond a monthly allocation, downloads incur a supplementary charge.

Each operator operates its own base stations, but while the regulator ANAC is looking to promote infrastructure sharing, promoting new regulations on unbundling and interconnection for 2009, results remain to be seen. According to the incumbent, the incompatibility of the competitor's (Eriksson) antennas with their own base-station setup (Siemens antennas) will make infrastructure sharing difficult. ANAC is fixing a price for interconnection rates, which are currently unregulated.

While Cape Verde's telecoms market has officially been deregulated since 2002, it was only in December 2007 that the de facto monopoly of the incumbent was challenged. Two factors are behind this slow progress. First, the country's isolation, low population and fragmented geography make it resource-intensive and technically complex to establish coverage throughout the mountainous archipelago. Second, privatisation of the state incumbent in 1995 actually served to entrench its monopoly. The Telecommunication Privatisation Decree of 1995 led to 40 per cent of the state operator, Cabo Verde Telecom (CVTel) being sold to Portugal Telecom, which obtained a concession agreement granting it a 50-year monopoly on the country's communications. This agreement was subsequently renegotiated to 25 years, but remains effective for fixed lines until 2021.

In 2002, the "Lei quadro das telecommunicacoes em Cabo Verde" nominally liberalised all telecoms provision (outside of fixed line) and a government decree led to the split of CVTel into three independent entities: CV Movel (mobile telephony), CV Multimedia (internet services) and CV Telecom (which retained fixed-line telephony). CV Telecom remains the sole owner of its two subsidiaries. In return for granting it a monopoly for fixed-line services CV Telecom is obliged to provide coverage to every locality with more than 200 people.

The national regulator, the Agência Nacional de Comunicações (ANAC), is an autonomous body managed by a three-member board appointed by the government. It is responsible for adjudicating disputes among market actors, implementing regulations, and collecting fees and taxes in the sector, with which it also funds its activities. ANAC charges a fee of CVE 100 per new number, a tax from which it derives about 20 per cent of its income. This represents 30 per cent of line costs compared to the worldwide average of 3-5 per cent.

There remains cross-subsidisation between the different branches within CV Telecom. As the historical monopoly operator, CV Telecom is perceived to have benefited handsomely from its status, and there is considerable dissatisfaction with the pricing policies it has practised.

There is a 15 per cent value added tax on both handsets and talk time. There is a considerable black market due to high taxation, a market which is fuelled by high mobility and a large diaspora with access to foreign markets. Fixed line telephone rental carries a 9 per cent tax, with a 15 per cent tax on Internet access subscriptions.

Competition was established in the mobile telephony market in December 2007, when a new entrant, T+, entered the market. The firm has already taken 10 per cent of the national mobile market from the incumbent CV Movel, while only covering the main island of Santiago. The introduction of competition into the market has served to massively reduce prices for consumers. The cost of SIM cards have fallen (from CVE 5 000 to 500) and the cost of talk time has also reduced significantly. Both mobile providers use GSM technology. CV Movel developed new mobile banking services in 2008, with direct top-up, credit transfer and access to bank statements rolled out. It is the only provider of such services at the present, though T+ also has plans to begin mobile banking services.

The quasi-monopoly for Internet provision remains with the incumbent CV Multimedia. Nevertheless, as with mobile telephony, Internet provision costs have been lowered twice this year due to the threat of competition, notably from four new, small-scale, wi-fi based licensed Internet service providers (ISPs) in the island of Sao Vicente. The cost of ADSL has thus gone down 70-80 per cent over the past year, and the client base has doubled over each of the past two years, reaching 7 000 clients by the end of 2008 – a very high penetration rate for Africa (at about 10 per cent penetration). Although falling, Cape Verde's telecommunications costs remain very high.

Dial-up has been on a converse downward trend, from 3 300 customers in January 2008 to about 1 900 at end-2008. Perhaps the most important challenger for Internet provision will be the second mobile telephony provider T +, with significantly more capacity than the highly localised wi-fi providers.

Public institutions are moving ahead with IT innovation and promotion of Internet access, with the University of Cape Verde, for example, having established 11 free wi-fi hotspots in public spaces in the capital in 2008. The Operational Information Society Nucleus (NOSI) is part of the Prime Minister's Office and is the implementing agency providing information and communication technologies (ICT) for the government. A major development in the drive to e-government is the Citizen House, launched in late 2007 as a one-stop shop centralising and simplifying administrative procedures and enabling citizens to easily obtain official documents and certificates. A Chinese firm, Huawei, made an agreement in 2007 with the government to provide

Voice over Internet Protocol and video conferencing connectivity to the country's public administration. The project is financed in part through funds from China's EXIM bank.

Cape Verde established a large-scale partnership with Microsoft to support, train and equip schools in the use of information technologies. The agreement covers assistance to education and public administration authorities in ICT training and promotes access to technology. As part of its global "partners in learning" programme, the US company has provided 19 Cape Verdean secondary schools with computer equipment and software.

In December 2008 a "one child, one computer" programme was launched. It aims to create 135 "telecentros" - public Internet access points - and provide 150 000 computers for students and teachers, from March 2009 onwards. This programme is also in partnership with Microsoft, leading to some reservations about possibly excessive dependency of the country's ICT training on a single company. Discussions are also ongoing with the government of Portugal on a similar project to provide Cape Verdean students with computers.

Political Context

The ruling Partido Africano da Independência de Cabo Verde (PAICV), which in 2006 obtained a new parliamentary majority of 41 out of 72 seats, and the main opposition party Movimento para a Democracia (MPD) agreed in February 2007 to set up a 14-member cross-party commission with the aim of reaching consensus on issues that require a two-thirds majority in the National Assembly to become law.

The commission proved instrumental in finding consensus for the new electoral code, which was approved by the National Assembly in June 2007. However, disagreement over the membership of the revamped electoral commission delayed the start of voter registration for municipal elections, which nevertheless took place smoothly in May 2008.

The MPD swept to victory in those elections, winning control of 11 municipalities, including the country's three largest population centres: Praia and Santa Catarina (on Santiago island) and São Vicente. The PAICV, while actually increasing its number of municipalities to ten, thus lost ground. The one remaining municipality, Sal, was won by an independent party allied to the MPD, Grupo Independente para Modernizar Sal. General elections are set for 2011.

Trafficking and migration are growing concerns, bringing into play complex relations with the African mainland. While the request for a Special Partnership Agreement made by Cape Verde to the EU in November 2007 was approved, it is not a substitute for the EPA. The government's position is that even if full membership is not an option, Cape Verde seeks to develop a relationship with the EU that goes beyond that of an aid recipient to jointly addressing issues of mutual concern. Cape Verde is keen to deepen relations on security issues and achieve technical convergence with EU norms and standards. In 2008 the government of Spain lent its support to Cape Verde obtaining an association status with the EU. A concrete outcome of closer relations with the EU, the Partnership for Mobility, which facilitates circular migration with the EU, became effective in January 2009.

Crime stemming from international trafficking cartels in the sub-region is an increasing concern. Cape Verde lies on drug routes to final markets in Europe and the US. The country is suffering from the spillover of growing organised crime networks in West Africa, but with ECOWAS summits now specifically treating the subject and European and American support beginning to grow, a regional reaction is starting to emerge. The rising costs of policing activities are a weight on Cape Verde's budget and deflect resources from other development issues. EUR 6 million of the Cape Verdean budget has already been reallocated from social projects to combat organised crime. The UN has committed USD 1 million to support this issue.

Social Context and Human Resources Development

Cape Verde is one of the "Fast Achievers" of the UN Millennium Development Goals (MDGs), having already reached four of these eight goals. In three of the four remaining categories there are insufficient data, but the country is on track to achieve the fourth, which concerns combating HIV/AIDS. On the UN Human Development Index, Cape Verde improved from 0.59 in 1985 to 0.74 in 2005.

The first MDG, poverty reduction, also appears on track to meet its objective for 2015, with government data indicating a drop in poverty levels between 2002 and 2008 of 10 per cent to 26 per cent. A second poverty reduction strategy aims at sustaining momentum and development programmes from 2008 through to 2011.

The AfDB, the World Bank and the UN International Fund for Agricultural Development (IFAD) have implemented a Poverty Reduction Programme based on rural microcredit. IFAD provided USD 4.2 million to poor rural communities, bringing the agency's total supplementary loan funding for the programme to USD 13.5 million. That forms part of Cape Verde's Rural Poverty Alleviation Programme that will run until 2012 at a total cost of over USD 36 million. The government completed the second GPRSP-II in May 2008, which, broadly following the same lines as the previous one, will guide development programmes from 2008 to 2011.

Despite the strong economic growth of the last decade, 26.6 per cent of the population still lived in poverty in 2007, although that was down from 36.7 per cent in 2001, according to data from the National Institute for Statistics. Urban areas have benefited more than rural, with 63 per cent of the poor living in rural areas in 2001, rising to 72 per cent in 2007. Nevertheless, the GPRSP II reports that Cape Verde is on track to meet the MDG of halving the extreme poverty that existed in 1990 by 2015.

Primary school enrolment rate stands at about 96 per cent. Education is allocated 20 per cent of the country's budgetary resources. The government is promoting a lengthening of obligatory schooling so that all young Cape Verdeans have at least eight years of schooling. A professional training school has opened in Praia, the Centro de Formação Profissional da Praia. Tertiary education also took a jump in 2008, with a university opening in Sao Vicente and a further institution planned for the island of Santiago, in Assomada.

The government allocated 8 per cent of budgetary expenditure to health in the 2008 budget. According to Cape Verde's National AIDS Committee, the prevalence rate rose from 0.5 per cent in 1989 to 1.1 per cent in 2002, before falling to 0.8 per cent in 2007. Cape Verde has won exemption from the WTO's trade and intellectual property rights provisions, allowing the use of cheaper anti-retroviral HIV drugs. In December 2004 the health services started distributing free anti-retroviral drugs.

In 2006, clean drinking water was available to 80 per cent of the population. But further expansion of this provision is difficult because of the scattered nature of many small rural communities throughout the archipelago.

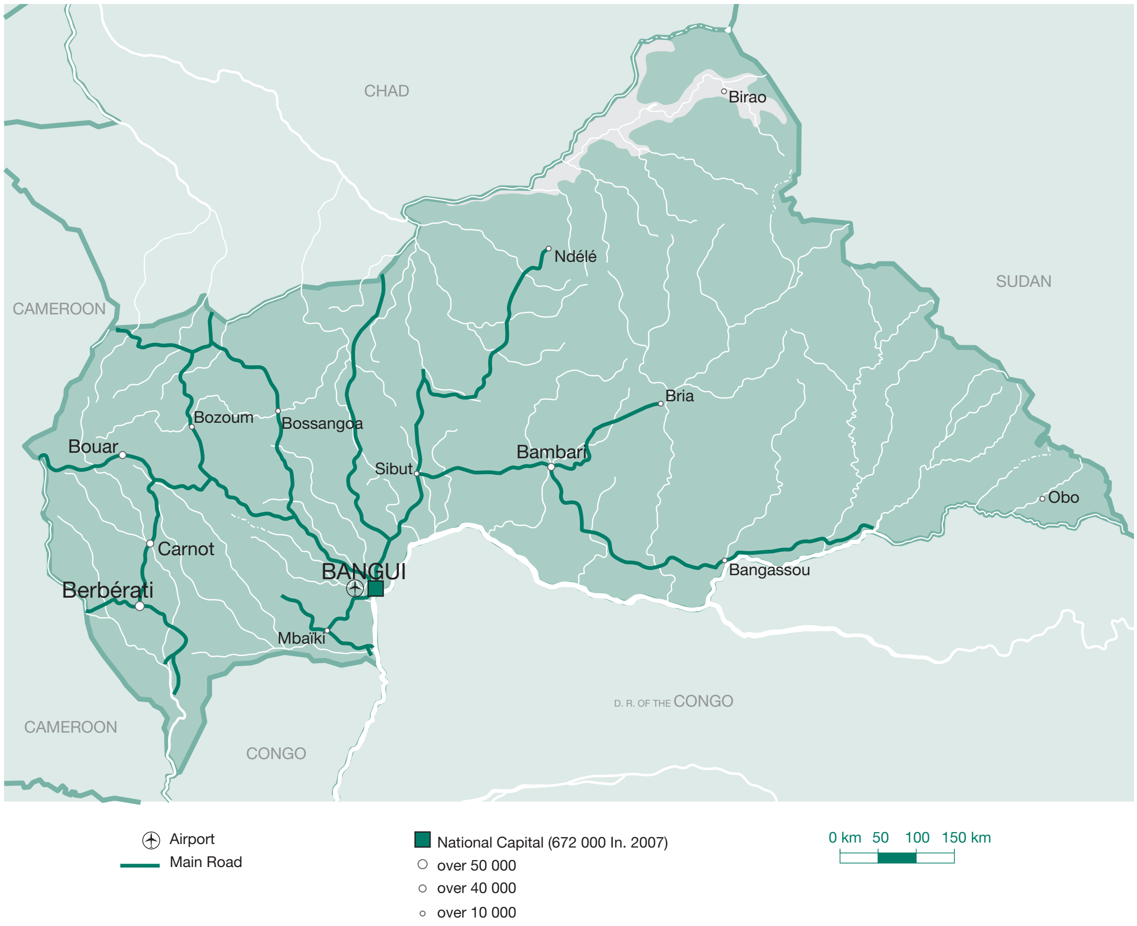
Unemployment, which registered 17.8 per cent at the end of 2008, remains one of the country's most pressing economic problems. It affects women (28 per cent) more than men (15 per cent), and is particularly prevalent among the young. With such a high unemployment rate, the large presence of migrant workers appears counter-intuitive. Yet the construction industry employs significant numbers of foreign workers, a result of Cape Verde's proximity to the substantially poorer African mainland and the higher reserve wages of the local population (which are at least partially supported by foreign remittances).

Central African Republic

key figures

- Land area, thousands of km^2: 623
- Population, thousands (2008): 4 339
- GDP per capita, PPP valuation, USD (2008): 714
- Life expectancy (2008): 47.0
- Illiteracy rate (2008): n.a.

Central African Republic

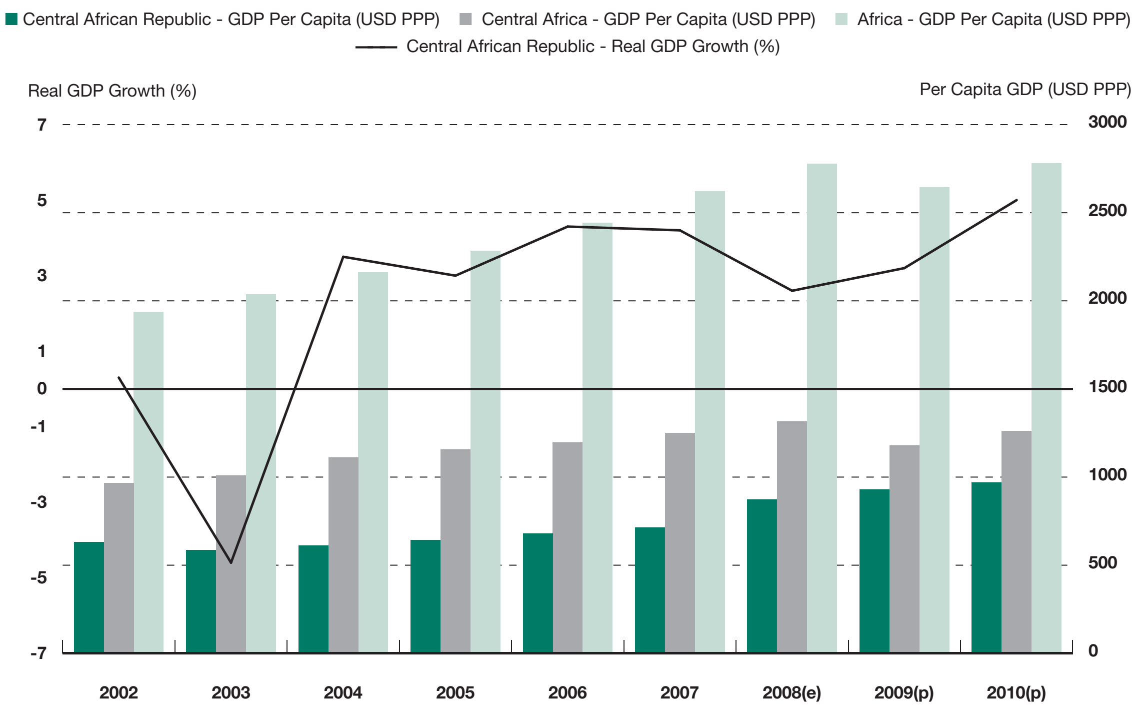


FOR MANY YEARS, THE Central African Republic (CAR) has had to face political instability and internal conflicts which have weakened public institutions, undermined the economic infrastructures and basic social services, and led to a severe contraction of real Gross Domestic Product (GDP) and people's incomes. This trend, however, was less pronounced during the 2004-07 period, which saw a gradual return to socio-political stability and economic growth. Real GDP growth is estimated at 2.6 per cent for 2008, or 1.6 per cent less than in 2007. This slowdown was due mainly to the combined effects of the external shocks that occurred during the year (soaring oil prices, food crisis, depreciation of the US dollar (USD) against the euro (EUR), to which the CFA franc (XAF) is pegged, the international financial crisis, and the decline in world demand for raw materials and consequent fall in their prices), as well as the electricity crisis that has prevailed in the CAR since June 2008.

Government revenue no longer covers current expenditure due to falling timber and diamond exports.

The growth outlook is better in 2009/10, but remains below the objectives of the Poverty Reduction Strategy Paper (PRSP) which aims for annual GDP growth of 8 per cent by the year 2010. Real GDP growth is expected to be around 3.2 per cent in 2009 and 5 per cent in 2010 as a result of improvement in the international climate, resolution of the electricity crisis and greater stability at the national level. In

Figure 1 - **Real GDP Growth and Per Capita GDP**
(USD/PPP at current prices)



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

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2009/10, the CAR will have to face a number of challenges: putting into effect the recommendations resulting from the Inclusive Political Dialogue (IPD) and organising the presidential and legislative elections planned for 2010; properly implementing the reforms supported by the IMF's Poverty Reduction and Growth Facility (PRGF) programme; complying with the criteria enabling the transition from the decision point to the completion point of the Heavily Indebted Poor Countries Initiative Heavily Indebted Poor Country Initiative (HIPC) in 2009; and implementing the 2008-10 PRSP.

Recent Economic Developments

The economic structure is dominated by the primary sector – the contribution of which is estimated at 52.2 per cent of gross domestic product (GDP at factor costs) in 2008 – followed by the tertiary and secondary sectors (30.5 per cent and 12.1 per cent, respectively). This structure has not changed significantly in recent years, even if the share of the primary sector declined slightly in 2008. Subsistence agriculture (28.5 per cent of GDP) and animal husbandry (12.5 per cent of GDP) are the principal activities of the primary sector, while extractive industries contribute very little to GDP (1.8 per cent). Trade, transport and telecommunications (17 per cent of GDP) are the principal activities of the tertiary sector, while the manufacturing and construction industries account for most of the secondary sector.

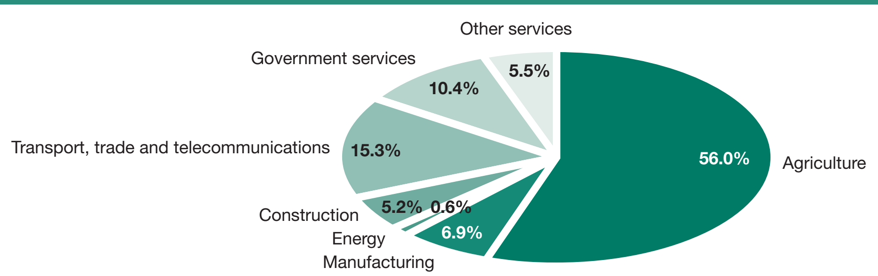
In 2008, sector performance was marked by high volatility and an overall decline. The primary sector contracted by 0.1 per cent – after 2.7 per cent growth in 2007 – as a result of the downturn in forestry. The secondary sector also saw its growth fall sharply – down from 7.5 per cent in 2007 to 4.8 per cent in 2008 – because of the poor performance of the energy and construction sub-sectors. Growth in the tertiary sector, on the other hand, held steady at around 5 per cent. The primary sector's contribution to GDP growth at factor costs was therefore negative in 2008 (-0.1 per cent versus 1.5 per cent in 2007), while that of the secondary and tertiary sectors fell from 0.8 per cent to 0.5 per cent and from 2 per cent to 1.2 per cent respectively between 2007 and 2008.

The Central African economy is agricultural and is based primarily on food crops and animal husbandry, which represented 41 per cent of GDP in 2008. Forestry, extractive industries (mainly diamonds) and export crops (mostly coffee and cotton) contribute very little to GDP, even though they represent the principal source of export income and tax revenue.

Food crop production has not increased significantly in recent years. Estimates suggest a 3 per cent rise to 1.1031 million tonnes for the 2008/09 season compared to that of 2007/08, followed by a 2.5 per cent increase for 2009/10. Manioc is the main staple food – 55.1 per cent of total production in 2008/09 – followed by groundnuts, maize, squash, sorghum, millet, sesame and paddy rice.

The CAR has considerable agricultural potential. Some 24 per cent of the country's land is arable and

Figure 2 - **GDP by Sector in 2008** (percentage)



Source: Central African administrations and Central Bank (BEAC) data; estimates (e) and projections (p) based on authors' calculations

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the river system is favourable, with the availability of fresh water estimated at 36 911 metric tonnes per inhabitant. However, this potential is largely untapped, as evidenced by the fact that cultivated land represents only 3 per cent of the country's total land and 12.5 per cent of arable land. In 2008, the CAR also felt the effects of a food crisis, which triggered a sharp rise in the prices of food products such as manioc, flour, oil, sugar, rice and milk. This crisis was compounded by the problems affecting the food-crop sector: absence of management structures; a lack of organisation of the inputs distribution systems and product marketing; absence of sector organisation; extreme deterioration of rural roads; the rudimentary state of production facilities; inadequate management of soil fertility; and lack of security in some production areas (northeast).

Livestock numbers, along with the turnover of the state slaughterhouse management company (SEGA), rose slightly in 2008 – by 2.7 per cent and 2.8 per cent respectively. The problems of the animal husbandry sub-sector are linked to a shortage of financial resources for its development, a lack of training and retraining of animal husbandry managers and employees, and the absence of a countryside census that would provide access to reliable data.

Manufacturing industries, which contribute very little to GDP, grew by 8.9 per cent in 2008, despite the electricity crisis which forced them to use generators, thereby increasing their production costs. Although their short-term outlook is favourable, the proposed investments depend on a long-term solution to the electricity crisis.

Domestic demand remains the chief engine of growth, with an estimated contribution to change in GDP of 6.4 per cent in 2008. The contribution of private consumption to real growth fell from 5.6 per cent to 4.3 percentage points between 2007 and 2008 as a result of higher inflation and a decline in household purchasing power. Public consumption's contribution to the change in GDP was 0.3 per cent, compared with a negative contribution of -0.3 per cent in 2007. This change is mainly due to the 3.3 per cent increase in payroll, despite continued efforts to control current expenditure. In 2008, economic growth was supported by private investment – approximately 1.8 points versus 0.2 points in 2007. Public investment growth slowed at a rate of -0.2 points in 2008, mainly as a result of the low level of use of external financing compared to the amount originally planned. This gap is partly due to the delayed start of the construction work on the Bouar-Garoua Boulai road.

Table 1 – **Demand Composition**

	Percentage of GDP (current prices)		Percentage changes, volume			Contribution to real GDP growth		
	2000	2007	2008(e)	2009(p)	2010(p)	2008(e)	2009(p)	2010(p)
Gross capital formation	**9.5**	**9.9**	**16.7**	**18.1**	**13.4**	**1.6**	**2.0**	**1.7**
Public	4.7	3.8	-5.0	25.0	10.0	-0.2	0.8	0.4
Private	4.8	6.1	30.0	15.0	15.0	1.8	1.1	1.2
Consumption	**94.8**	**97.5**	**4.9**	**3.7**	**4.3**	**4.7**	**3.6**	**4.3**
Public	14.0	6.2	6.4	6.5	6.5	0.3	0.4	0.4
Private	80.8	91.3	4.8	3.5	4.2	4.3	3.2	3.9
External demand	**-4.3**	**-7.4**				**-3.7**	**-2.3**	**-0.9**
Exports	19.8	14.8	-11.9	-8.9	1.7	-2.1	-1.4	0.2
Imports	-24.1	-22.3	6.9	4.0	4.7	-1.6	-0.9	-1.1
Real GDP growth						**2.6**	**3.2**	**5.0**

Source: Central African administrations and Central Bank (BEAC) data; estimates (e) and projections (p) based on authors' calculations.

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Net foreign demand slowed growth by -3.7 per cent in 2008, mainly because of the decrease in exports and the higher cost of imports. In fact, the contribution of exports, which was positive by 1.2 per cent in 2007, became negative by -2.1 per cent in 2008. This downturn stemmed from the poor performance of the wood and diamond industries, which were hit hard by the international financial crisis and the slowdown in the world economy.

Macroeconomic Policies

In 2008 macroeconomic management was characterised by the generally satisfactory implementation of the government's reform programme, supported by the IMF's 2007-09 PRGF. Indeed, following the first conclusive review of the PRGF, which allowed decision point of the HIPCI to be reached in September 2007, the second and third satisfactory reviews were approved in June and December 2008.

The CAR also improved its results related to economic convergence within the Economic and Monetary Community of Central Africa (CEMAC), despite some poor performances related to the international climate (in particular inflation). It met the first order criteria related to the basic fiscal balance and outstanding public debt in 2008, and improved its debt ratios relative to debt outstanding and accumulation of arrears on domestic and external debt.

Fiscal Policy

In 2008, fiscal policy was aimed primarily at the stability of the macroeconomic context and better internal and external mobilisation of resources. The 2008 budget, presented according to the government's new budgetary nomenclature, also focused on increasing social spending and covering the requirements of the poverty reduction strategy.

Total revenues are estimated at 13.8 per cent of GDP in 2008. They were adversely affected by soaring oil prices, which resulted in an increase in government subsidies on petroleum products (tax and duty exemptions), and by the impact of the international financial crisis on exports of raw materials. Compared to the revenue projections made before the financial crisis, the loss of revenue sustained by the government was 23.6 per cent for export duties and taxes and 3.7 per cent for tax revenues.

Government spending represented 13.3 per cent of GDP in 2008. By controlling current expenditure, the government was able to meet the criterion related to the primary balance of the CEMAC economic convergence programme. Thus, wages and salaries were

Table 2 - **Public Finances** (percentage of GDP at current prices)

	2000	2005	2006	2007	2008(e)	2009(p)	2010(p)
Total revenue and grants[a]	**13.7**	**12.4**	**22.8**	**14.3**	**13.8**	**13.2**	**13.3**
Tax revenue	7.8	7.1	7.8	7.3	7.4	6.9	6.8
Grants	4.8	4.1	13.3	4.1	3.4	3.4	3.6
Total expenditure and net lending[a]	**15.5**	**16.9**	**13.9**	**12.7**	**13.3**	**13.7**	**13.8**
Current expenditure	9.2	11.5	9.0	9.1	10.0	10.0	10.0
Excluding interest	*7.6*	*10.6*	*8.1*	*8.0*	*8.4*	*8.4*	*8.6*
Wages and salaries	4.2	5.5	4.8	4.4	4.6	4.5	4.6
Interest	1.7	0.9	0.9	1.2	1.5	1.6	1.4
Capital expenditure	6.2	5.4	4.9	3.6	3.3	3.7	3.8
Primary balance	**-0.1**	**-3.6**	**9.8**	**2.7**	**2.0**	**1.1**	**0.9**
Overall balance	**-1.8**	**-4.5**	**8.9**	**1.5**	**0.5**	**-0.5**	**-0.5**

a. Only major items are reported.
Source: Central African administrations and Central Bank (BEAC) data; estimates (e) and projections (p) based on authors' calculations.

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kept in check and represented approximately 4.6 per cent of GDP in 2008. Investment expenditure declined by 5 per cent, largely below initial projections (20 per cent), due to the low level of use of external resources. As a result, management of public finances ended in a deficit (on a commitment basis, excluding grants) of 2.9 per cent of GDP. Public investment required for an economic recovery and the recommended measures for mitigating the effects of the crisis in the wood sector are expected to increase budgetary spending. This increase should result in a primary balance deficit and a budget deficit, excluding grants, of 3.9 per cent of GDP in 2009 and 4.1 per cent in 2010.

In the case of public debt, an interministerial debt management committee (including the Bank of Central African States [BEAC], the Ministry of Finance and the Ministry of Planning) was formed to ensure that macroeconomic policy decisions take into account long-term debt requirements. The public debt stock (outstanding and arrears) is estimated at CFA 781.5 billion (Communauté Financière Africaine francs) at the end of 2008, 76 per cent of which refers to external debt. The public debt stock to GDP ratio fell from 90.5 per cent in 2007 to 83.4 per cent in 2008, but remains above the sustainability level set at 70 per cent of GDP. Arrears are estimated at 32 per cent of the public debt stock in 2008. Arrears on external debt increased from CFA 148.8 billion in 2007 to CFA 154.2 billion in 2008. Arrears on domestic debt, on the other hand, decreased from CFA 109.7 billion in 2007 to CFA 99.2 billion in 2008, and in November 2008 the government adopted a strategy aimed at settling these arrears.

The latest International Monetary Fund (IMF) projections for the government's financial operations in 2009 show a financing gap (excluding payment of arrears) of approximately CFA 13.8 billion. Without additional aid from the development partners, budgetary pressures and the slowdown in growth could therefore undermine the progress made over the past three years and, in particular, have several effects in 2009. Delays in the payment of external debt could jeopardise attainment of the completion point of the HIPC initiative; the expenditure for keeping essential services functioning and for maintaining a critical level of public investment could be cancelled; and there could be excessive reliance on loans from the local banking system whose interest rates are more than 18 per cent, which would increase domestic debt.

Monetary Policy

Inflation rose sharply in 2008, reaching 9.2 per cent compared to 0.9 per cent in 2007. This inflationary trend was due to rising international food prices and the government's decision in June 2008 to increase controlled prices of petroleum products as well as water and electricity prices. The adjustment of oil and gas prices, which was intended to eliminate gradually subsidies on these products, resulted in a 15 per cent increase in the pump price for premium petrol, 12 per cent for diesel, 22 per cent for fuel oil and 32 per cent for kerosene. To minimise the inflationary effects of the increase in pump prices of petroleum products, the government reduced the value added tax (VAT) rate from 19 per cent to 5 per cent on six staple products and monitored prices of about 30 basic products. However, the BEAC's decision to lower its official market rate by 25 basis points to 5.5 per cent in July 2008 does not appear to have helped stabilise prices in 2008. The inflation rate is expected to drop to 5.6 per cent in 2009 and 2.9 per cent in 2010.

External Position

The CAR is a member of the Economic Community of Central African States (ECCAS) and CEMAC, and demonstrates a firm commitment to economic co-operation and regional integration initiatives. In 2008, the authorities took several actions aimed at promoting commercial integration: reform of the customs administration; strengthening the capacities of the Douala one-stop shop in its role of securing import flows; harmonisation of the commercial code with regional and international laws; validation of the CAR's commercial policy document and of the diagnostic study on commercial integration.

As a member of CEMAC, in 2008 the CAR maintained a most-favoured-nation tariff (simple

Table 3 - **Current Account** (percentage of GDP at current prices)

	2000	2005	2006	2007	2008(e)	2009(p)	2010(p)
Trade balance	4.6	-3.5	-3.0	-4.1	-7.4	-5.9	-6.2
Exports of goods (f.o.b.)	16.7	9.5	10.7	10.4	7.7	6.7	6.4
Imports of goods (f.o.b.)	12.2	13.0	13.7	14.5	15.1	12.6	12.6
Services	-8.7	-4.7	-4.6	-5.1	-4.4	-3.7	-3.9
Factor income	-1.3	-0.7	-0.8	-0.6	-1.1	-1.0	-0.9
Current transfers	4.4	2.3	5.5	3.7	3.5	3.2	2.9
Current account balance	**-1.1**	**-6.6**	**-3.0**	**-6.1**	**-9.4**	**-7.4**	**-8.1**

Source: Central African administrations and Central Bank (BEAC) data; estimates (e) and projections (p) based on authors' calculations.

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average) of approximately 18 per cent and four tariff ranges, the highest of which is 30 per cent for final consumption goods. In co-ordination with the CEMAC member countries, it is involved in negotiations aimed at entering into an Economic Partnership Agreement (EPA) with the European Union.

The CAR exports most of its products to Belgium (31 per cent), Spain (10.6 per cent), France (8 per cent) and China (7.1 per cent). Its chief exports are wood (48.3 per cent) and diamonds (33.7 per cent). Exports of both these products fell sharply in 2008, mainly as a result of the worldwide financial crisis (Box 1). Coffee and cotton exports – the leading agricultural export products – also fell in 2008 by 73.8 per cent and 63.4 per cent, respectively. Despite the government's efforts to stimulate these two sectors, the outlook for 2009/10 remains gloomy.

Exports of goods were down 20 per cent in 2008, compared to a growth rate of 17.6 per cent predicted before the crisis. These exports are expected to fall

Impact of the international financial crisis on the wood and diamond sectors in the CAR

The main impact on the country of the international financial crisis manifests itself in the fall in global demand for raw materials and in their prices. This decrease has caused economic activity to slow down considerably in the wood and diamond sectors, which represent approximately 80 per cent of exports.

Forestry sector: In 2008, wood exports fell by 24.2 per cent compared with 2007 and by 36.8 per cent compared with projections at the beginning of the year (before the crisis). This drop was largely due to a decrease in lumber exports for construction activities as a result of a decline in global demand, particularly from China and Europe. Six of the nine logging companies closed their wood-processing plants in 2008, which resulted in layoffs of 1 335 employees and a 28 per cent decrease in payroll costs in this sector, one of the country's rare formal industrial activities. As a percentage of GDP, the forestry sector fell by 1.9 points between 2007 and 2008, and the downward trend at the international market level should continue until the middle of 2009, according to the International Tropical Timber Organization (ITTO).

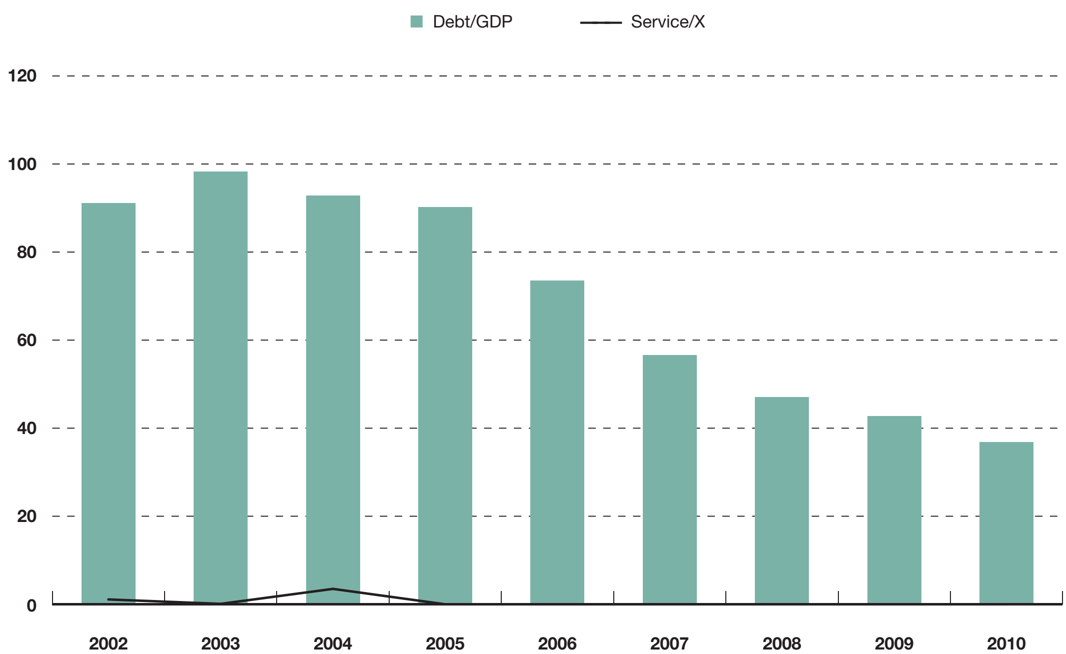
Mining sector: Diamond exports fell by 25.5 per cent between 2007 and 2008 and by 38 per cent compared to projections. Taxes collected by the government on diamond exports decreased by 18 per cent between June 2007 and June 2008. Several small mining sites went out of business, while large mining companies began to reduce their investment and production programmes.

again by 10.9 per cent in 2009. The sharp downturn in exports and the rising cost of imports led to an increase in the current account deficit (including public transfers). The deficit rose from 6.1 per cent of GDP in 2007 to 9.4 per cent in 2008 and is expected to be 7.4 per cent in 2009 and 8.1 per cent in 2010.

The OECD's 2008 report on the effectiveness of development aid shows that the CAR is still far from meeting the objectives of the Paris Declaration, in spite of the fact that substantial efforts have been made, particularly in terms of public finance appropriation and management. A number of challenges have been identified: application of sector strategies; creation of links between the PRSP and the budget; inclusion of disbursed aid in the budget; use by donors of the national public finance management systems; use by donors of common mechanisms; strengthening of statistical capabilities; and implementation of a mutual evaluation system.

The debt sustainability analysis (DSA), updated in September 2008, shows that key external debt indicators continue to improve, even though they remain above the admissible levels. After taking into account temporary relief under the HIPC initiative, rescheduling allowed by the Paris Club creditors, and the instalments paid, accumulated arrears on external debt totalled CFA 5.4 billion in 2008, of which CFA1.7 billion was interest and CFA 3.7 billion was principal. Arrears owed to the International Fund for Agricultural Development (IFAD) were settled in 2008 with the help of the European Union. The ratio of external debt stock (current and arrears) to GDP continues to decrease, moving from 68.5 per cent in 2007 to 63.2 per cent in 2008. However, a significant reduction in outstanding debt and in the external debt service depends on attainment of the completion point of the HIPC initiative, which would make the CAR eligible for additional debt relief under the Multilateral Debt Relief Initiative (MDRI). In 2008, the CAR made considerable progress toward meeting the criteria

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



Source: IMF.

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for reaching the completion point, which could occur by the end of the first half of 2009.

Structural Issues

Private Sector Development

In spite of the progress made in 2008, such as the creation of the one-stop enterprise formalities shop and the permanent framework for co-operation between the government and the private sector (CPC), the CAR ranks 180th out of 181 countries, ahead only of the Democratic Republic of Congo (DRC) in the general business climate classification of the *Doing Business* 2009 report. This ranking reflects the many obstacles to promoting investment and developing the private sector in the CAR. Moreover, external competitiveness, which had improved following the devaluation of the CFA franc in 1994, has gradually deteriorated. Indeed, net margins from exports have fallen as a result of internal constraints (transport costs, low production, etc.) and the appreciation of the euro against the US dollar, which contributed to an appreciation in the real effective exchange rate, estimated at 8.9 per cent in 2008.

The fact that the country is part of the franc area and the prudential supervision of the Central African Banking Commission (CABC) continue to contribute to its financial stability. There are four leading banks in the country: the CBCA (Commercial bank centrafrique), the BPMC (Banque populaire maroco-centrafricaine), the Ecobank and the BSIC (Banque sahélo-saharienne pour l'investissement et le commerce). An analysis of their capital structure shows that they are not shareholders in either industrialised or emerging countries affected by the international financial crisis. Consequently, a reduction in credit or withdrawals of capital from parent companies are not expected. In addition, local banks are not granted lines of credit or facilities for trade financing because of what is perceived as high country risk. However, there is a potential risk related to the size of net foreign assets held by these banks.

The financial market is underdeveloped, financial instruments are little diversified and the volume of banking services is limited. The central government is the commercial banks' main borrower and access to financial services for the production sector, and particularly small and medium-sized enterprises, is very limited because of high interest rates (18 per cent on average). Commercial banks have excess liquidity and do not need to rely on the BEAC for refinancing. The reduction in the BEAC's official market rate in July 2008 therefore had no significant impact on the rates applied by commercial banks. Moreover, it appears that the measures taken by the BEAC to eliminate the maximum lending rate and to reduce the minimum borrowing rate from 4.25 per cent to 3.25 per cent have not encouraged the development of savings and access to credit, which is limited by high lending rates. In addition, bad debts as a percentage of total loans issued remain high in the CAR (22.9 per cent) compared to an average of 11 per cent in CEMAC. This situation also makes banks reluctant to issue loans.

Other Recent Developments

As part of its public sector reform programmes, the CAR has made significant progress with the help of the development partners, including in particular the African Development Bank (AfDB) and the World Bank. In addition to the budget process, reform of public finance management involves strengthening the accounting system and improving Treasury operations, improving the tax and customs administration, and stabilising the financial position of public enterprises.

The authorities have also initiated structural reforms aimed at strengthening governance. Acceptance of the CAR as an official candidate country to the Extractive Industries Transparency Initiative (EITI) in November 2008 is a major step forward and makes the CAR the 24th country to apply for membership of the EITI. Substantial progress was also made in the creation of a new government procurement system, which ensures transparency and competition, and in the establishment of anti-corruption mechanisms: the Government Procurement Code and the National Strategy to Combat Corruption were adopted in 2008, and the bodies responsible for making them operational were created.

The CAR suffers from a chronic shortage of electricity and only 3 per cent of its population have access to it. The electrical infrastructures, which are extremely outdated, include: two hydroelectric power stations (Boali 1 and Boali 2); a hydroelectric power dam (Boali 3); a thermal power plant in Bangui; two transmission lines that connect Boali 1 and Boali 2 to Bangui; and a distribution grid. Boali 1 has five generators with an installed capacity of 8.75 megawatts (MW); however, its firm capacity is only 5 MW because of problems related to procuring parts. Boali 2 has two generators with an installed capacity of approximately 10 MW and a firm capacity of approximately 9.9 MW. The power dam (Boali 3) is not yet equipped with the two planned 10 MW capacity turbines. The thermal power plant in Bangui has six diesel generators, five of which are not operational. The two transmission lines that connect Boali 1 (63 kilovolts [kV]) and Boali 2 to Bangui (110 kV) are also connected to the thermal power plant in Bangui. Theft of the protective parts (such as the lightning conductors) and the obsolescence of the lines reduce their load-flow capacity. It is estimated that the distribution grid, which is also outdated, causes losses of 45 to 50 per cent of the electricity transmitted.

In 2008, the electricity shortage turned into a severe crisis when the Boali 1 and Boali 2 hydroelectric power stations that supply power to the city of Bangui and its surrounding areas broke down simultaneously. In light of this situation, a three-phase strategy was adopted: modernising the Boali 1 and Boali 2 hydroelectric power stations and distribution grid; increasing production by using the Boali 3 equipment and by extending Boali 2; and restructuring the sector and improving management of ENERCA (Énergie centrafricaine). Modernisation of Boali 1 and 2 and the distribution grid began in 2008 with the help of financing from the Agence Française de Développement (AFD) in the amount of EUR 4.2 million, which will be supplemented by USD 8 million in aid from the World Bank. The Boali 2 capacity and Boali 3 equipment could also be extended as part of the regional project for production development and interconnection with the DRC, which is scheduled for 2009 and financed by the AfDB.

The CAR's landlocked location is aggravated by the lack of transport infrastructures connecting the country's interior to its neighbours. The road network consists of 24 307 kilometres, 700 of which are paved; 80 per cent of the paved roads are in relatively good condition compared to 50 per cent of dirt roads. Most road maintenance work is carried out by the Office national du matériel (ONM), and the local road construction sector is virtually nonexistent. The river system consists of more than 2 800 km of navigable open waterways, including in particular the Bangui-Brazzaville corridor via the Ubangui and Congo, and the Mossaka-Nola corridor via the Sangha. However, use of these waterways for moving export products (lumber, cotton, food crops, etc.) remains vulnerable to the inadequacies of the transport connections between Brazzaville and Pointe Noire.

Transport infrastructure development policy is centred round three key areas. The first is opening up the country by connecting it to ports for the export and import of raw materials and manufactured products. The second seeks to diversify the access routes and the third is to render the development poles viable and interconnect them. This policy is supported by the AfDB, the World Bank and the European Union, which are contributing to the financing of the regional programme for the facilitation of transport (CAR, Cameroon and Chad). In the medium term (two to four years), their aim is to eliminate the obstacles related to the regional Garoua Boulai-Bangui network and its extension into Bangassou and Obo as well as those related to the trans-African Mombasa-Lagos highway, and to conduct studies on the road project connecting Ouesso (Congo Republic) to Bangui (CAR) and N'djamena (Chad), and on the Ubangui-Congo-Sangha river navigation project.

Drinking-water supply and sanitation services are of very limited scope. The rate of access to drinking water is estimated at 32 per cent in urban areas and 26 per cent in rural areas. About 69 per cent of Central African households do not have adequate sanitation facilities. Most infrastructures in both urban and rural areas are in extremely poor condition or not operational at all as a result of damage caused by the many conflicts that have occurred in recent years and of a lack of maintenance. Bangui's drinking-water supply, installed in the 1960s, is run down, with more than one-fourth of it in very poor condition. The Société de distribution d'eau en Centrafrique (Central African water distribution company: SODECA), which provides water distribution service in Bangui and the country's major cities, is facing serious technical, financial and institutional problems.

Innovation and ICT

Basic telecommunications and information and communication technology (ICT) services are very limited. Total telephone density is 15.13 per cent, with 5 000 fixed lines and 600 000 mobile lines in 2008. Only 30 per cent of the population are covered by the mobile service and only eight cities are connected to the fixed network. Six of the 16 prefecture county seats have an Internet connection of less than one bit per second per inhabitant. Administrations and businesses make little use of information technology and remote-access computing while specialised manpower requirements in the field of new information and communication technologies (NICT) are not covered.

To meet these challenges, partial privatisation of the telecommunications and ICT sector began in the 1990s with law no. 96.008 of 13 January 1996. This law ended the state monopoly of the Société centrafricaine de télécommunications (Central African Telecommunications Company - SOCATEL) and created the Agence de régulation des télécommunications (Telecommunications Regulatory Agency - ART). However, this reform is considered a failure and the ART was not set up until 2003. For this reason, over the past several years the government has initiated new reforms aimed at creating a coherent and efficient legal framework for the sector to ensure the development of basic infrastructures and coverage of the entire population. This reform hinges primarily on three documents: the sector policy document entitled *Policy, Strategies and Action Plan for Construction of the Information Society in the Central African Republic* enacted in August 2006; law no. 07.020 of 28 December 2007 regulating the telecoms sector in the CAR; and law no. 07.021 of 28 December 2007 setting taxes and fees for establishing and/or operating networks and services throughout the country.

Scheduled for 2009, the first phase of the regional fibre-optic infrastructure project in Central Africa involves the CAR, Cameroon and Chad. This major initiative entails the creation of a broadband fibre-optic transport network linking Bangui to Maedougou in Cameroon and to the oil pipeline that connects Kribi in Cameroon to Doba in Chad. This will allow the CAR to access the terminal station of the SAT-3/WASC intercontinental submarine cable more cheaply. The aim of the project, which will be co-funded by the World Bank and the AfDB, is to provide telecommunications links between the countries involved and to connect them to the fibre-optic network, thereby giving the largest number of people access to high-speed Internet.

A member of the Central African Forestry Commission (COMIAF), the CAR has ratified agreements on climate change, biological diversity and the fight against desertification. It has a national action plan for the environment and revised its forestry code in 2008 in an effort to rationalise management of its forest and wildlife resources. In addition to ensuring transparency and competition in the logging rights award process, the code also provides for the interests of communities residing near the areas subject to operating licences to be taken into account. Part of the revenue from forestry and wildlife taxes is paid into a special appropriation account for forestry and tourism development and used to finance projects in these communities.

The rural development sector's institutional framework suffers from a shortage of human, financial and material resources. The professional rural organisations (OPR) are in their infancy and are not fully capable of overseeing and defending the interests of those involved in the sector. Agricultural research is in complete ruin, as are basic rural infrastructures: approximately 84 per cent of rural and agricultural earth roads are in poor condition.

To remedy this situation, the government issued a strategy paper on rural sector development (DSDSR), which includes four areas of focus. The first involves strengthening producers' capacities and organisations; the second intensifying and diversifying agricultural, forestry, fisheries and hunting production; the third opening up and implementing infrastructures that support production, preservation, storage, processing and marketing; and the last strengthening agricultural and forestry institutions. In the short term, the government plans to conduct a survey on the area, yield and production of main crops, draft a law on the restructuring of professional agricultural organisations, and reform land legislation. To support the authorities' efforts, the AfDB and the World Bank have offered grants in the amount of UA 3 million (the African Development Bank's unit of account which is equivalent to the IMF's special drawing rights [SDR]) and USD 8 million respectively as a short-term response to the food crisis.

Political Context

Although the political situation has improved over the past four years, the CAR remains a fragile state with an unstable political climate and a lack of central government control in some areas around the country. The presidential and legislative elections in March and May 2005 restored constitutional order. The government initiated a peace process which led to the signing of agreements with the three main rebel groups in 2007/08, as well as an Inclusive Political Dialogue conference involving the presidential majority, the democratic opposition, civil society, public institutions, political-military movements and major religious groups in December 2008.

The recommendations of the dialogue focus primarily on the organisation of the upcoming elections, revision of the status of the political parties, the provisions of the constitution related to the multiple offices held by the president and separation of powers, and the formation of a government of national unity. Application of these recommendations began with the formation of a new government in January 2009. In the short and medium term, the prospects for lasting stability depend on whether the municipal elections scheduled for 2009 and the presidential and legislative elections due to be held in 2010 are conducted properly.

Social Context and Human Resources Development

In 2003, 50.2 per cent of the Central African population lived below the poverty line. The CAR ranks 171st out of 177 countries, based on the Human Development Index (HDI). This ranking clearly illustrates people's difficult living conditions and their limited access to basic social services: 48 per cent of the population do not have access to health care services and 51.4 per cent of adults are illiterate. Life expectancy at birth is estimated at 47 years – about 7 years below the African average – and the prevalence rate of HIV/AIDS, which was 10.8 per cent for persons aged 15 to 49 in 2007, is the highest in the CEMAC zone.

Among the issues facing the Central African administration are the ageing of its employees (52 per cent of the workforce are over 45) and a drop in the general technical level due to a halt in recruitment, a lack of professional experience and the recent retirements of a large number of middle managers. In addition, the government's difficulty in covering its current expenses has led to arrears on salaries. The country's social security office (OCSS) is also having financial problems, which has resulted in a delay in pension payments. To address these challenges, the authorities have introduced civil service reform aimed at revising the general civil service regulations of 1994, updating the labour code, creating a single database covering salaries and public employees, and developing targeted training programmes for government employees.

There is significant gender disparity in the CAR, which ranked 153rd out of 177 countries based on the Gender Development Index in 2005. Access to education and literacy varies according to gender: the ratio of girls to boys in primary and secondary schools is 65 per cent and the ratio of literate females to literate males (aged 15 to 24) is 67 per cent. Access to prenatal care or care during childbirth is very limited, as is access to family planning services. Approximately 44 per cent of deliveries are assisted by a qualified health care professional, while the maternal mortality rate is estimated at 1 100 for every 100 000 births. Moreover, women still play a minor role in resource management and control and in local and national politics. Roughly 11 per cent of the members of the national Parliament are women, and of the 32 members of the government only four are women. The authorities plan to incorporate gender issues into the 2008-10 Poverty Reduction Strategy Paper (PRSP). In this respect, several measures aimed at reinforcing and implementing the statutory, legal and institutional framework concerning women's participation were taken in 2008.

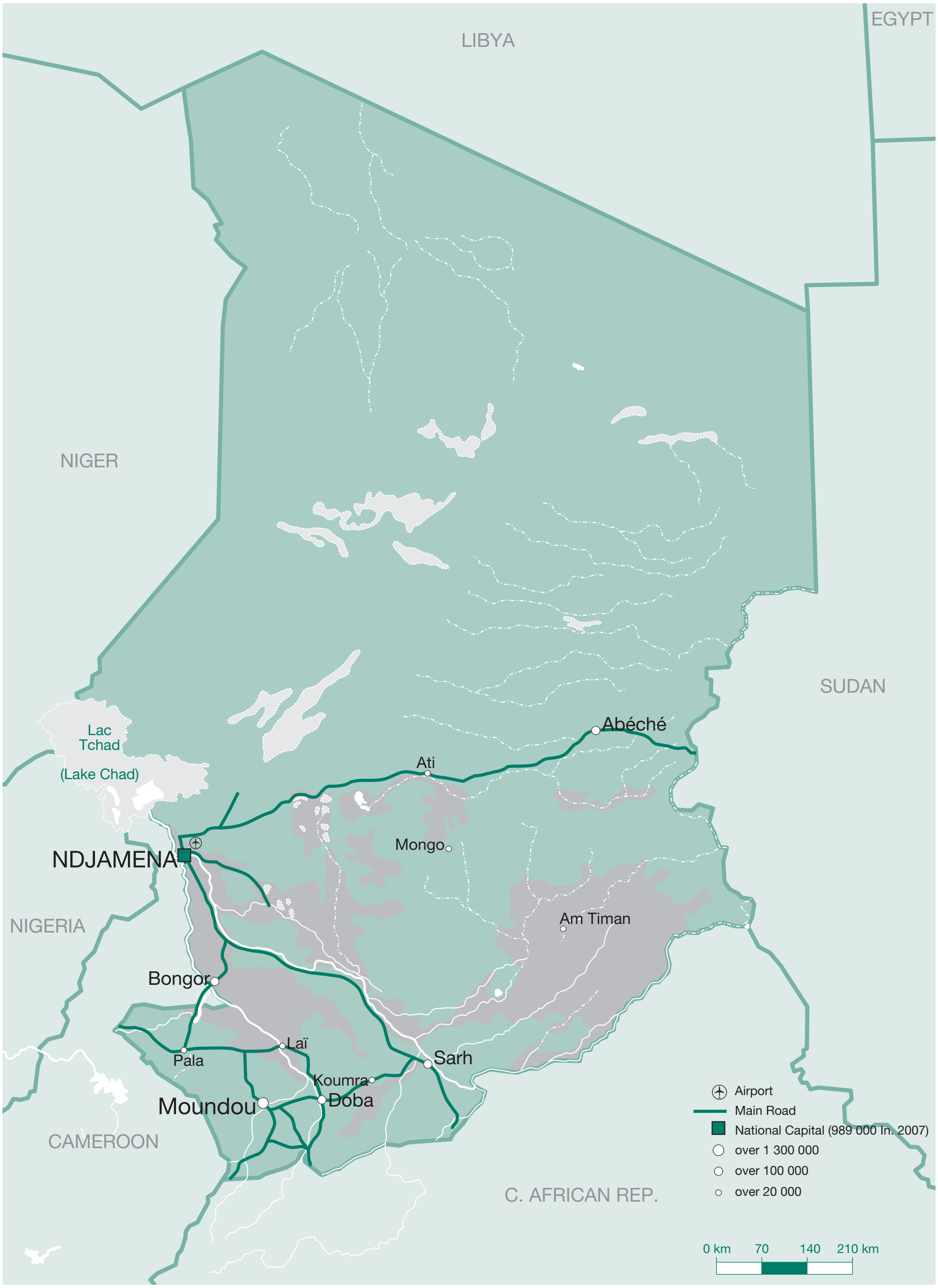
Overall, all social indicators have declined as a result of the various conflicts. The CAR has fallen behind on most of the Millennium Development Goals (MDGs) and it seems unlikely that they will be achieved by the year 2015. Although promoting sustainable human development is one of the four pillars of the 2008-10 PRSP, public resources are not yet sufficient to implement adequately the policies and to achieve the health care and education objectives. Policies aimed at preventing and treating HIV/AIDS, tuberculosis and malaria exist, but the necessary financing and implementation mechanisms are lacking.

Chad

key figures

- Land area, thousands of km²: 1 259
- Population, thousands (2008): 10 914
- GDP per capita, PPP valuation, USD (2008): 1 478
- Life expectancy (2008): 48.8
- Illiteracy rate (2008): n.a.

Chad


LIBYA
EGYPT
NIGER
SUDAN
Lac
Tchad
(Lake Chad)
NDJAMENA
NIGERIA
CAMEROON
C. AFRICAN REP.
Abéché
Ati
Mongo
Am Timan
Bongor
Laï
Pala
Koumra
Moundou
Doba
Sarh
Airport
Main Road
National Capital (989 000 In. 2007)
over 1 300 000
over 100 000
over 20 000
0 km
70
140
210 km

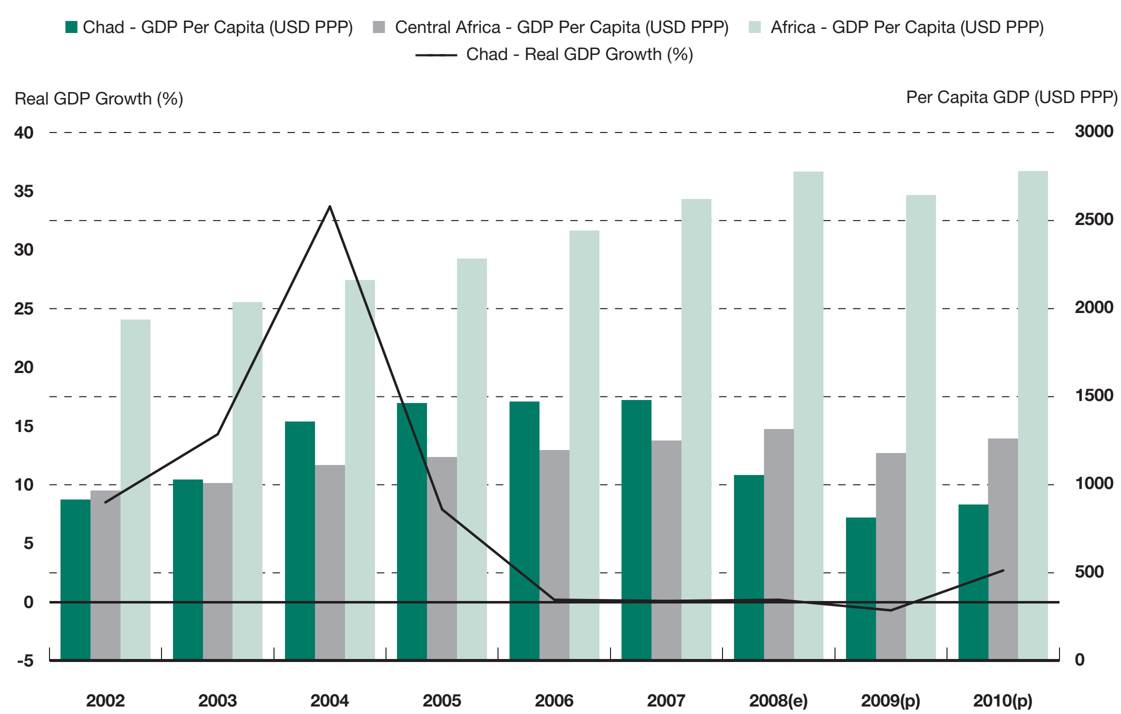
In 2008, overall gross domestic product (GDP) growth remained weak. GDP rose by only 0.2 per cent owing to the poor performance of the oil industry, which had been deteriorating since 2007, despite the strong performance of the agricultural sector. Ongoing conflicts between government forces and rebel groups have also had an impact. The oil industry's contribution to growth will remain weak in 2009, and this will be exacerbated by a decrease in demand and in world market prices, causing GDP growth to slow by 0.7 percentage points. An improved political climate is expected to cause a recovery in consumption and investment. However, even if this occurs, it will not return Chad to positive growth rates until 2010.

In the second half of 2008, the drop in food and energy prices was not enough to stem the rising inflation seen since 1 January. The consumer price index increased by 8.1 per cent in 2008, far above the 3 per cent limit allowed under the terms of the convergence pact of the Economic Community of Central African States (ECCAS).

The economy stagnated in 2008, as the troubles of the oil sector outweighed a strong agricultural performance.

Most oil production projections forecast a slight upturn in 2009-10, with the opening of new wells to offset the decreased productivity of those already operating. There is, however, a risk that the suspension

Figure 1 - **Real GDP Growth and Per Capita GDP**
(USD/PPP at current prices)



Source: IMF and National Institute of Statistics, Economic and Demographic Studies (INSEED) data.

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of relations between Chad and the World Bank in 2008 will impact growth, with a reduction in the number of development projects. Relations were resumed on 12 January 2009, allowing a partial reopening of World Bank offices in N'Djamena, the capital of Chad.

Recent Economic Developments

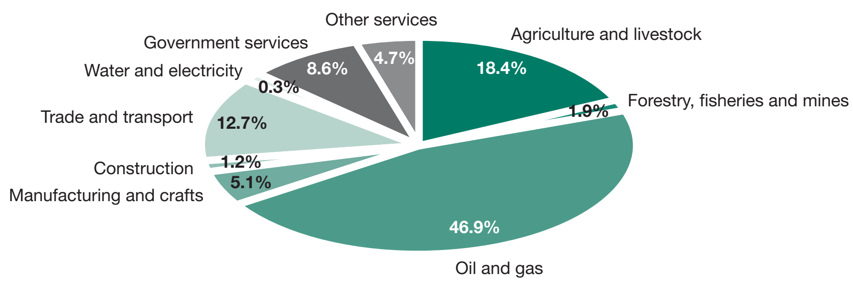
Production in the primary sector, which accounted for 45 per cent of GDP in 2008, has fallen by 2.5 per cent. This slowdown, although milder than the 4.5 per cent drop seen in 2007, is essentially due to the decline in oil production. In 2008, oil production was about 10.9 per cent below the 2007 figure (52.4 million barrels). For example, production only reached 11 703 744 barrels in the second quarter of 2008, down from 12 763 757 barrels for the same period the previous year. This downward trend continued throughout the year. The problem was caused by water in the oil layers due to geological phenomena, and a pressure drop in the reservoirs. As for royalties, these continue to benefit from the improved market prices of oil in recent years, despite declines in the second half of 2008. In 2009, production should rise slightly over 2008 levels to reach 52 million barrels, before shrinking to 50 million barrels in 2010.

The performance of the main oilfields (Miandoum, Bolobo and Komé) is expected to drop further in the 2009-11 period, with oil production decreasing 4 per cent per year on average. A parallel drop in crude oil market prices is also expected: an average of 6.7 per cent per year. However, these factors should be mitigated by the anticipated effects of major investments in the exploration and development of new oilfields, related to the partnership agreements with China, and productivity gains from improved techniques and infrastructure, notably in transport.

Agricultural production made strong progress in 2008, offsetting the decline in mining. Its 9.7 per cent growth rate reflected the good performance of crop production, especially cereals. Cereal production (515 300 tonnes of pearl millet, 599 600 tonnes of sorghum, 607 300 tonnes of berbere, 209 300 tonnes of maize and 110 600 tonnes of rice) represented 95 per cent of agricultural production in 2008; it rose by 10.1 per cent in 2008, having decreased by 7.3 per cent in 2007. Crops benefited from favourable climate conditions, with normal rainfall in 2008, though there was flooding in some regions. The growth rate of livestock farming remained at 2.8 per cent. This strong performance reflects a positive trend in the recovery of livestock levels after the 2005 food crisis, in which numerous animals were slaughtered.

Fishing continued to grow at a rate of 3 per cent in 2008, following a 4.8 per cent growth rate in 2007, owing to plentiful rainfall on Lake Chad in the Diffa region. Real production rose to XAF 37.3 billion (CFA Franc BEAC) in 2008, against 36.2 billion in 2007.

Figure 2 - **GDP by Sector in 2007** (percentage)



Source: Authors' estimates based on INSEED data.

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Table 1 – Demand Composition

	Percentage of GDP (current prices)		Percentage changes, volume			Contribution to real GDP growth		
	2000	2007	2008(e)	2009(p)	2010(p)	2008(e)	2009(p)	2010(p)
Gross capital formation	**17.5**	**16.1**	**-35.7**	**1.0**	**5.2**	**-6.8**	**0.1**	**0.6**
Public	5.6	4.0	-35.0	-2.0	6.0	-1.7	-0.1	0.2
Private	12.0	12.0	-36.0	2.0	5.0	-5.1	0.2	0.5
Consumption	**105.2**	**51.6**	**-2.1**	**0.4**	**4.8**	**-1.0**	**2.2**	**2.3**
Public	39.4	23.4	-0.7	2.0	4.7	-0.2	0.4	1.0
Private	65.8	28.2	-3.2	-0.9	4.9	-0.9	-0.2	1.3
External demand	**-22.8**	**32.3**				**8.1**	**-1.0**	**-0.3**
Exports	20.0	54.7	1.3	-1.5	3.7	0.7	-0.8	2.1
Imports	-42.7	-22.4	-31.8	1.0	14.7	7.3	-0.2	-2.3
Real GDP growth						**0.2**	**0.7**	**2.7**

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

StatLink http://dx.doi.org/10.1787/576324047735

After stagnating in 2007, the secondary sector recovered in 2008 with 4.2 per cent growth, despite the poor performance of the oil industry. The revived production operations essentially reflected the cyclical nature of production in certain fields. The textile industry in particular grew by 22.5 per cent after the collapse that occurred in 2007, when production dropped by 44.4 per cent because farmers had changed cotton fields over to other crops because of payment arrears from previous harvests. This recent rise in textile production was also due to better management in the sector: cotton seed removal and processing grew considerably thanks to the strengthening of the collection mechanism, after a contract was signed with Société de Développement du Coton (SODECOTON) of Cameroon.

In energy, a large part of an operating subsidy to the water and electric company *Société Tchadienne d'Eau et d'Électricité* (STEE) was disbursed in the second quarter of 2008. This was a real boost to the sector which also benefited from the activation of the 21-megawatt Farcha power station in 2008, as well as the increased use of diesel fuel produced using the Doba distillation column for electrical power generation. This strengthened the generating capacity of STEE and covered 50 per cent of N'Djamena's consumption. Energy problems still persist, notably the ageing water and power distribution networks, customer fraud and high prices.

Given the percentage of GDP from commercial activity and public administration (26 per cent in 2008) and the damage caused to these two fields by the unrest at the start of the year, the growth of value added in the tertiary sector was expected to slow considerably. Indeed, it increased by only 2.1 per cent in 2008, down from 5.6 per cent in 2007 in real terms. Fires and looting caused major damage in the main markets of the capital, causing a deceleration of activities in this field. Public administration suffered enormous damage during the violence of February 2008: destruction to public buildings, looting of public property, disappearance of files from the ministries of Oil, National Education, Health, and Higher Education. The slowdown of administrative activity is a direct consequence of these events. However, given budget surpluses, the economic performance of public administration was stable, and its value added showed growth of 2 per cent, although this is weak compared to the strong 13.9 per cent growth rate recorded in 2007.

Transport and telecommunications grew by 1.6 per cent in 2008, down from 1.7 per cent in 2007.

This poor growth is linked to the military unrest in Chad early in the year.

Regarding overall demand, final market consumption dropped 2.1 per cent in 2008, to XAF 1.002 trillion, owing to the impact on farms of uncertainties about rainfall and political risks. Government consumption also decreased at a rate of 0.7 per cent, especially expenditure for transfers and subsidies and for civilian operations. This outcome was relatively predictable in light of the precarious political situation and reduced projections for oil production. Nonetheless, consumption should recover slightly in 2009 and 2010, mainly driven by private consumption. Indeed, a rise in total final consumption is expected for these two consecutive years, in the order of 0.4 per cent and 4.8 per cent respectively.

The 35.7 per cent net fall in gross fixed capital formation in 2008 was caused primarily by two factors: the nearly 36 per cent reduction in private investment, which came to XAF 359.4 billion in 2007, and the recent decline in (largely foreign) investment in the oil industry, which amounted to XAF 234 billion in 2008, as opposed to XAF 262 billion in 2007. According to forecasts for the 2009-11 period, oil and public-sector investment will grow slowly, at an annual average rate of 0.8 per cent, given the difficulty of raising capital. But this will offset the decrease in public investment, which will not recover until 2010.

The external sector contributed positively to growth in Chad in 2008 following a drop in investment and in private and public demand for consumer goods, which led to a 31.8 per cent decrease in imports. Exports, in turn, showed only weak growth, at 1.3 per cent, due to the drop in oil production. Despite the predicted fall in the exchange value of the CFA franc, exports are expected to recover only slightly in 2009 and 2010, at rates of 2.1 and 3.7 per cent respectively, following a predicted decline in international demand for oil and a softening of market prices. Concurrent with an upturn in local demand, imports will expand at an average rate of 1 per cent in 2009 and 14.7 per cent in 2010, causing Chad's trade balance to deteriorate.

Macroeconomic Policies

Fiscal Policy

Chad retains a strong dependence on oil revenue and there were *ad hoc* budget revisions and off-balance-sheet security expenditure following rebel attacks in February 2008. The fiscal 2008 budget was issued on

Table 2 - **Public Finances** (percentage of GDP at current prices)

	2000	2005	2006	2007	2008(e)	2009(p)	2010(p)
Total revenue and grants[a]	**13.6**	**12.9**	**19.5**	**25.8**	**27.2**	**22.5**	**23.3**
Tax revenue	5.9	4.2	17.2	4.2	3.4	4.4	4.4
Grants	2.2	5.2	2.1	19.3	21.4	15.8	16.8
Total expenditure and net lending[a]	**20.3**	**14.0**	**17.5**	**19.0**	**14.5**	**17.2**	**17.3**
Current expenditure	10.0	6.9	11.1	10.4	9.5	11.3	11.3
Excluding interest	*8.9*	*6.6*	*10.7*	*9.9*	*9.1*	*10.8*	*10.9*
Wages and salaries	3.9	2.4	2.3	3.0	2.9	3.4	3.5
Interest	1.0	0.3	0.4	0.5	0.4	0.4	0.4
Capital expenditure	10.3	7.1	6.4	8.6	4.9	5.9	6.0
Primary balance	**-5.7**	**-0.8**	**2.4**	**7.3**	**13.1**	**5.7**	**6.4**
Overall balance	**-6.8**	**-1.1**	**2.0**	**6.8**	**12.7**	**5.3**	**6.1**

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

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14 February 2008 by decree because there was no National Assembly vote. It was amended in March 2008 by a new decree setting revenue at XAF 921.1 billion and expenditure at 774.5 billion, with a projected surplus of 146.6 billion. Following oil price fluctuations and subsequent poor relations between the government and the World Bank, a key donor, new revisions were made to the budget during 2008 to reflect an early repayment of debt to the World Bank of some 60 million US dollars (USD), in connection with the Doba oil project. At the end of the year, and despite the excesses mentioned, the national budget recorded a positive balance of 12.7 per cent of GDP thanks to rising oil prices.

At the end of June 2008, total revenue reached XAF 406.3 billion, down from 461 billion in June 2007. This decrease was due to the drop in oil revenue, which fell by 14.3 per cent after a 24.8 per cent reduction in the corporate tax paid by the Chadian oil consortium. Non-oil revenue also dropped by 2.1 per cent; non-tax revenue followed the same trend with a 14.3 per cent decrease, while capital revenue also dropped by 33.9 per cent. Under current circumstances, oil revenue for 2009 is expected to be only half the amount collected in 2008.

Total expenditure was XAF 258.7 billion at the end of June 2008, up from 182.6 billion a year earlier: a 41.7 per cent rise mainly caused by 44.7 per cent growth in current expenditure (209.3 billion, up from 144.7 billion in June 2007). This is due to a sharp 53.9 per cent rise in military pay and 107.2 per cent rise in disbursement of transfers and subsidies (aid to state-owned enterprises, grants and contributions to international institutions). On the other hand, spending on goods and services stagnated. Capital expenditure rose by 30.1 per cent through the funding of projects to restore infrastructure destroyed during the unrest.

Ultimately, after this impressive spending increase, the management of public finances in 2008 yielded a non-oil primary deficit equivalent to 29 per cent of GDP, while its level of sustainability is considered below 4 per cent. Moreover, Chad clearly profited from the average rise in oil prices that produced a favourable fiscal balance equivalent to 12.7 per cent of GDP in 2008, up from just 6.8 per cent of GDP in 2007. This balance should remain positive in 2009 and 2010, with levels of 5.3 and 6.1 per cent respectively, the decline having resulted from lower global oil prices and a rise in budget expenditure, which should total about 17 per cent of GDP for those two years.

Monetary Policy

Monetary policy is determined by the region's central bank, the Bank of Central African States (BEAC), which prioritises controlling inflation and maintaining parity between the CFA franc and the euro. In schemes to maintain parity through a fixed exchange rate, the central bank tends to follow the lead of the monetary authority responsible for controlling the value of the target currency. However, unlike the European Central Bank (ECB), the BEAC aims to keep its rediscount rate relatively flat. As a result, after the economic downturn expected in the region in 2009, the BEAC will continue to rely on indirect instruments, such as refinancing and requirements for compulsory reserves, to control expansion of the money supply.

As of the end of June 2008, Chad's monetary situation was still in an upward trend. Net external assets rose from XAF 425.2 billion in June 2007 to 454.1 billion a year later, representing a 6.8 per cent increase. Net domestic credit grew sharply, from minus XAF 9.9 billion in June 2007 to plus 58.9 billion in June 2008, an increase of XAF 68.8 billion. This trend reflects the decline of the state's position as a creditor with regard to the money sector. On the other hand, the money supply grew by 26.1 per cent by the end of June 2008, to XAF 463.8 billion, up from 367.8 billion at the end of June 2007. This was due to improved oil prices in the first half of 2008, leading to higher export revenue.

At the end of 2008, to address the impact of the worldwide financial crisis, the Central Bank took measures to improve the availability of liquid assets and promote economic recovery. Specifically, the Monetary Policy Committee decided to reduce the various interest rates over which it had regulatory authority. Thus the interest rate for invitations to bid dropped by 75 basis points, the interest rate for banks' investments was reduced by 90 basis points, and the interest rate on public investment decreased by 11 basis points.

In the second quarter of 2008, the harmonised inflation index showed an 8 per cent increase in annual percentage change. These soaring prices reflected rising food prices despite the authorities' adoption of certain measures, particularly a system of market price controls established by the Ministry of Trade, and the sale of cereals, livestock and construction materials at subsidised prices. Despite the lull at the end of the year, the average inflation rate for 2008 was 8.1 per cent.

External Position

The volume of exports increased from 52.1 per cent of GDP in 2007 to 55 per cent in 2008, mainly because of a rise in non-oil exports, despite the real drop in oil exports, which represented nearly 38 per cent of GDP in 2008. Slower growth of exports is predicted for 2009, even if a net decrease is expected in the value of the CFA franc. In addition, revenue at nominal value registered a clear improvement by reaching XAF 2.2527 trillion in 2008, up from just XAF 1.5267 trillion in 2007, owing to higher market prices. Imports rose slightly in 2008 to XAF 819.9 billion, from 719.6 in 2007.

Because of reductions in private and public investment in 2008, the services account in the balance of payments fell. Indeed, this account amounted to minus 16.7 per cent of GDP in 2008 after having reached an annual average of about minus 28 per cent in the three previous years because of the oil boom.

This progression led to a clear improvement in the current account balance, which was 8 per cent of GDP in 2008, as against a deficit of nearly 7 per cent of GDP for the two previous years. But given the upturn in consumption and investment predicted for 2009 and 2010, alongside the predicted decrease in worldwide demand due to the general financial crisis, Chad should experience a deterioration of its trade balance with a deficit of 3.8 per cent of GDP in 2009, followed by a mild recovery of 1.4 per cent in 2010.

In the context of Chad's relations with the international community, 2008 was notable for the suspension of co-operation with the World Bank in September. This occurred because the country had been unable to prove it was in a position to use oil revenue to reduce poverty, as agreed to in the contract for the Chad-Cameroon oil pipeline financed by the Bank. The World Bank later decided to partially reopen the office of its resident mission in Chad to allow closer monitoring of projects it supports that directly benefit poor populations.

External debt totalled XAF 753.4 billion at the end of June 2008, down from XAF 846.7 billion a year earlier, an 11 per cent decrease caused by the weakening of the dollar against the euro. Debt continued to drop in the second half of the year, following early

Table 3 - **Current Account** (percentage of GDP at current prices)

	2000	2005	2006	2007	2008(e)	2009(p)	2010(p)
Trade balance	-4.1	37.5	33.3	33.5	43.3	32.7	32.8
Exports of goods (f.o.b.)	13.2	53.8	54.1	52.1	55.0	46.0	47.4
Imports of goods (f.o.b.)	17.3	16.2	20.8	18.5	11.7	13.3	14.6
Services	-13.7	-30.7	-27.2	-27.2	-16.7	-17.7	-15.6
Factor income	-1.2	-9.9	-18.2	-16.9	-21.2	-21.6	-18.4
Current transfers	3.6	5.4	4.5	3.8	2.5	2.8	2.6
Current account balance	**-15.4**	**2.4**	**-7.6**	**-6.8**	**8.0**	**-3.8**	**1.4**

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

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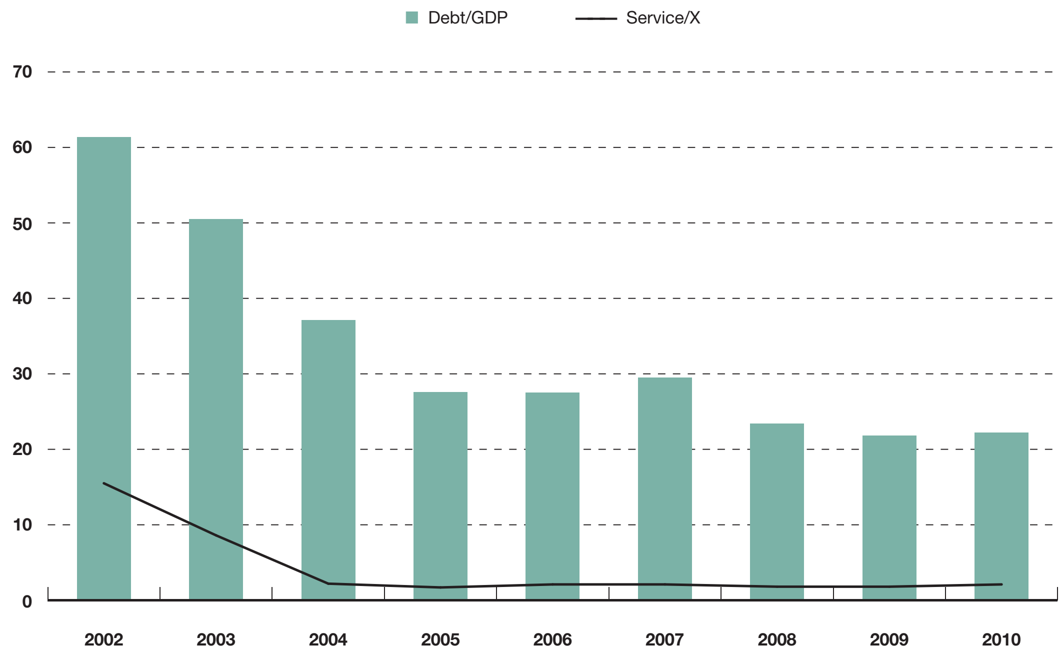
Figure 3 - **Stock of Total External Debt** (percentage of GDP) **and Debt Service** (percentage of exports of goods and services)



Source: IMF.

StatLink http://dx.doi.org/10.1787/574151706007

repayments to the World Bank, with debts fully repaid in September 2008 following the disagreements that arose at the start of that year.

Structural Issues

Private Sector Development

With regard to the business climate, the World Bank's 2009 *Doing Business* report ranks Chad 175th among 181 countries. It was ranked 176th in the 2008 report.

The informal sector plays an important role in the Chadian economy, especially as it is the only sector able to offer a large number of small jobs to relatively unskilled labour without sufficient resources to launch projects. But its development is stalled by multiple difficulties: the high cost of supplies, companies' limited technical capabilities and lack of equipment, competition from producers in Nigeria and Cameroon, difficult access to credit, electrical power failures, etc.

For small and medium-size enterprise (SMEs), the cost and difficult access to credit are a major problem, as is the difficulty these businesses face in providing the collateral required by the banks. Therefore these businesses mainly resort to self-financing or mutual aid systems, which limit their capacity to invest in large-scale projects.

To improve the business environment, the authorities began to put various measures in place: *i)* instituting a framework for ongoing dialogue between the state and the private sector; *ii)* reforming the legal framework; *iii)* streamlining the tax system and reforming customs; *iv)* reforming the investments code; *v)* transparency in the procedures for awarding government contracts; *vi)* developing infrastructure; and *vii)* strengthening the capabilities of business entrepreneurs.

Other Recent Developments

Despite the precarious fiscal position, improvements to infrastructure and the business climate as well as the stabilisation of national institutions are vital to promote development of the non-oil sector and achieve goals for growth and for poverty eradication.

The authorities' decentralisation policy led to the restructuring of local and regional public services into 22 regions, 62 *départements* (counties) and 252 sub-prefectures (local level), to bring public services closer to the people and prepare for decentralisation. The current priorities are: *i)* to give the new agencies the human resources and the physical and financial resources they need to carry out their responsibilities fully; *ii)* to put people in charge of them who have experience in managing personnel and public resources. Regarding decentralisation, the government is committed to implementing the laws, regulations and master plan already approved, and to organising local elections, which have been postponed several times. This reform, undertaken in 2006 with the support of the donors (European Union [EU], United Nations Development Programme [UNDP]), will have to continue through to the next presidential elections, scheduled for 2011.

Regarding public finance management, the government announced in its growth and poverty reduction strategy report ("SNRP II: 2008-11", adopted in 2008) that it will continue its actions to promote the Public Finance Modernisation Action Plan (PAMFiP) that it approved in 2005 and launched at the end of 2006 with the support of its main development partners. In practice, its fiscal policy does not always satisfy the country's foreign partners. Thus, in November 2008, an IMF delegation urged the government to tackle the untenable level of government expenditure.

Chad faces numerous major obstacles to ensuring development of the oil industry in a way that could benefit the entire economy. The main constraint is the lack of direct access to a port, which makes imported petroleum products more expensive. This situation is exacerbated by the lack of suitable infrastructure and the inefficacy of the available logistical resources, which affect both the reliability and the quality of refined products. In addition, there was a decrease in private-sector investment to further develop oil and gas resources, and World Bank aid for oil infrastructure was suspended.

The public works programme continued in 2008. In November, several infrastructure projects were begun, including modernisation of 72 kilometres of the road between Massaguet, a satellite town of N'Djamena, and Massakory, some 60 kilometres to the north-east. The road is meant to facilitate access to a new oil refinery under construction in Djermaya, north of the capital. It is part of an ambitious plan for a road network connecting several provincial towns, including Bokoro, Arboutchatak, Mongon Oumhadjer and Sarh. The government intends to open 2 000 kilometres of roads by 2010. This is ambitious, given the uncertainty of Chad's fiscal position and the possibility of a new fighting. But funds and operational support from China make the project feasible.

Innovation and ICT

Although Chad is the latest African country to begin exporting oil, its telecommunications market remains one of the least developed in the world. The penetration rate for all market segments (fixed-line phones, mobile phones and Internet) are well below average for Africa. The country lacks the national infrastructure needed to effectively support broadband services.

To raise the capital necessary to finance development of the network, the government plans to privatise the national telecommunications company, Sotel Tchad. The network is still of the traditional type: distribution is via copper wire cables. The historic operator's equipment is very old and precludes offering a high-quality service.

The Sotel Tchad telecommunications network includes, at present, 17 000 main lines, 80 per cent of which are in N'Djamena. The average rate at which main lines have been added over the last ten years is about 20 per cent, but the current Sotel Tchad infrastructure cannot meet users' increasingly pressing and demanding needs. Unmet requests continue to pile up: there are an estimated 40 000 of them.

In N'Djamena, an Alcatel OCB283 E10B telephone exchange, in service there since 1996, handles the three main switching functions: international transit, national transit, and self-contained routing of calls. This multifunction exchange consists of a core exchange in Goudji, which supports six line switches: one local subscriber line switch and five remote subscriber switches. Outside the capital, primarily in Moundou, Sarh and Abéché, one can find the same types of exchanges, but these are the compact version that only handles self-contained routing. All the large provincial exchanges are saturated, with an average occupancy rate of 84.3 per cent.

There are three categories of high-capacity transmission networks. The international satellite transmission network, which is completely digital, comprises several gateways located in N'Djamena (Goudji), some of which are no longer in operation. The second network, the urban transmission network, performs four types of connections: *i)* connections between the core exchange and line switch; *ii)* connections between the core exchange and MSC (CDMA) ; *iii)* connections between the core exchange and the N-SOFT platform (128 circuits); *iv)* connections between the core exchange and Tchadnet (240 circuits, 8 PCM [pulse-code modulation]). The third network handles interconnectivity with other operators: SALAM (60 circuits, 2 PCM), Zain (08 PCM) and Tigo (4 PCM).

The local network in N'Djaména has hardly been upgraded since 1996. Redevelopment operations and small expansions are done when needed. The transmission network is saturated, and the new districts are still without service. In the province of Abéché, the network upgraded by Alcatel in 1990 is ageing, and was devastated in the recent military unrest in the city of Abéché. The networks in Moundou and Sarh are completely saturated and need to be updated.

The Internet network, *Tchad Net*, has been available since November 1997 and comprises: an e-mail server, a DNS (domain name system) server, a RADIUS (Remote Authentication Dial In User Service) server, a web server, a firewall server, two Cisco AS5300 routers supporting switched telephone network connections, two Cisco 2600 series routers supporting a 2 megabits per second (MBPS) full duplex connection, and a Cisco 2500 series router supporting a 1.5 MBPS full duplex connection. All connections are relayed to the France Télécom teleport in Bagnolet, near Paris. This high-quality teleport service operates 24 hours a day, seven days a week. Internet connectivity is handled by several lines that link to the world's major service providers (ISPs), and the dedicated bandwidth technologies chosen are Class C. The ADSL (Asymmetric Digital Subscriber Line) network has been online since April 2007, with an upgradeable capacity of 1 536 lines in two sites: Goudji and La Poste. It had not yet been officially launched at the start of 2009, but testing was underway. The recommended ADSL modem type is the SpeedTouch 510V6, which supports ADSL/ADSL2/ADSL2+ Triple-Play technology, as well as an Ethernet interface.

In their desire to develop all sectors of the country's economic activities, the Chadian government set out to reform the telecommunications sector by adopting a framework act in August 1998. This law separates the postal service from telecommunications, brings all telecommunications activities together under a single authority, and separates regulatory duties from operational responsibilities. It brought about a liberalisation of Chad's telecommunications sector. The two main stakeholders in charge of this sector are: the Ministry for Postal Service and New Communication Technologies, and the Chadian Office of Telecommunications Regulation (OTRT).

The OTRT, whose senior executives are appointed by those in political power, acts as a regulatory body. It enforces the rules on competition, mainly by instituting proceedings or applying sanctions against operators. Specifically, its role is to: *i)* approve the technical services on offer and the related rates; *ii)* ensure that the financial, administrative and technical conditions for interconnection among authorisation holders will not hinder provision of services; *iii)* issue a formal notification when laws or their subsidiary regulations are violated, and set a compliance deadline; *iv)* arbitrate disputes among the authorisation holders, as well as disputes between authorisation holders and service providers. The mobile-phone companies directly involved are Sotel Tchad and its mobile subsidiary Salam, both partially controlled by the state, and Celtel Tchad/Zain and Millicom Tchad, which are private companies. The largest of these mobile operators, Zain Tchad, celebrated its millionth subscriber on 30 December 2008, whereas it only had 16 000 in 2002, reflecting a growth rate of 6 150 per cent, which illustrates the fast development of this sector.

In the Internet market, four network operators make services available to the public: one fixed-line operator and three mobile operators.

From a taxation standpoint, imported mobile phones are not taxable. They are, however, subject to approval by the OTRT. By contrast, using a mobile phone is taxed at the standard rate of value-added tax (VAT). To encourage investment in the telecommunications sector, fixed-line equipment is not taxable, though fixed-line services are.

The government establishes the priorities for financing telecommunications infrastructure using its own capital or loans, which partly explains why they have been so ineffective. Nonetheless, since the reopening of diplomatic relations with China, several agreements have been signed between the two countries and numerous financing projects have been approved for various sectors, including telecommunications. In this context, a loan covenant for financing the CHAD CDMA 2000 project was signed, and implementation of Chad's e-government project was financed.

Activation of the CDMA 2000 network, at a cost of USD 24 million (US dollars), sought to attract 200 000 subscribers to fixed wireless services in ten months. Initially, the network will cover 27 municipalities in Chad. Besides the usual uses of such networks, this project will help improve business, especially in the agricultural sector where farmers use mobile phones to check market prices, conduct business and transfer funds, particularly between urban and rural areas. Similar projects could foster the emergence of new companies and access to new practical and theoretical knowledge such as cultural exchange, bringing populations together, and distance learning.

To let government departments bring themselves up to date with new information and communication technologies (NICTs), a grant agreement was signed by Chad and China in September 2008 to provide USD 1.1 million, approximately XAF 550 million, for the e-government project. Under this agreement, a six-month pilot project will be launched. In this phase, the Chinese company will install an e-government network for the presidency, prime minister's office, the Ministry of Infrastructure, the Ministry of Finance and Information Technology, and the Foreign Ministry. It will be extended to other ministries after the pilot project ends.

To respect competition in rates, the (historic) fixed-line operator does not benefit from a cross-subsidy and is subject to caps on wholesale prices. In the case of mobile phones, the regulatory office (OTRT) does not set prices but it does force the operators to control network costs by using appropriate cost-calculation models. Overall, rates remain fairly high owing to the lack of adequate infrastructure, such as fibre optics, and the intensive use of satellite networks. Thus the rate for (local) calls on a fixed line is XAF 50 per minute during both "peak" and "off-peak" hours. The cost for installing a fixed line is XAF 53 100, including taxes. The rate for using mobile lines varies from one operator to another: the peak-period rate for calls within the Celtel network are XAF 135 per minute and XAF 3 per second; the off-peak rate for calling within Celtel is XAF 100 per minute and XAF 1 per second; the peak and off-peak rates for calling within the Millicom network are both XAF 1.5 per second; the peak and off-peak rates for calling within the SALAM network are both XAF 55 per minute. Finally, the rate for accessing the Internet through a fixed line is XAF 20 a minute. The rate for accessing the Internet through a mobile line varies from company to company; such access is not widely used by subscribers.

One of the major problems impeding the growth and increased use of telecommunications is Chad's lack of connectivity to the rest of the world other than via satellite, which is highly expensive and limited. Solutions, however, are imminent. The CAB project, which is a segment of the TAB (Trans-African Backbone)project, closely linked to the Chad-Cameroon oil pipeline, should allow connection to the international submarine cable network SAT-3. A N'Djamena-Khartoum connection is also planned once the capital of Sudan is connected to the East Africa Submarine Cable System (EASSy), whose landing point is slated to be Port Sudan. This cable, which will run from the Red Sea to the Indian Ocean, will open new horizons for the connected countries. The TAB should therefore make various connections to the international network available to the sub-region: to the west through the SAT-3 network, and to the east through the EASSy network.

Political Context

The government of Chad officially supported efforts at dialogue with the opposition, which led to the signing (in August 2007) of a political agreement between the presidential majority parties and the democratic opposition, followed by a peace agreement with the armed movements in October 2007. Nevertheless, the security situation remains fragile and the country suffered an attack by armed rebels in February 2008 that extended into N'Djamena. These events weakened the existing peace process.

Chadian authorities' refusal to negotiate with the armed rebels, who were allegedly backed by Sudan, could well prolong the stalemate and the conflicts, as apparently neither the rebels nor the government troops are in a position to win a decisive victory. The forces loyal to President Idriss Déby were reinforced in 2008 through extra-budgetary defence spending made possible by record increases in the worldwide price of oil, the mainstay of Chad's economy.

Further sporadic fighting seems likely in 2009-10, in spite of a reinforcement of the international peacekeeping force scheduled for 15 March 2009. Indeed, in September 2008, the United Nations Security Council adopted a resolution calling for United Nations (UN) forces to replace the current EU force in eastern Chad and the Central African Republic (CAR). Plans for EUFOR to be relieved by a UN force nearly twice its size should boost security in the refugee camps in eastern Chad and elsewhere.

Discord among the rebel factions worked to the advantage of the current authorities, but the announcement at the end of November 2008 that the main factions were merging into a group called *l'Union des forces de résistance* (Union of Resistance Forces) shows their determination to focus their efforts on bringing down the current government. The rebels' cohesion, however, remains compromised by ethnic rivalries, the uncertain nature of Sudan's logistical support and confrontations among leaders. On 18 August 2008, death sentences were handed down *in abstentia* by a Chadian court for 12 rebel opposition leaders, including the former president Hissen Habré, who is also facing accusations of crimes against humanity in Senegal. This decision compromises the prospects of achieving peace through negotiation rather than military means.

Social Context and Human Resources Development

In the Poverty Reduction Strategy Paper "PRSP II: 2008-11", the government promises to devote a larger portion of public expenditure to promoting the social sectors. It thus hopes to increase the proportion of resources dedicated to health and education, respectively, to 15 per cent and 7 per cent on average for the 2008-11 period, up from 14.6 per cent and 5.6 per cent in the previous period. These figures are still below the levels needed to address the problems facing the population, especially after the socio-political events that have confronted this country.

Chad was ranked 170th among 177 countries in 2008 on the United Nations Development Programme

(UNDP) Human Development Index (HDI), which measures different countries' progress on human development. The Human Poverty Index (HPI-1), which focuses instead on the percentage of people living below a certain income threshold, ranks Chad in last place among the 108 developing countries (UNDP, Human Development Report 2007/08).

The World Bank sent a strong message by withdrawing its aid for oil infrastructure in September 2008 because Chad had not met certain key conditions, particularly by not allocating enough oil resources to sectors vital to poverty eradication. With deteriorating security increasing the flow of refugees from neighbouring countries in conflict (238 227 Sudanese and 44 607 Central Africans are still seeking refuge, in eastern and southern Chad respectively) and given the redirection of oil revenue towards military expenditure, it seems that the fight against poverty will be in greater jeopardy than ever over the next few years.

With support from the World Bank, the government developed a programme to reform the education sector. This Education Sector Reform Support Programme (PARSE) involves two phases: The first (2002-06) emphasises the steps necessary to lay the groundwork to achieve high-quality, universal primary education by 2015. The second phase (2007-10) also adds programmes for the schooling of girls, promoting literacy, the development of the national languages, health and nutrition in schools, and distance learning. It also seeks to support the expansion of secondary and higher education.

However, a number of signs highlight the current weakness of Chad's education system. The economy's low productivity is heavily influenced by very limited training and education, with 95 per cent of employment confined to the informal sector (of which 72 per cent are in the agro-pastoral sector), and 74.2 per cent of the labour force deprived of education. Each year, the labour market can accommodate only 10 per cent of those graduating from universities. The rates of students repeating a year, completing educational cycles and failing are very poor, since about 62 per cent of Chadians enter the labour force without receiving a complete primary education, and 47 per cent of those who do complete primary education remain illiterate.

To remedy these problems, the government announced a list of projects affecting the various phases of education. For primary education, the authorities want to achieve the following targets: increase the gross enrolment rate to 98 per cent by 2011, against 75.6 per cent in 2006/07; raise the ratio of girls to boys to 0.87 by 2011, up from 0.67 in 2005; raise the proportion of students from the nomadic environment from 0.17 per cent in 2004 to 0.5 per cent by 2011; and provide 80 000 adults with literacy education, 80 per cent of whom will be women living in rural areas.

In secondary education, the government intends to increase first-cycle enrolment from 30 per cent in 2005 to 39 per cent by 2011, and the parity ratio of girls to boys from 0.32 in 2005 to 0.61 by 2011. Regarding quality, the government hopes to reduce the dropout rate from 17 per cent in 2005 to 10 per cent by 2011. To accomplish this, it plans to reduce the average class size from 64 in 2005 to 56 by 2011. For higher education, the authorities have taken steps to make room for more than 15 000 young people. Thus, in 2007 and 2008, the Ministry of Higher Education, Scientific Research and Professional Training boosted infrastructure capacity to establish three new universities and two higher institutes for science and technology. This brought the number of higher education institutions in Chad to five universities and eight institutes.

In the field of health, 78 per cent of children do not receive necessary health care. Chad has been inundated by hundreds of thousands of refugees, mostly children, fleeing from conflicts in neighbouring countries. As a result, the death rate among children under age five is rising, and one child in five dies before reaching that age. Just 39 per cent of pregnant women in Chad receive prenatal care and 86 per cent of births occur at home without qualified assistance. Acute respiratory infections, malaria and diarrhoeal diseases are the most common known causes of death among children. However, a study conducted by Save the Children in 2008 revealed that barely 12 per cent of children suspected of having pneumonia receive treatment, just 32 per cent of children suffering from malaria receive anti-malarial drugs, and 27 per cent of children suffering diarrhoea are given oral rehydration therapy. The overall vaccination rate among children is 20 to 40 per cent, but only 1 per cent of the poorest children are fully vaccinated. In Chad, just 9 per cent of poor women receive prenatal care (as opposed to 77 per cent of women with the best access to services), and less than 2 per cent give birth with assistance from qualified professionals (as opposed to 51 per cent of those with the best access to services). Maternel mortality is at 1 099 per 100 000.

The main obstacles to improving the healthcare system are the lack of resources and the weak response to the population's extensive problems and needs, as well as poor capacity for planning, co-ordinating and monitoring programmes and projects, and the lack of qualified staff, who are concentrated in N'Djamena. Socio-cultural factors also hinder the performance of the healthcare system. In a country with a 61 per cent illiteracy rate, the current healthcare information systems are ill suited to meet actual needs, not to mention the impact of the armed conflicts that have displaced Chadian families and disrupted healthcare services in the affected regions. After all, Chad is ranked second to last worldwide (145th) in the Mother's Index Rankings published in 2008.

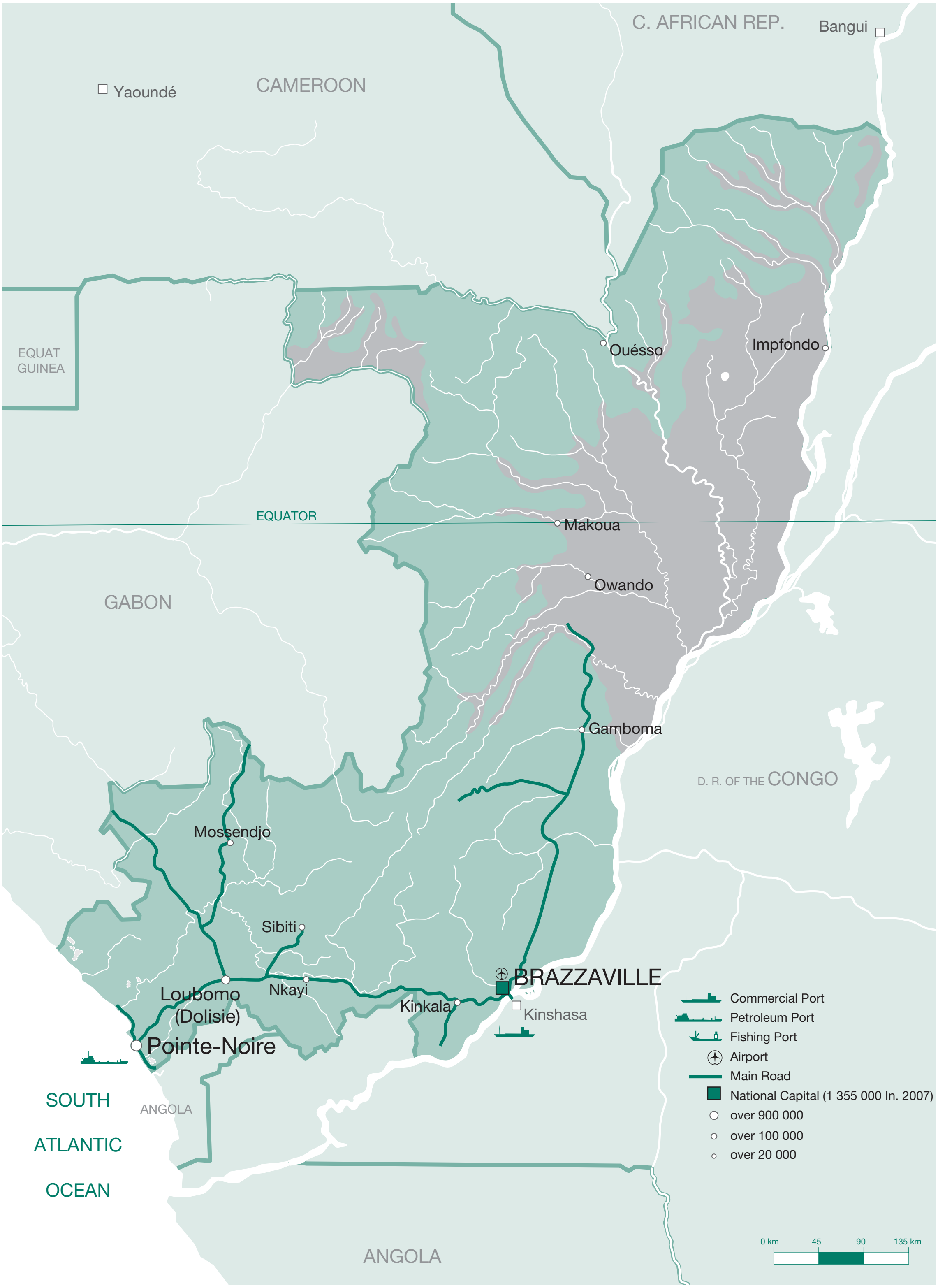
AIDS remains a substantial threat in Chad, with a prevalence of about 3.5 per cent of the national population, distributed unevenly across the country, with a prevalence rate that is lower in rural settings (2.3 per cent) but potentially explosive in urban settings (7 per cent). It affects more women than men (4 per cent versus 2.6 per cent) within the same age group. In 2007, an estimated 200 000 people were infected with HIV, including 14 400 under the age of 15. Reduced foreign support, increased social needs, and the rising prices of consumer staples worsened the population's socio-economic situation, and the impact of this disease is becoming noticeable in all segments of the population.

Congo Republic

key figures

- Land area, thousands of km²: 342
- Population, thousands (2008): 3 615
- GDP per capita, PPP valuation, USD (2008): 3 512
- Life expectancy (2008): 53.6
- Illiteracy rate (2008): 13

Congo Republic



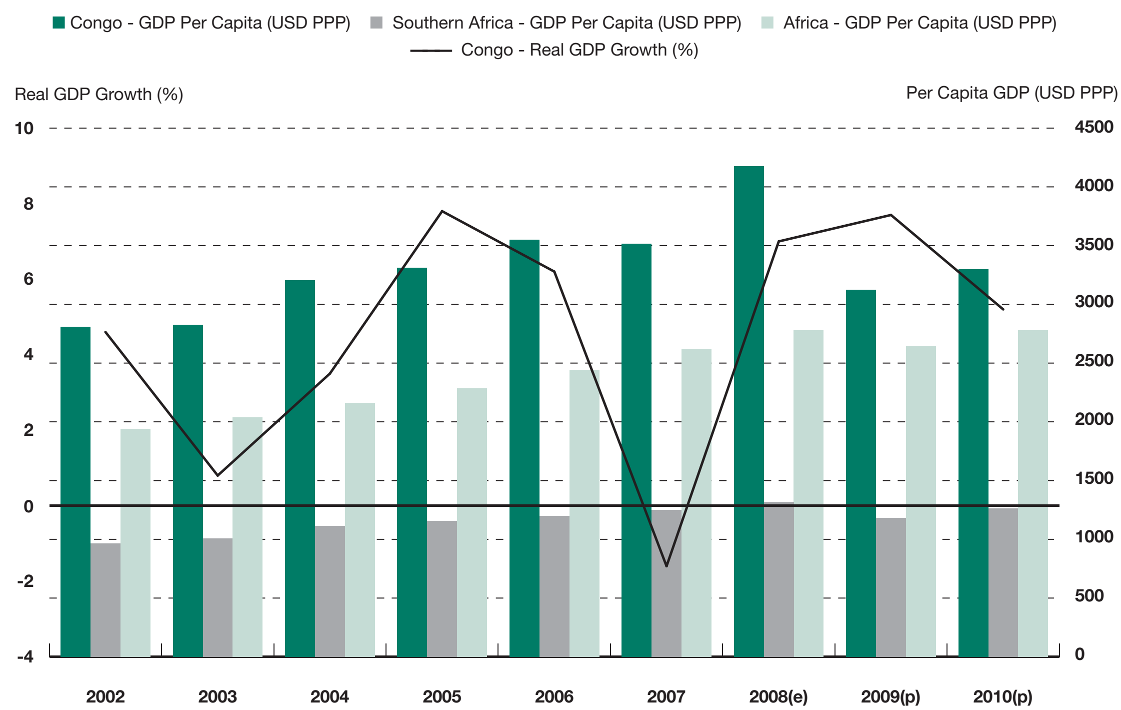
IN THE REPUBLIC OF CONGO, 2008 was marked by a strong upturn in growth (7 per cent), following poor economic performances in 2007. The oil sector's dominance increased, contributing to 67.3 per cent of Congo's nominal gross domestic product (GDP). This performance is a direct result of the spiralling oil and gas prices in 2008. Although the upturn in growth affected nearly all areas of the economy, there remains concern regarding the production and distribution of electricity and water because of cuts to supplies, especially in the country's two major cities.

The current global financial crisis risks compromising recent efforts by the Congolese government to reduce poverty through resources generated by the extractive industry. Nevertheless, the fall in global food prices could be one positive outcome from this crisis if the lower prices spread quickly throughout the country, since in the Republic of Congo most revenue continues to be spent on food.

Growth picked up strongly after the poor performance of 2007.

2009 represents a challenge for the Republic of Congo. The country needs to consolidate its public accounts, promote investment and finance social projects. The expected increase in oil and gas production over the next two years could partly compensate for the loss in oil revenue resulting from lower global oil prices. Given this period of depletion of public resources, the

Figure 1 - Real GDP Growth and Per Capita GDP
(USD/PPP at current prices)



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

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country must, more than ever before, allocate and use oil and gas more efficiently. Nevertheless, GDP growth forecasts for 2009 and 2010 are 7.7 per cent and 5.2 per cent respectively.

Recent Economic Developments

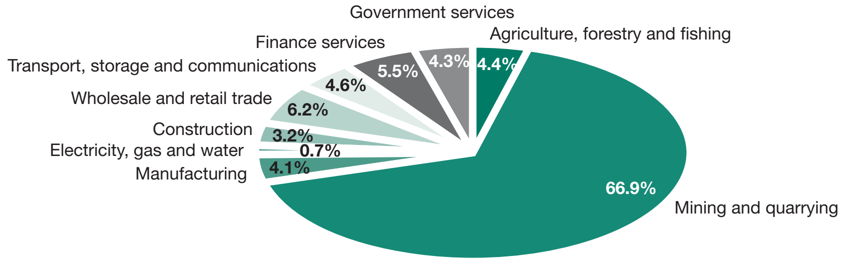
Following a 1.2 per cent decrease in GDP in 2007, real GDP grew by 7 per cent in 2008. The oil sector strengthened its dominance of the economy, increasing its contribution to nominal GDP to 67.3 per cent. Technical problems encountered by Total when opening the Moho-Bilondo oilfield and a reduction in the performance of the Pointe-Noire Grands-Fonds and Kitina fields resulted in oil production in 2008 that was below the levels forecast. Nevertheless, oil production rose to 87.5 million barrels in 2008, from 81.7 million barrels in 2007. More sustained activity is expected in 2009, thanks to the use of better technology in the Moho-Bilondo oilfield and a return to liquid petroleum gas production. In 2008, most oil and gas exports went to China (38.6 per cent), Chinese Taipei (10 per cent) and the United States (20.6 per cent).

The value added of the non-oil sector grew by 6.8 per cent, down slightly from 7.1 per cent in 2007. Growth in the value added of agriculture accelerated slightly from 5.9 per cent in 2007 to 6.3 per cent in 2008, thanks to the notable improvement in the conditions for transporting goods towards the country's major towns and cities. Nevertheless, production remains insufficient to provide enough food for the population. The country imports more than 90 per cent of its cereals and meats and nearly half of its fish.

Growth in the value added of the forestry sector rose from 5.4 per cent in 2007 to 8.4 per cent in 2008. The rises are directly related to the activity of the Asian companies Taman Industries and Sicofor in the south of the country, and Eucalyptus fibre du Congo (EFC), a subsidiary of the Canadian firm Magforestry. During the second half of the year, EFC opened a factory producing wood chips from eucalyptus logs extracted from a 42 000-hectare renewable forest. The short and medium term objective of EFC is to increase the size of the forest to 70 000 hectares. The total volume of logs cut down rose from 1.3764 million cubic metres (m^3) in 2007 to 1.4411 million in 2008. The volume of logs extracted by EFC rose to 230 300 m^3 in 2007 and 442 500 m^3 in 2008.

The industrial sector, in which there is still little diversification, registered strong growth in its value added, which rose from 4.7 per cent in 2007 to 18.9 per cent in 2008. This excellent performance is thanks mainly to the dynamic forest-based industries, especially the primary industries, in which growth has been helped by the production of furniture and the opening of the factory producing wood chips, which are exported and turned into pulp. Primary wood processing grew by 39 per cent in 2008. The *Congolaise de raffinage* (CORAF) oil refinery reduced by 30 per cent its production of fuels and fuel oils. In the second half of

Figure 2 - **GDP by Sector in 2007** (percentage)



Source: Directorate-General of Economy.

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the year, the refinery stopped production in order to carry out maintenance and modernise its equipment. The purpose of this work is to enable lighter crude oil from the Nkossa field to be refined, thus improving productivity. Production fell from 761 909 tonnes in 2007 to 530 061 tonnes in 2008. During the same period, exports, which are mainly heavy fuel oils, fell from 454 015 tonnes to 240 000 tonnes. The agri-food sector, which is dominated by sugar produced by *Société agricole et de raffinage de sucre* (SARIS), continues to face various problems: the gloomy international outlook, difficulties in supplying the domestic market by railway, and difficulties in supplying the city of Brazzaville because of sugar smuggled in from the Democratic Republic of Congo (DRC).

There remains concern regarding the production and distribution of water and electricity. In the two main cities in particular, there are frequent cuts in water supplies and rolling blackouts. In 2008, value added decreased by 2.9 per cent compared to 2007. The level of access to drinking water is 75 per cent in urban areas and 10 per cent in rural areas. The water treatment and distribution equipment dates from the 1980s, and is obsolete. Although boreholes have been trailed, the equipment no longer meets the needs of the urban population, which has more than doubled in size over the past 20 years. Nevertheless, various projects to rehabilitate and expand the facilities have been planned by the government, and feasibility studies have already been carried out.

Despite having the potential to generate an estimated 2 632 megawatts (MW) per year just in hydroelectric power, current aggregate power for all of Congo's power stations stands at just 150 MW. Electricity is produced by two hydroelectric power stations (with a combined power of 89 MW), a gas-fired power station in Pointe-Noire (25 MW) and, since the final quarter of 2007, a thermal power station in Brazzaville (32.5 MW). These two units are estimated to use 33 per cent of their production capacity. Because of the damage caused to distribution equipment by armed conflicts, since 1999 Brazzaville has been supplied electricity by the Inga hydroelectric power station in the DRC. Inga provides between 40 and 50 MW of power. This is supplemented by the Brazzaville thermal power station, with 12.5 per cent of its production capacity used. At the Pointe-Noire gas-fired power station, which was supposed to alleviate the problems with the Moukoukoulou hydroelectric power station, the insufficient gas supplied by the Italian oil group ENI led to a 35.3 per cent fall in production. The power station did, however, increase its capacity from 25 to 50 MW.

The construction sector saw a further increase in growth, from 6.4 per cent in 2007 to 7.8 per cent in 2008. This additional growth was the result of major public works: Maya-Maya International Airport in Brazzaville was rehabilitated, with a new, ultra-modern terminal building and two runways and a total cost of XAF 120 billion (CFA Franc BEAC); the 173-kilometre stretch of national route No. 1 between Dolisie and Pointe-Noire, across the hilly Mayombe region, was asphalted by a Chinese firm; another Chinese company continued work on building the Imboulou hydroelectric power station in northern Congo, which could become operational in the second half of 2009, with a capacity of 120 MW; rural tracks were rehabilitated and basic infrastructure was built in Brazzaville as part of the "accelerated municipalisation" operation. Despite this progress, for the past three years work carried out has been faced with two major problems: *i)* the high cost of building material, especially cement, of which resources are considered insufficient to meet current needs; *ii)* the difficulties encountered in transporting building material by railway. The government has therefore contracted the South Korean company Conko Cement Co. Ltd to build a cement factory with a capacity for 500 000 tonnes in Madingou, in southern Congo, 200 kilometres from Brazzaville.

Trade, restaurants and hotels saw a slowdown in growth, from 8.1 per cent in 2007 to 5.7 per cent in 2008. This slowdown was largely due to spiralling food prices and a decline in activity in the hotel sector.

Transport and communications registered growth of 5.6 per cent, down from 10 per cent in 2007. Maritime traffic at the autonomous port of Pointe-Noire maintained strong growth of 9.5 per cent. Freight traffic by rail increased by 7 per cent. Although a third

Table 1 – **Demand Composition**

	Percentage of GDP (current prices)		Percentage changes, volume			Contribution to real GDP growth		
	2000	2007	2008(e)	2009(p)	2010(p)	2008(e)	2009(p)	2010(p)
Gross capital formation	**22.6**	**26.2**	**5.8**	**5.9**	**5.2**	**1.6**	**1.6**	**1.4**
Public	7.0	10.6	7.0	13.0	8.0	0.8	1.4	0.9
Private	15.7	15.6	5.0	1.0	3.0	0.8	0.2	0.4
Consumption	**40.7**	**71.2**	**-1.2**	**0.4**	**0.9**	**-1.0**	**0.3**	**0.7**
Public	11.6	18.6	-7.0	-4.0	-3.0	-1.3	-0.6	-0.4
Private	29.1	52.5	0.4	1.4	1.8	0.3	1.0	1.1
External demand	**36.7**	**2.6**				**6.4**	**5.8**	**3.1**
Exports	80.3	80.3	9.0	6.8	4.7	8.3	6.5	4.4
Imports	-43.6	-77.6	1.7	0.6	1.3	-1.9	-0.7	-1.3
Real GDP growth						**7.0**	**7.7**	**5.2**

Source: Directorate-General of Economy data; estimates (e) and projections (p) based on authors' calculations.

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mobile-phone operator entered the market during the first quarter of 2008, activity in the sector rose by only 3 per cent in 2008, as against 7.2 per cent in 2007. The boom in this sector has seen the number of subscribers to mobile telecommunication services soar from 352 166 in 2004 to 1 652 718 in 2008. The increase in air traffic was only a moderate 5 per cent, since the government prohibited airlines from carrying passengers on Antonov aircraft that are far too old.

Other market services registered growth of 3.4 per cent in value added, representing a significant slowdown from 2007, when growth in this sector leapt to 11.5 per cent. The value added of financial services rose by 4.4 per cent. The five Congolese banks – Crédit du Congo, a subsidary of the Crédit Agricole group; BGFI-Congo; Banque Commerciale Internationale, which belongs to the French group Natexis Banque Populaire; Ecobank; and La Congolaise de Banque – have sufficient capital required to meet all prudential standards. A sixth bank, Banque Congolaise de l'Habitat, began operating in December 2008 with a capital of XAF 5 billion.

Growth in demand accelerated in 2008, thanks mainly to growth in exports. These exports along with the opening of the Moho-Bilondo oilfields and the dispatch of eucalyptus wood chips contributed 8.3 percentage points to GDP growth in 2008. Final consumption made a negative contribution to GDP growth (-1.2 point), since public consumption fell (-7 per cent) and private consumption was virtually stagnant (0.4 per cent). Investment grew by an estimated 5.8 per cent, a 26.2 per cent slowdown from 2007, largely due to the decline in private investment, particularly from oil firms. The contribution made by investment to growth in 2008 was thus limited to 1.6 percentage points. The outlook for non-oil investment in 2009 is good: the Eni subsidiary ETDC will rehabilitate the high-voltage power cables between Brazzaville and Pointe-Noire at a cost of USD 250 million (US dollars), and work will begin on the 300 MW gas-fired power station, which will cost USD 400 million.

Macroeconomic Policies

Congo reached, in March 2006, the decision point of the Highly Indebted Poor Countries Initiative (HIPCI) supported by the Poverty Reduction and Growth Facility (PRGF) for 2006-09. The failure to meet the performance criteria and control public expenditure and the insufficient structural reforms led the International Monetary Fund (IMF) to suspend the PRGF programme in 2007. The IMF also proposed a six-month reference programme to the government, from 1 April to 30 September 2007, for the country to meet all the conditions for a return to the PRGF and thus reach the completion point of the HIPC Initiative. A second reference programme, implemented during the first six months of 2008, enabled the Congolese government to demonstrate its determination and capacity to lead an economic and financial programme that could be supported by financial resources from the IMF. These reforms have resulted in improved public finances, stronger governance and transparency in the use of resources, and better progress in meeting the floating completion point triggers of the enhanced HIPCI. On 8 December 2008, the IMF board approved the new PRGF programme for 2008-11. As part of this programme, the IMF gave Congo a USD 12.5 million loan to help combat poverty, improve external competitiveness and accelerate growth in production by boosting diversification of the economy.

Fiscal Policy

The budget remains largely dependent on oil revenue, which represented 85.7 per cent of total revenue in 2008. Non-oil revenue, estimated at XAF 348 billion, covers only 49.5 per cent of current public expenditure.

Despite the appreciation of the dollar against the euro, spiralling oil prices and increased oil production enabled oil revenue to reach XAF 2.079 trillion, up 61.9 per cent from 2007. Total revenue excluding grants represented 48.3 per cent of GDP, a substantial rise (42.7 per cent) compared to 2007. Total expenditure was XAF 1.13 trillion, representing 24 per cent of GDP. This percentage of GDP is lower than in 2007 (32 per cent), thanks to reductions not only in interest payments, but also in other areas of expenditure. Regarding current expenditure excluding interest, public sector wages and salaries rose by 17.6 per cent following a government decision in January to increase the value of the index point by 12.5 per cent. This annual measure thus nullifies the 27 per cent reduction in the salaries and wages of civil servants that occurred during the first six months of 1995. Capital expenditure as a percentage of GDP declined from 10.6 per cent in 2007 to 9 per cent in 2008. However, an upturn to 12 per cent is expected in 2009, as major infrastructure projects will be carried out.

As a percentage of GDP, the clearly positive primary balance nearly doubled, from 13.9 per cent in 2007 to 26.4 per cent in 2008. Nevertheless, this figure is expected to shrink in 2009 to 11.6 per cent. The overall fiscal surplus also doubled in 2008 to XAF 1.297 trillion (24.9 per cent of GDP). From this surplus, XAF 250 billion were used for the payment of arrears

Table 2 - **Public Finances** (percentage of GDP at current prices)

	2000	2005	2006	2007	2008(e)	2009(p)	2010(p)
Total revenue and grants[a]	**26.6**	**38.8**	**44.4**	**43.1**	**48.9**	**39.2**	**40.4**
Tax revenue	5.4	6.6	5.9	7.2	6.4	7.1	6.8
Oil revenue	20.9	32.1	38.4	35.5	41.8	31.6	33.2
Grants	0.3	0.2	0.1	0.4	0.6	0.5	0.5
Total expenditure and net lending[a]	**25.5**	**23.2**	**27.4**	**32.0**	**24.0**	**29.3**	**26.8**
Current expenditure	18.5	17.9	18.4	21.4	15.0	16.8	14.5
Excluding interest	*11.6*	*13.0*	*13.9*	*18.6*	*13.4*	*15.2*	*13.1*
Wages and salaries	4.7	4.0	3.3	3.9	3.5	4.9	5.0
Interest	6.9	4.9	4.4	2.8	1.5	1.6	1.4
Capital expenditure	7.0	5.3	8.9	10.6	9.0	12.5	12.3
Primary balance	**8.1**	**20.5**	**21.5**	**13.9**	**26.4**	**11.6**	**15.0**
Overall balance	**1.1**	**15.6**	**17.0**	**11.1**	**24.9**	**9.9**	**13.6**

a. Only major items are reported.
Source: Directorate-General of Economy data; estimates (e) and projections (p) based on authors' calculations.

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and the amortisation of public debt. The remaining surplus is expected to be used to help strengthen the oil-revenue consolidation fund held in a current account with the Banque Centrale since 2004.

The specific objectives and priority actions set by the government include pursuing the existing major works within the framework of the "accelerated municipalisation" operation. They also include action to reduce poverty as part of the national strategy; the implementation of reforms as part of the restructuring of pension funds; the continued payment of domestic arrears; and the cancellation of the effects of salary cuts to civil servants. The government also plans to reduce subsidies for fuel consumption, prepare for the 2009 election, and carry out action to enable Congo to reach the completion point of the HIPCI. In order to improve the collection of revenue, the authorities have taken measures to: *i)* ensure that the agreement signed with the *Société nationale des pétroles du Congo* (SNPC, Congolese National Oil Company) is respected, according to which within eight days the SNPC must transfer to the Treasury the profits resulting from the sale of cargo and oil and the royalties it collects on behalf of the government; *ii)* have a scanner installed at the port of Pointe-Noire and train specialists in analysing the images and assessing risks; *iii)* revise the systems for managing tax exemptions by dealing case by case with those exemptions accorded to public bodies and to companies whose operations are related to the public sector.

Monetary Policy

Congo is a member of the Central African Monetary Union (UMAC), which granted the Bank of Central African States (BEAC) not only the exclusive privilege of the currency, but also powers on monetary policy, in collaboration with the national monetary committee of each country.

The development of the monetary situation has been marked by strong growth among all the members of the monetary system. Helped by increased oil and gas exports and a rise in foreign direct investment, external assets increased by 58.4 per cent. Growth of 74.2 per cent in credits to the economy supported economic activity, especially in non-oil sectors. Net government claims went from XAF -482.6 billion on 30 September 2007 to XAF -909.7 billion on 30 September 2008. This situation is the result of the following: the government's reduction of its debt with the Central Bank and other banks, increased use by the government of current-account loans from the issuing institute of the BEAC to the treasury, and a substantial increase in funds in the government's deposit account, from XAF 553.4 billion in 2007 to XAF 868.8 billion in 2008.

The money supply increased by 45.2 per cent in 2008, as against 5.9 per cent in 2007. This level of growth is consistent with the spiralling fuel prices. Household consumption prices are estimated to have risen by 6.9 per cent in 2008. Sight and time deposits increased by 47.1 per cent thanks to the restored confidence of individuals in the banking system and, following the arrival of new banks on the market, the introduction of regulations for public savings.

From March 2003 to March 2007, reserve requirements did not change in Congo: they remained at 7.75 per cent for sight deposits and 5.75 per cent for time deposits. Given the excess liquidity in the Congolese banking system, the BEAC Monetary Policy Committee decided on 2 March 2007, then on 2 July 2008, to adjust the reserve requirements for Congo. These requirements were increased from 10.25 to 14 per cent for sight deposits and from 8.25 to 9.25 per cent for time deposits.

External Position

In 2007, the external current account showed a deficit of 19.3 per cent of GDP, but in 2008 there was a surplus of 0.6 per cent of GDP. This change is largely due to expenditure on exploring and developing oilfields. It is also due to the volume of repatriation of revenue by oil companies. Lower oil prices are expected to cause a large current account deficit in 2009, despite an expected major rise in oil production. There remains a large trade surplus. This surplus was 52.6 per cent of GDP in 2008, thanks to continued strong exports, which represented 82.4 per cent of GDP. China became the main destination of Congolese oil and gas exports (38 per cent), followed by the United States (22.5 per cent). China was also Congo's main client for logs (64 per cent). Asian countries supplied 6.5 per cent of Congo's total imports. Trade with France, on the other hand, has reduced considerably. Between 1960 and 1990, France accounted for 55 per cent of Congolese imports; it supplied just 18 per cent in 2006, and 12.8 per cent in 2007.

Congo benefited from support from donors in 2008. As part of the Cotonou Agreement on co-operation between the African, Caribbean and Pacific Group of States (ACP) and the European Union (EU), the President of the European Commission and the Congolese Minister of Foreign Affairs signed a country strategy paper on 7 December 2007 and a national indicative programme on 8 January 2008, on both occasions in Lisbon. The national indicative programme

Table 3 - **Current Account** (percentage of GDP at current prices)

	2000	2005	2006	2007	2008(e)	2009(p)	2010(p)
Trade balance	57.6	56.5	52.6	41.7	52.6	40.1	42.9
Exports of goods (f.o.b.)	76.1	78.0	78.5	76.2	82.4	70.0	70.9
Imports of goods (f.o.b.)	18.5	21.4	25.9	34.5	29.8	29.9	28.0
Services	-20.9	-26.5	-27.9	-39.1	-31.2	-37.9	-34.7
Factor income	-29.3	-25.9	-22.7	-21.7	-20.8	-30.0	-31.2
Current transfers	0.6	1.2	0.3	-0.3	0.0	0.5	0.5
Current account balance	**7.9**	**5.3**	**2.3**	**-19.3**	**0.6**	**-27.4**	**-22.6**

Source: Directorate-General of Economy data; estimates (e) and projections (p) based on authors' calculations.

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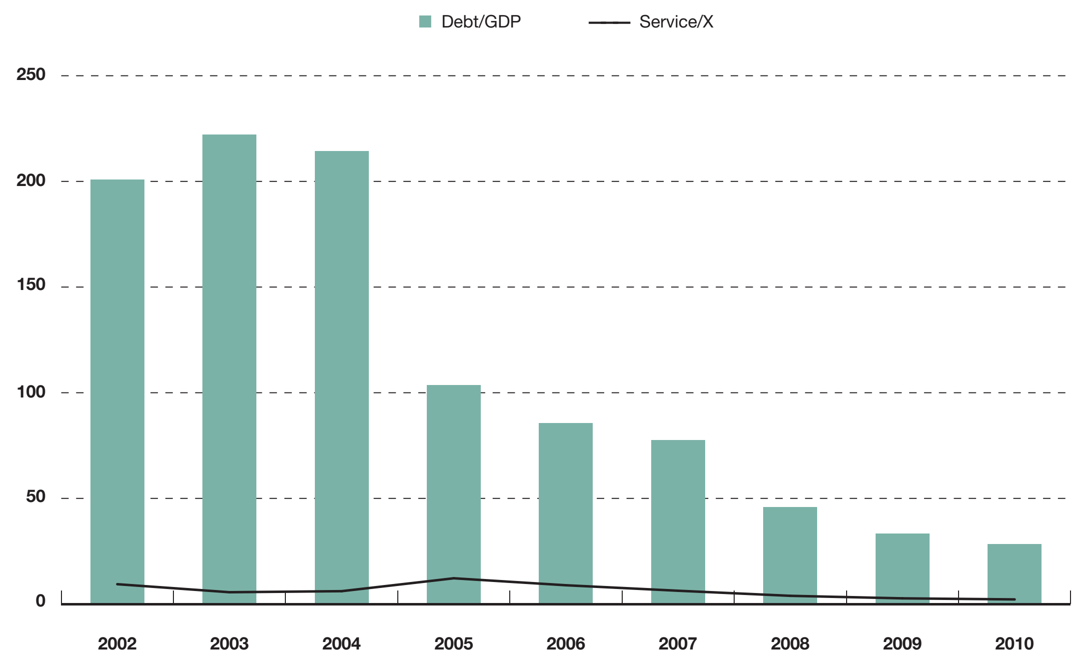
Figure 3 - **Stock of Total External Debt** (percentage of GDP) **and Debt Service** (percentage of exports of goods and services)



Source: IMF.

StatLink http://dx.doi.org/10.1787/573131317718

defines the bases for EU involvement in the 10th European Development Fund (EDF), with plans for overall financing of XAF 58 billion. These funds should be used for road and rail infrastructure, diversification of the economy, initiatives concerning good governance in the areas of finance, forestry, economics and trade, as well as for improvements to the health system and better environmental management. On 31 May 2008, the Congolese and French authorities signed a framework agreement defining 13 areas of co-operation for the period 2008-13. The agreement provides for the financing, through an XAF 120 billion envelope, of projects related to implementing the national poverty-reduction strategy. The aid will be used for infrastructure, in particular the modernisation of the autonomous port of Pointe-Noire, river and land transport, water and sanitation, environmental protection, education and vocational training, biodiversity, and sustainable forestry. In order to support improved sanitation conditions in Congo, on 29 May 2008, in Washington, the World Bank approved a USD 40 million grant to the International Development Association (IDA) for the Health Services Development Project (PDSS). In order to revamp agricultural development, in October 2008 the International Fund for Agricultural Development (IFAD) approved an XAF 7.7 billion grant for the development of the Rural Development Project in southern Congo (PRODER-SUD). The IFAD had already granted XAF 18.9 billion for this project to be deployed in the centre and the north of the country (PRODER-CENTRE and PRODER-NORD). Following the meeting of the Sino-Congolese Joint Committee in October 2008, China decided to provide 10 million Chinese yuan (CNY) in unconditional aid for socio-economic projects related to health infrastructure, water, farming techniques and construction.

On 30 September 2008, Congo's external debt stood at XAF 2.3879 trillion. This figure represented 50.2 per cent of GDP, a considerably lower external debt ratio than in 2007 (69.8 per cent) and 2006 (81.7 per cent). This positive result was achieved thanks to significant relief from foreign creditors, especially the Paris Club in 2004 and the London Club in November 2007. Following the IMF's approval on 8 December 2008 of a new three-year arrangement as part of the PRGF, the creditors of the Paris Club agreed, on 11 December 2008, to provide new debt relief for Congo's external debt. The agreement reached by the Paris Club, with a view to implementing the HIPCI, was for the immediate cancellation of USD 643 million and the rescheduling of payment of USD 119 million of debt. In response, the Congolese government made a commitment to allocate the sums resulting from this cancellation of debt to the priority objectives identified in the Poverty Reduction Strategy Paper (PRSP).

As a member of the Economic and Monetary Community of Central Africa (CEMAC), Congo is compounded to respect the convergence criteria: *i)* a basic budgetary balance as a percentage of GDP that is positive or zero *ii)* a debt ratio below 70 per cent; *iii)* average annual inflation less than or equal to 3 per cent; *iv)* no further domestic or external arrears. During 2008, Congo met three of the four criteria; it failed to meet the inflation target.

Concerning the Economic Partnership Agreement (EPA) between Central Africa and the EU, only Cameroon has signed an interim agreement, on 15 January 2009. The negotiations for an agreement towards a full regional EPA are continuing. The issues still to be resolved include the offer of access to the central African market for goods, services, and development aid.

Structural Issues

Recent Developments

Congo's return to the PRGF should enable the necessary structural reforms in order to ensure sustainable growth and macroeconomic stability that eventually will make it possible to considerably reduce external debt and the level of poverty. The economy remains confronted with structural constraints that hinder production. These include the state of disrepair of transport and energy infrastructure and a failing public administration.

Overall, there are real difficulties in the distribution of energy, with nearly all transformers and high- and low-voltage lines being too old. This caused energy losses of 51.5 per cent in 2007 and 50.7 per cent in 2008, as well as an increase in rolling blackouts. Because of this situation, many companies and individuals have bought generators. Indeed, the value of imports of generators increased from XAF 2.1 billion in 2000 to XAF 7.4 billion in 2006 and XAF 10.5 billion in 2007. In response, the government has committed to a major programme to rehabilitate and create electricity infrastructure. This programme involves the following projects in particular: *i)* the building of the 120 MW Imboulou hydroelectric dam in the north by the Chinese firm CMEC; *ii)* the building of the 300 MW gas-fired power station 18 kilometres from Pointe-Noire, with the total cost of USD 400 million prefinanced by the Italian firm Eni; *iii)* the EUR 250 million (euros) rehabilitation of electricity infrastructure, especially the west-to-east transport and distribution networks through the country's towns and cities, by ETDE (an electricity and maintenance subsidiary of Bouygues Construction), Saipem (43 per cent owned by Eni) and the French nuclear group Areva T&D, as well as the rehabilitation of other existing infrastructure. Eventually, this programme should put an end to Congo's dependence on imports from the DRC.

Privatisation has come to a standstill. The *Société des télécommunications du Congo* (SOTELCO, Congolese telecommunications company), *Poste du Congo* (Congolese postal service), the *Chemin de fer Congo océan* (CFCO, Congo-Ocean Railway), the *Société nationale d'électricité* (SNE, national electricity company), the *Société nationale de distribution d'eau* (SNDE, national water company) and the CORAF oil refinery remain public enterprises. Nevertheless, the port of Pointe-Noire, whose levels of traffic are growing considerably, is being modernised. The concession to manage and operate the container terminal was awarded to the Bolloré Africa Logistics group. This concession should make it possible to increase the port's berthing and unloading capacity to around 7 000 containers. In association with private companies, Bolloré intends to invest more than XAF 300 billion. Its objectives are to give the port a new image as a deep-water port and to rehabilitate the 510-kilometre railway line between Pointe-Noire and Brazzaville, for which the feasibility study is being financed by the European Investment Bank (EIB).

The agriculture sector employs about 43 per cent of the active population. The production sector is not very diversified and not well paid, and is still held back by the poor state of repair of transport infrastructure and the lack of access to new technologies for farmers. As part of the national poverty-reduction strategy, the government has adopted a national food-security programme for 2008-12 aimed at the production, transformation and commercialisation of crops, livestock and fish; increased revenue for producers; and environmental conservation. To support its implementation, the sector will benefit from the government's fund to support agriculture, from the rural development project of IFAD (XAF 26 billion), and from the World Bank's project for agricultural development and the rehabilitation of agricultural tracks (USD 40 million).

In the mining sector, production has stopped completely for the first time in nearly a quarter of a century. But the outlook is now good for the sector: the Canadian group MagIndustries was authorised in December 2008 to extract potash in the Kouilou region and to start building a treatment plant during the first six months of 2009 with a production capacity of 580 000 tonnes and the possibility of expanding that capacity to 1.2 million tonnes. The purpose of these plans is to produce magnesium, for which the group must invest USD 1.6 billion. In 2009, the US-backed SOREMI SA will begin to mine lead, zinc and copper in the Bouenza region, investing USD 50 million.

There were five banks in Congo in 2008. Given the excess liquidity in the Congolese banking system, the Monetary Policy Committee decided to raise the reserve requirements, both for sight deposits and time deposits. The banks met the requirement of having positive net capital. With regard to solvency, the banks have good risk cover, with net capitals of 8 per cent or above of their risk-adjusted assets. Regarding risk exposure, these banks must comply with the limit of 15 per cent of capital. In one case, a bank was found to have an equity-to-assets ratio below the minimum 100 per cent. Excess liquidity was significantly higher than in previous years. Defined by the loan recovery rate, the average liquidity ratio for all banks was 340 per cent, much higher than the required minimum of 100 per cent.

The continued fiscal consolidation was characterised by the introduction of a classification system for government expenditure and the alignment of expenditure priorities with those established in the PRSPs. In the oil sector, the government adopted an indicative action plan to correct institutional deficiencies. In order to improve the management of public investment, it published a decree creating an ad hoc commission until a medium-term expenditure framework (MTEF) has been adopted. An anti-corruption commission and observatory were created to promote governance and transparency. Congo's admission as a member of the Extractive Industries Transparency Initiative (EITI) was confirmed and a 2008-10 action plan was adopted. Furthermore, the Congolese government revised legislation and the management of the Forestry Code with a view to promoting competition and sustainable development. It should be noted that the Congolese international trade policy is coherent with the spirit of strengthening integration policy in the CEMAC sub-region. The government thus took the initiative to reform its trade policy by reducing the formalities required for exports and imports, and a single maritime counter (GUMAR) is already operational.

In contrast, good practices were not observed in the awarding of public contracts. In most cases, small and medium-sized enterprises (SMEs) that are awarded public contracts do not meet the criteria, since they do not have sufficient money market funds, and they do not comply with fiscal provisions, particularly in terms of their accounts complying with the African Business Law Harmonisation Organisation (OHADA). At the end of 2008, around 30 companies were prosecuted for failing to execute or complete public contracts in the construction sector, despite having received business establishment funds.

Concerning the "ease of doing business", in 2008 Congo was classed as one of the least attractive countries in the world (ranked 175th out of 178 countries) based on 10 indicators given in the World Bank's *Doing Business* report. The country has a particularly poor ranking for the amount of time taken to pay taxes (176th), and is ranked only slightly higher (171st) for "trading across borders". The only category in which the country has improved its ranking is "dealing with licences". Furthermore, Transparency International's Corruption Perception Index on corruption in public authorities and politics confirms Congo's poor performance in 2008 by ranking the country 151st out of 180 countries.

New Technologies and Innovation

Congo, which experienced a delay in implementing a policy on access to information and communication technologies (ICTs) until the second half of the 1990s, has been gradually joining the ranks of potential users of telecommunications services and the Internet.

Historically, until 1995, access to telecommunications services was provided by a state-owned company, the *Office national des postes et télécommunications* (ONPT, National Postal and Telecommunications Bureau). To open up the sector to competition, a private mobile-phone company had been authorised to begin operations in 1996, but prohibitively high rates kept it from attracting enough customers. The rates and installation costs for fixed-line telephones were among the highest in sub-Saharan Africa, with international calls costing three times as much per minute as international calls from Burkina Faso, for example. Also, just 0.7 per cent of the population had a fixed telephone line.

In preparing to privatise the ONPT, regulation of the telecommunications sector was instituted following approval of Law 14-97, dated 26 May 1997 and decree 99-187, dated 29 October 1999. These two texts, which regulate interconnection in Congo, require any operator to connect its network to that of any other operator that requests it. In December 1999 and the first half of 2000, two mobile-phone operators (both using the GSM [global system for mobile communications] standard), Celtel and Libertis, currently the market leaders, completed the procedures necessary to operate in Congo. Internet service has been available since 2000. Its growth has been relatively slow, owing to the high cost of services provided by the operators and how much it costs individuals to have the equipment installed.

In recent years, the mobile-phone business has grown quickly. Turnover rose by 25.5 per cent in 2007. The telecommunications sector, of which more than 90 per cent is dominated by the mobile-phone industry, accounted for 1.6 per cent of GDP in 2007 and 1.3 per cent in 2008. The number of mobile and fixed-line telephone subscribers, estimated at 20 000 people in 1995, has grown steadily to reach about 1.66 million in 2008. This means that 42.7 per cent of the total population has access to telecommunications networks. Net profits, which totalled XAF 40.7 billion, represented 49.9 per cent of the sector's value added. Infrastructure investment, in turn, reached XAF 43.7 billion, representing 44.6 per cent of the sector's average annual value added from 2004 to 2007. Investment and net profit should continue to grow in 2008-09. A third mobile operator, the Saudi company Warid Telecom, plans to invest more than XAF 35 billion for the 2008-09 period. To be competitive, companies began to revise their local network interconnection rates in late 2008. The rates will drop from XAF 100/minute in 2008 to an average of XAF 68 in 2009 and XAF 56 in 2010. Besides creating more than 25 000 indirect jobs in the informal sector to distribute prepaid cards, and in addition to giving users access to communications, mobile phones give the public a support tool for domestic money transfers, a function practically abandoned by the public postal company *Poste du Congo*.

Access fees for Internet networks remain high (XAF 500 to XAF 1 000 per hour of use in an Internet café), and connection speeds are still very low. Only 0.3 per cent of the population had Internet access as of 2008. Results from the 2005 Congolese Household Survey (ECOM) indicate that just 0.9 per cent of households had a computer, which is much lower than the average for Africa as a whole (roughly 1.5 per cent).

Political Context

The year 2002 saw the return to a functional democracy after the armed conflicts of 1997 to 2000. Legislative, local and presidential elections swept President Denis Sassou Nguesso and his Congolese Labour Party to power. In 2007 and 2008, the government held legislative, local and senatorial elections. The Senate elections were marked by legal challenges to the organisation of the electoral process, which was plagued with irregularities. These essentially reflected a lack of oversight and very high abstention rates, leading to numerous petitions for annulment filed with the Constitutional Court. The party in power and its allies won 125 of the 137 seats in the National Assembly. In 2009, the current head of state will seek a second seven-year term as President of the Republic. He will be standing against several opposition candidates who have repeatedly called for the establishment of an independent national electoral commission and the organisation of an accurate voter census.

There has been no meaningful progress towards decentralisation, one of the tenets of the 2002 constitution. Budget allocations to local authorities remain insignificant.

Social Context and Human Resources Development

Poverty levels remain high in Congo. According to the results of the ECOM survey carried out by the National Centre for Statistics and Economic Studies in collaboration with the World Bank, 50.7 per cent of the population were living below the poverty line in 2005. The figure is even higher in rural areas, where it stands at 65.1 per cent, as against 40.4 per cent in urban areas. Nevertheless, income poverty has fallen slightly following improvements in the salaries of civil servants and the effects of the rehabilitation of certain agricultural tracks, both of which have increased the revenues of farmers and redistributed oil revenues. Nevertheless, rising food prices have affected urban households more than the rural households.

Congo has a gross enrolment rate in primary schools above 100 per cent. Nevertheless, the education system is experiencing difficulties, due to: class sizes in urban areas, the lack of teachers in rural areas, the high proportion of volunteer teachers (37.1 per cent of teachers in state primary schools in 2007), the low proportion of secondary school teachers in scientific and industrial engineering disciplines, training that is not adapted to employment, and the high proportion of administrative staff (a ratio of administrative staff to teaching staff of 55 per cent, compared to an international standard of 25 per cent). The Support for Basic Education Project (Praebase), financed by the World Bank, has resulted in the rehabilitation of 474 classrooms out of 600, the recruitment of 650 teachers, and the provision of 263 000 schoolbooks for secondary schools and 330 654 for primary schools. The government no longer obliges parents of children in state primary and secondary schools to pay school fees.

The health system is of great concern, with insufficient staff and inadequate infrastructure, especially in rural areas. According to the health authorities, malaria remains the main cause of death (55 per cent), followed by inadequate vaccination coverage in children under five with measles and polio. Prevalence of HIV/AIDS in 2007 was estimated at 3.5 per cent nationally, but over 5 per cent in urban areas. Since then, the National Committee for Combating AIDS (CNLS) has increased awareness among the population of the effects of the pandemic. Recent surveys on AIDS indicate that 76 per cent of people aged 15 to 49 are aware of mother-to-child transmission. Abstinence is mentioned as a method of prevention, while 78 per cent are aware that condoms can be used for prevention. In 2008, 3 808 orphans and children vulnerable to AIDS received support, and 4 716 patients received anti-retroviral therapy. The government also decided to make AIDS tests free, as well as malaria treatment for pregnant women and children under 15 years of age. A modern, mobile laboratory was acquired to treat those infected with Ebola haemorrhagic fever (EHF) as quickly as possible. The IDA, a subsidiary of the World Bank, donated USD 40 million to the Health System Development Project (PDSS) to help combat the main communicable diseases and improve access to high quality services for women, children and other vulnerable groups.

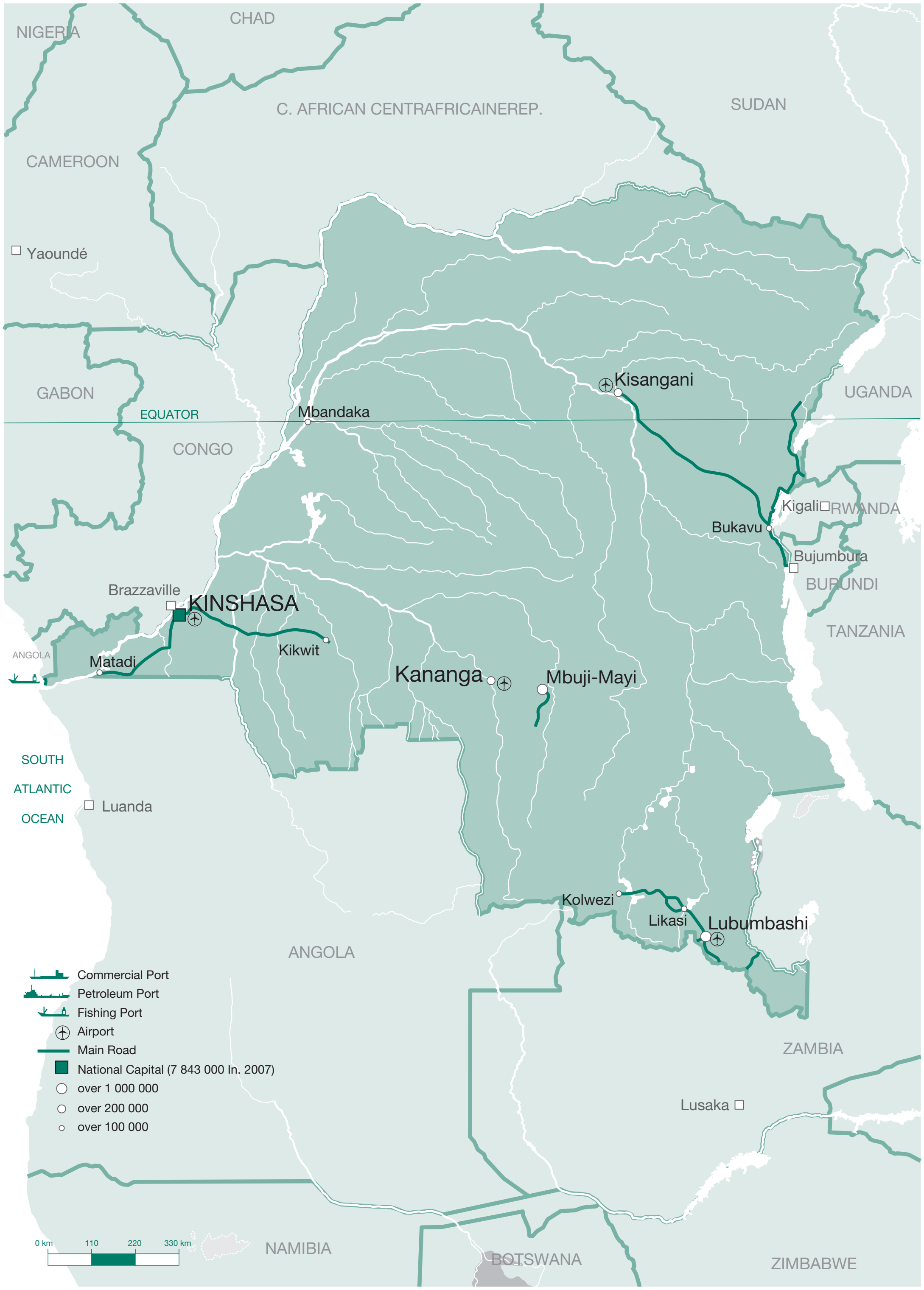
Armed conflicts in the past have destroyed part of Congo's infrastructures. In order to repair the damage, in 2006 the government signed an agreement with the World Bank for a second phase of the demobilisation and reintegration programme, which was expected to come to an end in February 2009. Of the 30 000 people targeted, 17 000 have been identified, and 97 microprojects have already begun.

Democratic Republic of Congo

key figures

- Land area, thousands of km²: 2 267
- Population, thousands (2008): 64 257
- GDP per capita, PPP valuation, USD (2008): 298
- Life expectancy (2008): 57.3
- Illiteracy rate (2008): n.a.

Democratic Republic of Congo



D.R. Congo

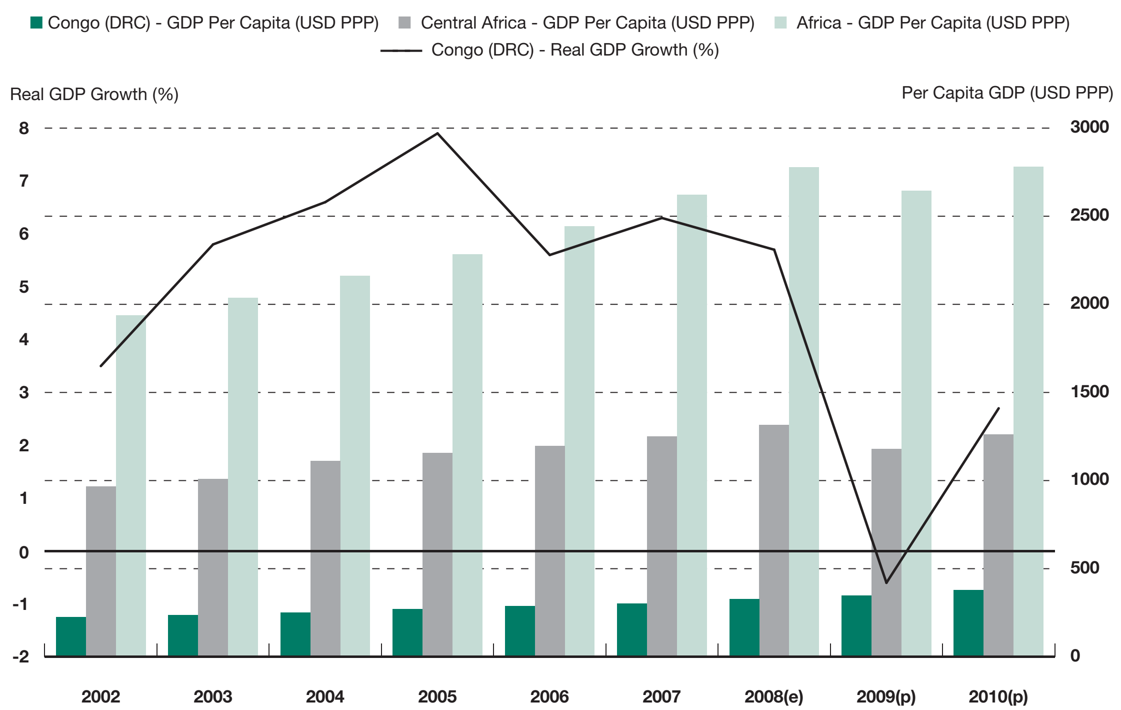
In 2008, economic, financial and social performance in the Democratic Republic of Congo (DRC) was low, despite promising prospects in terms of conflict resolution, exploitation of mineral wealth and structural reforms. These results are due both to exogenous factors, such as the global context of the food, energy and financial crisis, and to endogenous factors, in particular the lack of basic transportation and energy infrastructures, not to mention the low level of political and economic governance.

For this year, the growth rate was 5.7 per cent as of the end of the year, down from 6.3 per cent in 2007, and the inflation rate was 26.2 per cent, up from 16.7 per cent in 2007. During the same period, the Congolese franc (CDF) depreciated by 29.3 per cent in relation to the US dollar (USD).

The deteriorated state of public finances, the slowness of reforms, the absence of good governance and the lack of a margin of generosity on the loans granted to the country by a group of Chinese companies did not allow the DRC to enter into a programme in March – as agreed – with the International Monetary Fund (IMF) under the Poverty Reduction and Growth Facility (PRGF). Consequently, in 2008 the DRC did not reach the completion point that would have reduced the country's debt by USD 9 billion.

The country performed poorly on the economic, financial and social fronts in 2008.

Figure 1 - **Real GDP Growth and Per Capita GDP**
(USD/PPP at current prices)



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

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The limited effects of economic growth on the population's standard of living still place the country far from the Millennium Development Goals (MDG). Nonetheless, it must be noted that progress was made with regard to improving maternal health care.

The political and security situation in the country was unstable in 2008. The year saw a change of government in November 2008, riots broke out in Bas-Congo and fighting in the east of the country, resumed caused heavy losses. The signature of a cease-fire agreement between the government and one of the rebel factions in December 2008, and General Laurent Nkunda's arrest in Rwanda in January 2009, give reason to hope for an improved security situation in the east of the country.

On the socio-economic front, 2009, a year of global crisis, has got off to a difficult start for the country. The slowdown in growth that began in the final quarter of 2008 is expected to continue and fall to a rate of -0.6 per cent, given the downward trend in demand for export products from the DRC, the reduction in global prices for the main exports and macroeconomic imbalances. In 2010, growth is expected to revive and reach 2.7 per cent.

Recent Economic Developments

In 2008, Congolese production was dominated by agriculture, forestry, fishing and hunting, followed by the wholesale and retail trade and the mining industries.

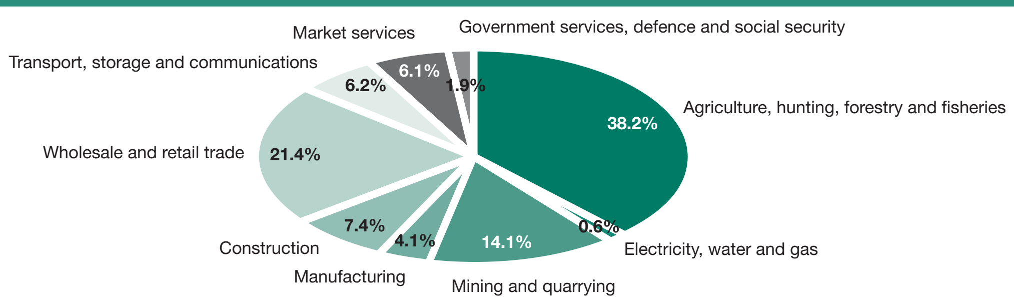
Economic growth was 5.7 per cent, substantially below the projected 12 per cent. The main contributors to growth were the mining industries (14.5 per cent), the wholesale and retail trade (12.3 percent), the transportation and telecommunications sector (11.2 per cent) and construction and public works (9.9 per cent). The manufacturing industries experienced a substantial slowdown, mainly because of ageing working equipment and higher production costs, due in particular to the energy supply.

In early 2008, the Congolese economy experienced a drop in growth nearly across the board for reasons such as macroeconomic instability, a fragile political situation and the country's structural weaknesses. This slowdown was aggravated by the combined food and energy crises. At the end of 2008, the international financial crisis and the resumption of conflicts exacerbated the situation.

Agricultural production grew by 2.9 per cent in 2008. This trend is expected to continue in 2009, given the emphasis that the government is placing on the sector to compensate for the effects of the food crisis. Nonetheless, good performance in this sector depends essentially on carrying out certain reforms and on repairing and building infrastructures.

Wood production totalled 500 000 m³ but remains far below the country's potential. The factors behind this under-exploitation are the distance of the forests from the Port of Matadi, lack of road infrastructures and heavy taxation. Wood production dipped

Figure 2 - **GDP by Sector in 2008** (percentage)



Source: Authors' estimates based on local authorities' data.

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substantially at the end of 2008 as European and Asian outlets narrowed due to the global economic recession. To help forestry developers protect their profits, the *Fédération des industries du bois* (FIB) asked the government to revise the taxes applied to the sector downward.

Diamond production sagged overall due to the substantial drop in production of artisanal diamonds (down 39 per cent). Production of industrial diamonds increased by 20.4 per cent. The South African De Beers Group was unsuccessful in its diamond prospecting at Mbuji-Mayi because of depleted detrital deposits. The Bakwanga Mining Company (MIBA), whose production equipment remains dilapidated, stopped its activities in December 2008 because of a delay in implementing its investment plans.

Production of copper (475.3 per cent) and cobalt (670.6 per cent) grew dramatically during the first half of the year as some partners of Gecamines moved from the exploration to the operation phase. These partners represent approximately 200 companies, 80 of which are listed on the stock market. The situation reached a turning point starting in October because of the international economic and financial crisis, which caused cobalt and copper prices to fall. The price for a tonne of copper, which bordered on USD 9 000 in early 2008, fell to USD 3 591 in November. In December 2008, more than 40 mining companies closed their doors in Katanga Province, thereby causing the loss of nearly 300 000 jobs.

At the end of the first half of the year, crude oil production had fallen by 4.4 per cent, despite the sharp surge in oil prices at the beginning of the year. This substandard performance was a result of equipment that was ageing and not replaced, as well as closures of several wells.

The construction and public works sector's performance was weak in comparison with 2007 due to the cement shortage, even though the country is in a phase of reconstruction. Production shrank nearly 12.6 per cent during the first half of 2008 because of financial problems at the Cimenterie Nationale (CINAT), limited productive capacity and the technical failures experienced by the Cimenterie de Lukala (CILU) in February. The situation worsened at the end of the year when the CILU's facilities collapsed as a result of torrential rains. This caused a temporary stoppage of production. To compensate, the government granted a special customs and tax status to cement importers, with preferential treatment concerning revenue tax.

Table 1 – **Demand Composition**

	Percentage of GDP (current prices)		Percentage changes, volume			Contribution to real GDP growth		
	2000	2007	2008(e)	2009(p)	2010(p)	2008(e)	2009(p)	2010(p)
Gross capital formation	**3.4**	**18.2**	**11.9**	**-9.0**	**5.5**	**2.9**	**-2.3**	**1.3**
Public	0.5	2.3	-10.0	0.0	10.0	-0.3	0.0	0.3
Private	3.0	15.9	15.0	-10.0	5.0	3.2	-2.3	1.0
Consumption	**94.9**	**85.4**	**0.9**	**0.7**	**0.1**	**0.9**	**0.7**	**0.1**
Public	6.5	9.4	20.9	18.7	10.7	3.1	3.2	2.2
Private	88.4	76.0	-2.5	-3.0	-2.7	-2.2	-2.4	-2.1
External demand	**1.7**	**-3.6**	**-**	**-**	**-**	**1.7**	**1.1**	**1.2**
Exports	22.2	46.0	18.6	-6.9	5.9	5.1	-2.2	1.7
Imports	-20.5	-49.5	6.4	-5.8	0.9	-3.5	3.2	-0.5
Real GDP growth	-	-	-	-	-	**5.7**	**-0.6**	**2.7**

Source: Data from IMF and Central Bank of the Congo; estimates (e) and projections (p) based on authors' calculations.

StatLink http://dx.doi.org/10.1787/575687781061

Production of wheat flour fell by 14.2 per cent in the first half of 2008. Production of alcoholic and carbonated beverages contracted by 29.5 and 23.9 per cent respectively by the end of the first half of 2008, due in particular to disruptions in the energy supply and machine breakdowns affecting the Bralima brewery facilities in Boma and Bukavu.

The electricity and warehousing sectors experienced positive developments during the first half of 2008. Electricity production increased by 2.5 per cent over the first half of 2008, in comparison with a 1.1 per cent drop in 2007. Warehouse loading increased by 1.6 per cent, while unloading increased by 9.4 per cent.

The telecommunications sector saw a rise in its 2008 business index, up 6 per cent from 2007. This good performance was due to expanded telephone coverage within the country and the rapidly growing number of subscribers.

The consequences of the food and energy crises, exacerbated by the international financial crisis, triggered a contraction in domestic demand, due mainly to a drop in household consumption and public investment. Private consumption represented 69.7 per cent of gross domestic product (GDP) in 2008, down from 76 per cent in 2007. It fell by 2.5 per cent in 2008, and is expected to continue the trend in 2009 with a rate of -3 per cent.

Investments rose in 2008, bolstered by the mining sector's solid performance during the first half of the year. The financial crisis led to a considerable drop in foreign direct investment while, at the same time, public investments were low due to the lack of available resources caused by macroeconomic instability and conflicts in the east of the country, among other locations. Public investments fell by 10 per cent in 2008. They are expected to show zero growth in 2009.

In terms of exports, the DRC benefited from rising global prices for its main export products, as well as high global demand during the first half of the year. With the overall slackening in the global economy, external demand plummeted at the end of 2008. The situation is expected to continue in 2009. As for imports, a slowdown was also observed, tied to lower investments and the currency shortage caused, once again, by the financial crisis. In 2008, the trade balance showed a surplus equivalent to 7.3 per cent of GDP; it is expected to fall to 4.1 per cent in 2009.

Macroeconomic Policies

The public spending overruns in late 2007 and early 2008, along with the slow speed of structural reforms, were a major concern for the government, which had intended to enter into a new PRGF programme with the IMF. To this end, the government had recommended adopting a restrictive monetary policy and stabilising public spending. These measures turned out to be insufficient, however, and the IMF postponed the agreement on the new three-year programme, which would have included nearly USD 9 billion of debt reduction under the Heavily Indebted Poor Countries (HIPC) initiative.

Fiscal policy

The deterioration of the macroeconomic framework that began in late 2007 continued in 2008: the budget deficit represented nearly 5.8 per cent of GDP for the 2008 year. As of January, the government deficit was CDF 25 billion, due mainly to security expenses and to organising the Goma peace conference.

To reverse this trend, a strict cash flow plan was adopted for February and March. Executing the plan was expected to generate a net surplus of CDF 9.2 billion by the end of March in order to enter into a new programme with the IMF. The plan was not satisfactory: spending to benefit the poor was not carried out, although operating expenses did increase substantially.

The proportion of GDP represented by government revenue fell in 2008, decreasing from 17.5 per cent in 2007 to 15.5 per cent. During the first quarter of 2008, government revenue dropped as payments of import duties and taxes were postponed due to the slow customs clearance procedure for merchandise. The congestion

Table 2 - **Public Finances** (percentage of GDP at current prices)

	2000	2005	2006	2007	2008(e)	2009(p)	2010(p)
Total revenue and grants[a]	**5.0**	**16.5**	**20.7**	**17.5**	**15.5**	**14.2**	**13.1**
Tax revenue	4.0	8.2	8.6	10.0	8.9	8.1	7.5
Oil revenue	1.0	3.1	3.2	3.0	3.3	2.7	2.5
Grants	0.0	5.1	7.9	3.3	2.1	2.2	1.8
Total expenditure and net lending[a]	**11.0**	**19.6**	**21.4**	**17.8**	**21.3**	**23.2**	**20.9**
Current expenditure	10.6	16.2	18.1	15.6	16.3	18.6	19.2
Excluding interest	*8.5*	*12.6*	*14.8*	*13.0*	*15.2*	*17.7*	*18.5*
Wages and salaries	2.4	4.3	5.3	6.6	5.4	5.5	5.6
Interest	2.1	3.6	3.4	2.5	1.1	0.9	0.8
Capital expenditure	0.4	3.3	3.2	2.3	1.7	1.8	1.7
Primary balance	-3.9	0.6	2.7	2.2	-4.7	-8.0	-7.1
Overall balance	-6.0	-3.1	-0.7	-0.3	-5.8	-9.0	-7.9

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

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observed at the border in Kasumbalesa, Katanga was caused by strict application of the requirement to inspect goods before they are loaded for import. Another bottleneck was observed at the Port of Matadi in Bas-Congo, caused by insufficient warehousing infrastructures, a lack of appropriate means of transportation, insufficient cranes for unloading boats and repeated interruptions in the fuel supply.

Furthermore, to compensate for the impact of increasing global prices for food products, the government decided to reduce tariffs on a targeted selection of imported products. The budgetary impact of the measure was estimated at CDF 22 billion. In response to the energy crisis, the government also granted tax reductions.

Because of the insecurity in the east of the country, the government was forced to restructure its spending. The result was a drop in social spending and capital expenditures. In certain provinces where security is still precarious, some public investments could not be made. As of the end of September 2008, the government's capital expenditures stood at CDF 73.9 billion, down from CFD 121.1 billion at the end of September 2007. Their proportion fell from 2.3 to 1.7 per cent of GDP. For 2008, budgetary spending (21.3 per cent of GDP) rose sharply, particularly at the end of the year with the increase in so-called "sovereignty" expenditures related to the conflicts in the east of the country, as well as current expenditure.

In December, the parliament accepted the draft budget for 2009, after amendments. The budget was projected at USD 5.2 billion, in comparison with USD 3.1 billion in the 2008 budget, with implementation estimated at more or less 70 per cent. The information on the macroeconomic framework included in the 2009 budget projects a growth rate of 9 per cent, inflation of 11.5 per cent at the end of the period and an average exchange rate of CDF 572. In light of the macroeconomic data from the fourth quarter of 2008 (slackening mining activity, lower investments, 26.2 per cent inflation and an exchange rate of CDF 650), as well as the prospects for global growth in 2009 (0.9 per cent), there is reason to question the optimism displayed in the government's budget for the new year. The contraction in exports and tax revenues in late 2008 suggests that the government will have to revise its revenue projections downward. The budget deficit is therefore expected to deepen in 2009 to reach 9 per cent of GDP.

Monetary Policy

In order to resolve the macroeconomic instability inherited from 2007, the Central Bank of the Congo (BCC) decided, in February 2008, to adopt a restrictive monetary policy. It increased its interest rate from 22.5 to 24 per cent and the rate for sterilisation of bank assets from 4 to 5 per cent. These initiatives made it possible to remove CDF 30 billion from circulation: CDF 25 billion through commercial paper and CFD 5 billion by increasing the reserve rate. This adjustment to the monetary policy slowed the deterioration in conditions without stopping it, mainly because of structural factors.

At the end of June 2008, the monetary situation was marked by a surplus in the money supply in relation to the programme set by the BCC. The monetary base grew by 8.6 per cent and the money supply by 29.4 per cent in comparison with the planned 8.2 and 9.8 per cent, because of the concomitant rise in net internal and external assets following a significant increase in currency revenues generated by oil and mineral exports. Annual average oil revenue was USD 52 million. With the crisis, oil revenue fell to USD 2 million in February 2009.

The war in the east of the country forced the government to print money in order to finance military, security, humanitarian and diplomatic spending. Advances from the BCC totalled CDF 30.3 billion at the end of 2007, and CDF 6.7 billion at the beginning of 2008. This practice contributed substantially to inflation, which ran at a rate of more than 26 per cent during 2008.

In order to reduce inflation, the BCC sharply increased its prime rate, which hit 40 per cent in December 2008. This operation allowed it to withdraw CDF 18 billion, but domestic prices remained very high. The BCC raised its prime rate to 55 per cent in January 2009, and then to 65 per cent in February.

The structure of the money supply remains dominated by quasi-money, the majority of which is made out in currencies. Currency deposits represented 61.4 per cent of the money supply in June 2008, which indicates an increasing dollarisation of the economy. The total proportion of currencies (in circulation and deposited) in the money supply was 90 per cent in June. This change is due to volatile inflation, which highlights the authorities' limited ability to maintain price stability over the long term.

From December 2007 to December 2008, the CDF depreciated nearly 29 per cent in relation to the US dollar. This situation is essentially the result of overruns in public spending, which led to increased inflation. Similarly, falling global demand for Congolese exports, in addition to the drop in global prices for the country's main mining resources, caused the country's currency reserves to dry up. This currency scarcity, combined with speculation by foreign exchange dealers, caused severe instability and depreciation of the CDF in December 2008 and January 2009. The situation even triggered rapid inflation, which caused some businesses to temporarily suspend their activities in order to ensure stable prices.

External Position

The DRC was not in a position to sign an Economic Partnership Agreement (EPA) with the

Table 3 - **Current Account** (percentage of GDP at current prices)

	2000	2005	2006	2007	2008(e)	2009(p)	2010(p)
Trade balance	5.6	-5.6	0.1	2.0	7.3	4.1	5.6
Exports of goods (f.o.b.)	20.6	28.7	31.2	41.7	45.0	38.5	35.3
Imports of goods (f.o.b.)	15.0	34.2	31.1	39.7	37.7	34.4	29.7
Services	-3.9	-5.9	-5.2	-5.5	-5.2	-4.8	-4.2
Factor income	-9.0	-5.7	-5.3	-4.0	-3.6	-5.2	-7.2
Current transfers	3.2	6.8	8.0	5.7	2.1	2.9	3.6
Current account balance	**-4.0**	**-10.4**	**-2.4**	**-1.8**	**0.7**	**-2.9**	**-2.2**

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

StatLink http://dx.doi.org/10.1787/578352304784

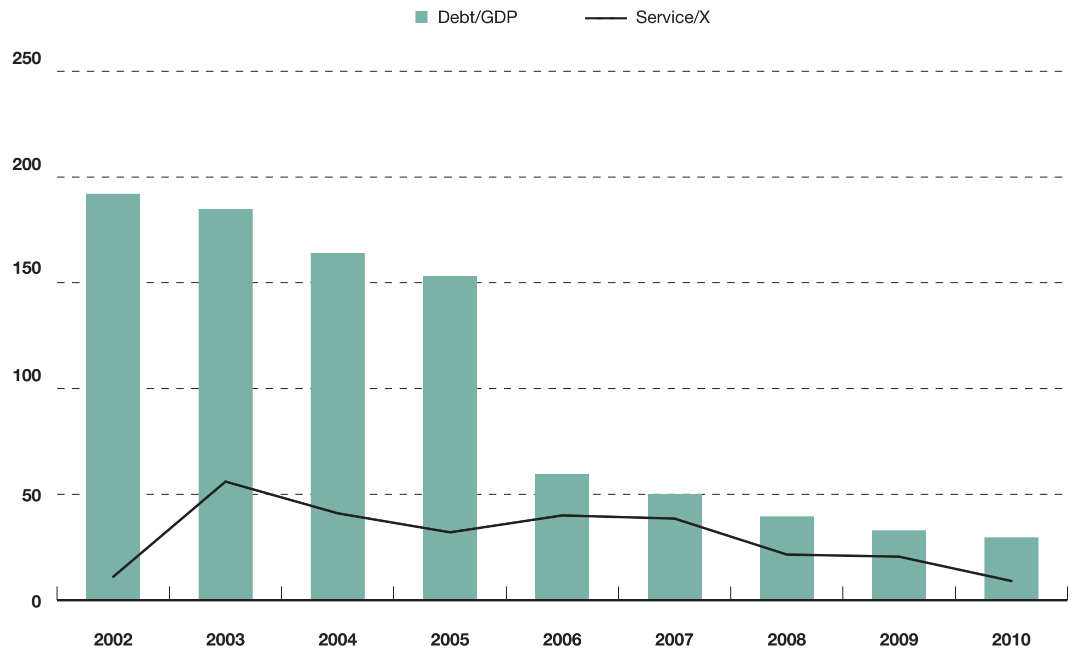
European Union (EU) on 31 December 2007. That date marked the end of the dispensation granted to countries in the African, Caribbean and Pacific (ACP) zone to negotiate trade agreements with the EU that would be compatible with World Trade Organization (WTO) rules. Classified as one of the Least Developed Countries (LDC), the DRC has, since January 2008, benefited from the unilateral "Everything But Arms" (EBA) trade arrangements in its relations with the EU. In parallel, the country is continuing to negotiate a comprehensive regional EPA with the EU, expected to be finalised in 2009, through the Central Africa region.

The country is also involved in multilateral trade negotiations within the framework of the WTO. In these negotiations, the DRC shares the positions held by the African group and by the LDCs. The negotiations made little progress in 2008. The African group did make some progress in the areas of agriculture, industrial products, the development dimension and the Aid for Trade initiative. These results are expected to be protected during the upcoming phases of the Doha Round negotiations.

As of 31 January 2008, international reserves had decreased by some 13.9 per cent from their December 2007 levels, dropping from 3.2 to 2.6 weeks of imports. This low level of international reserves did not allow the country to meet its external commitments. At the end of 2008, international reserves totalled USD 190 million.

In 2008, the current account balance represented 0.7 per cent of GDP, or a slight surplus, because the performance of exports during the first half of the year compensated for the losses suffered during the second half. Indications from the first six months of 2008 state a surplus in the trade balance, while a deficit was reported at the end of the first half of 2007. This is due mainly to substantial growth in export revenues for minerals and oil. From January to June 2008, copper

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



Source: IMF.

StatLink http://dx.doi.org/10.1787/573146686748

and cobalt prices increased by 10.4 per cent and 67.5 per cent respectively. The opposite trend was observed starting in September 2008, mainly due to falling revenue from mining exports. The current account balance is expected to be negative in 2009 and 2010, and to represent -2.9 and -2.2 per cent of GDP respectively.

Congolese external debt stock increased from USD 11 760.1 billion in 2007 to USD 12 200 billion in 2008, mainly because of the agreements signed with Chinese companies and the end of the formal programme with the IMF. It is nonetheless important to note that in 2009, the agreements signed with Chinese companies are likely to be reviewed in light of the drop in global prices for minerals and the conditions surrounding the agreements.

In 2007, net foreign direct investment totalled USD 720 million and, during the second half of 2008, 85 per cent of investment projects approved by the National Agency for Investment Promotion (ANAPI) represented foreign direct investment projects, for a total of USD 0.67 billion.

Official development assistance dipped markedly. The country was unable to enter into the three-year agreement with the IMF because of an unstable macroeconomic framework and new commitments made to Chinese companies, whose conditions triggered requests for clarification. For its part, Germany granted the DRC EUR 50 million (euros) in August as funding to consolidate macroeconomic stability. For 2009, the effects of the crisis are likely to further reduce the resources allocated to official development assistance in the country.

Within the framework of the Programme for Monetary Cooperation in Africa (PCMA), which aims to create a single monetary zone by 2021, with a single currency and the creation of an African central bank, the country was unable to meet all 11 convergence criteria in 2008 because of its double-digit inflation and pronounced dependence on printing money to finance the government deficit, the lack of a reliable budget and the unstable exchange rate.

Structural Issues

Private Sector Development

There are still no solutions to the structural problems holding back the economic performance of the DRC to a relatively low level. The institutional framework and the business climate are far from healthy. The DRC is ranked last out of 181 countries in the World Bank's *2009 Doing Business* report, as in the previous year.

Repair and reconstruction work on basic infrastructures is proceeding tentatively. Corruption and the lack of good governance are weighing heavily on private sector development. Although laws on reform for state-owned companies have been adopted, the government's withdrawal from certain business sectors is not always effective. It is taking time for certain sectors to be liberalised by abolishing state monopolies. The decentralisation process is progressing slowly. The one-stop service implemented to streamline the business creation process, improve customs clearance procedures for merchandise and eliminate various hassles is experiencing serious problems.

The legal framework is not well adapted to companies' needs. Transparency in managing government contracts is still an issue. In August 2008, the conclusions of an inspection effort by the representatives of state-owned companies, sponsored by the Prime Minister, were made public. The inspection reports the misappropriation of some USD 2.3 billion of public monies. An economic round table was organised by the government in September 2008 to discuss the concerns raised by the Congolese business federation (FEC) about the progress of the national economy. The meeting produced 267 resolutions, for which an implementation schedule was prepared.

The banking sector expanded to include new banks, notably Ecobank, Banque Solidaire and First International Bank. Currently, it has 18 approved institutions, 13 of them operational. Its total assets are above the USD 1 billion threshold. The banks' average equity is USD 11 million. The system is still underserved by banks, with 400 000 bank accounts, most of them in US dollars. With the support of the World Bank, the BCC is currently carrying out a strategic study with the aim of modernising payment systems. In August 2008, litigious credits represented 4 per cent of all credits. Microfinance and financial messaging are developing rapidly. Because of low monetary penetration in certain regions and underservice by banks, the geographical coverage of messaging services is expanding considerably.

The international financial crisis has affected commercial banks, particularly those with foreign capital: Citigroup and the Banque Commerciale du Congo (BCDC). The holder of the largest stake in the BCDC, Fortis, was seriously shaken by the financial crisis. Furthermore, the bank branches set up in the Katanga province experienced a decline in business because of the poor performance of the mining sector.

Other Recent Developments

The transportation sector is still doing very badly; the activity of the National Railway Company (SNCC) dropped because of strikes in 2007/08. Another handicap to smooth operations in the sector was the slow pace of road repair and construction works. Access to potable water and electricity remains difficult because of the technical, commercial and financial problems experienced by the Régie des Eaux (Regideso) and the national electricity company (SNEL). Infrastructures and energy represent serious obstacles for companies and are feeding the inflationary pressure.

In April 2008, the government signed agreements with a group of Chinese companies that were to result in substantial investments in the mining and infrastructure sectors. Even though these investments should stimulate growth, the loans taken out are having a negative impact on reaching the completion point for the HIPC initiative.

Innovation and ICT

Information and Communication Technologies (ICT) have a strong potential for growth in the DRC, like the telecommunications sector, which has been experiencing constant, rapid growth since it was officially liberalised in 2002. Today, the telecommunications sector makes a considerable contribution to the country's growth. The main stakeholders in the ICT sector are the telecom operators, the Internet service providers and the media. Still, many physical, financial and structural constraints impede the development of ICT in the country.

The technologies available in the DRC include a cable network (land lines, ADSL, fibre optics) and a radio network (GSM, WiMAX and WiFi radio waves, satellite networks with gateways). Infrastructures like the raw copper used for land lines are faulty. Internet access is provided via mobile and land line phones, satellite antennae, ADSL, cable and fibre optics.

In light of the major obstacles faced by the public operator, the Office Congolais des Postes et Télécommunications (OCPT), telecommunications development is being handled by the private sector, while the public sector serves as concessionaire. In fact, the OCPT land line network practically no longer exists. A private operator (Congo Korea Telecom) has begun laying fibre optic cable to expand the network of land lines and provide high-speed Internet access.

Growth in the telecommunications sector in the DRC is handled by four mobile telephony operators: Vodacom, Zain, Tigo and Congo Chine Télécom. These operators cover more than 288 towns and villages. In 2008, the number of cellular phone subscribers exceeded 5 million. Tele-density increased from 7.2 per cent in 2006 to 11 per cent in 2008. More than 21 Internet service providers existed in 2008. Of the services provided, voice communication is the most used. The other services covering data transfer have a low rate of consumption due to low purchasing power and illiteracy.

Because of the lack of government telecommunication infrastructures, each operator has had to invest in its own infrastructure equipment to develop its coverage and operation network. To expand their networks across the country and meet 2006 electoral requirements, the operators relocated to certain unprofitable towns and villages. Consequently, infrastructures such as antenna towers are not shared between operators. Although there are no rules to this effect, some operators are considering the possibility of sharing these infrastructures in an attempt to improve service effectiveness in the future.

The country still has no telecommunications backbone. Each operator has its own network, through which it organises its cross-border connections. With regard to access to an underwater cable connecting the country to the rest of the world, steps have been taken to connect the DRC via the West African Festons System (WAFS) by 2010. In addition, the country has been involved since November 2006 in the Eastern Africa Submarine System (EASSy) underwater cable project, initiated by the New Partnership for Africa's Development (NEPAD).

The government is expected to invest in equipping the country with high-speed infrastructures that would support the development of ICT. Several development projects, covering the implementation of a national reference network, an Internet backbone and an interconnection with the network of the Common Market for Eastern and Southern Africa (COMESA), have been in the pipeline since 2002. The infrastructures, energy, equipment, financing, scope of territory, organisation and management of the sector represent major challenges to the development of ICT in the DRC. Furthermore, the population's abilities and purchasing power limit the sector's development.

On the political and regulatory fronts, Laws 012, 013 and 014 of October 2002, addressing Post and Telecommunications services (PTT) services and the PTT regulatory authority (ARTPC) respectively, regulate the sector by laying out basic principles that govern the activities of telecommunications companies and define the legal systems applicable to networks, services and equipment. The computing sector is governed by decree No. 87-243 of July 1987. It should theoretically be managed by the presidential research department through its computing branch, but that department has not been operational since 1997. Decree No. 03-027 of September 2003 states that the PTT ministry is responsible for managing the development of PTT services. The ARTPC must regulate the sector, while the Congolese Post and Telecommunications Office (OCPT) and the National Network of Satellite Communications (RENATELSAT) play the role of public operator.

The country has not yet adopted a national policy on ICT. One is currently being developed, with the support of the Common Market for Eastern and Southern Africa (COMESA). The national ICT strategy is also being prepared, with the assistance of the Economic Commission for Africa (ECA). This strategy is expected to be part of the revision process currently underway for the Growth and Poverty Reduction Strategy (GPRS). The government budget does not include any clear provision for the ICT sector. There are no rules concerning the environmental and health aspects of the proliferation of antenna towers and other telecommunications infrastructure equipment.

The ARTPC is responsible for promoting, regulating, supervising and arbitrating the PTT sector. Currently, the ARTPC is an autonomous institution that falls under the presidency of the Republic. This regulatory authority is experiencing operating difficulties, in part because of a lack of financial, human and material resources and also due to a lack of organisation in the sector. The regulatory authority allows the operators to set their rates freely, but it does reserve the right to take corrective action in extreme cases. The tax system is not at all favourable to development in the sector. Imported mobile telephones are taxed at 35 per cent of value, upon entry and then they are sold on the domestic market, via the tax on operators' revenues, which is 18 per cent. Furthermore, operators must pay the 2 per cent regulatory tax in addition to a new excise tax on communication prices, which is also 2 per cent. The equipment is also taxed. Nonetheless, it must be noted that operators were granted exemptions in the past. Tax revenue from the telecommunications sector totals some USD 120 million per year.

With regard to financing, it is important to recall that the operators have made all of their investments using equity, which comes from abroad in most cases.

As such, more than USD 500 million was invested in cellular telephone services by private telecommunications operators between 1998 and 2006.

In terms of services and applications, the financial sector offers several examples of the use of ICT. The company Celpay allows users to perform financial transactions via cellphone. ProCredit Bank offers its customers Internet banking. Raw Bank provides clients with account information via SMS. Within an informal framework, mobile phone services resolve problems with transferring funds. In the field of telecommunications, the rollout of Vodacom public phone services generated considerable income and created many jobs while still taking users' low purchasing power into consideration. In terms of education, several universities are currently building an Internet backbone in order to facilitate communication and document exchanges (Ebale project). Distance learning, financed by the Agence de la Francophonie, is provided by the Kinshasa digital campus. The e-government project is still in the pipeline. There is a government intranet linking four institutions; it will gradually be expanded to all ministries and institutions. Soon, the government will be forming an interministerial committee on computerising government services, which will be responsible for setting up the e-government.

Widespread availability and increasing capacity in ICT continue to represent major obstacles to development in the sector. There are needs in every domain (infrastructure, devices and content development). The principle of teaching computer science at the secondary level has been in place for nearly four years. Still, due to a lack of equipment, only a few schools offer an introduction to ICT. In higher education, most institutes and universities, especially in cities, offer training in computer science or fields related to ICT. Nonetheless, sustained efforts to increase knowledge of ICT must be made starting in primary-level education.

Considerable progress has been made in ICT over the past six years, but much remains to be done in order to bridge the digital divide and help the majority of the population access these services. The low education rate, lack of computer knowledge among much of the population, poor state of the roads and problems with the electricity supply are obstacles that must be overcome to expand the role of ICT in the country's development. Finally, governance and transparency in the sector are required to clearly define each stakeholder's role and promote the sector as a true growth driver in the DRC.

Political Context

The political and security situation in the DRC is still very precarious, despite the fact that elections were held and the new institutions have been set up. Several political incidents punctuated the 2008 year, and instances of weak governance were also observed.

In January 2008, two American research centres – the Brookings Institution and the Center for Global Development – published a report in which they classified 141 countries according to their performance in economic, political, security and social matters. According to the indicators used, Somalia, Afghanistan and the DRC were the world's "weakest" states. The report established a direct link between low income and the absence of governance, and defines a weak state as one that is unable to set up and maintain political institutions, protect its population from conflict, control its territory or meet the basic needs of the population.

The political situation in 2008 was marked by several events, most notably the conference for peace, security and development for the Kivu provinces, the riots in Bas-Congo in response to claims by followers of the Bundu Dia Kongo (BDK) sect, the installation of a new government and the resumption of hostilities in the east of the country.

On 23 January 2008, the Kivu conference for peace, security and development was concluded in Goma with an accord signed by the armed groups active in that part of the country: the Armed Forces of the Democratic Republic of Congo (FARDC), the National Congress for the Defence of the People (CNDP), Mai-Mai and the Democratic Forces for the

Liberation of Rwanda (FDLR). The signatories set a deadline of 45 days – until 15 March 2008 – to implement the follow-up provisions and complete an in-depth review of their military positions, but there has been no significant progress. At the end of the third quarter of 2008, confrontations had resumed between the regular army and the men under dissident general Nkunda in the Rutshuru area. In September, CNDP units surrounded a military base where heavy weapons were stored.

In December 2008, the government and a rebel faction of the CNDP signed a cease-fire agreement. In January 2009, Nkunda was taken into custody in Rwanda, while joint DRC-Rwanda military operations were launched to track down the Rwandan rebels in the east of the DRC. It should be noted, however, that the political class was divided over these military operations.

In response to government weaknesses in the province of Bas-Congo, followers of the BDK sect created people's courts and called the entire local population to civil disobedience. The BDK is criticised for attempting to impose its religion across the province. The government used force to end the situation. According to the parliament, the BDK issue should have been managed using dialogue rather than violence.

The security problems that still persist, particularly in the east of the country, emphasise the fragility of the progress made toward consolidating peace. Some regions in the country are controlled by rebels, and in those regions, mineral wealth is exploited illegally, without contributing to government revenues.

The arrest of former vice-president Jean-Pierre Bemba in June 2008 in Belgium has created even greater uncertainty with regard to designating an opposition leader. Bemba went on trial before the International Criminal Court (ICC) in 2009, for acts of violence committed by soldiers in his former military movement in the Central African Republic.

In an attempt to improve government effectiveness within the country, the president of the Republic established an entity called the "réunion interinstitutionnelle" to provide impetus and arbitration. Its mission is to reconcile and harmonise government institutions and ensure their mechanisms operate effectively.

Administrative elections initially scheduled for the end of 2008 were not held and, in September, the head of state proceeded to nominate supervisors for the territorial and decentralised entities. This decision, which takes some latitude with regard to the guidelines the country is to follow in consolidating its democracy, was justified by the lack of resources available to organise the polls.

Prime minister Antoine Gizenga resigned on 26 September 2008. He was replaced by Adolphe Muzito, the outgoing budget minister and member of the Unified Lumumbist Party (PALU), which is also Gizenga's party. A new government was named on 26 October 2008 and is made up of 37 ministers (including three vice-prime ministers); the previous team had 32 ministers.

Social Context and Human Resources Development

The social climate in the DRC is continuing to deteriorate because of insecurity, repeated strikes and eroding purchasing power. The social situation of government agents and officials remains a major concern. Serious tension persists within the government administration, because some agents' salaries are not paid regularly.

According to data from the 2007 Demographic and Health Survey in the DRC, 71.3 per cent of the population live on less than one dollar per day. There is no specific national policy on social protection, despite the creation of the social concertation framework in 2008. Social initiatives targeting various vulnerable groups within the population are applied disparately and without concerted efforts by the government, non-governmental organisations, the churches and the Christian-based communities. These initiatives cover only an infinitesimal proportion of vulnerable people.

In the education sector, school attendance is lower at the secondary than the primary level: 29 per cent versus 61 per cent in 2007. The proportion of illiterate women is 41 per cent, and 14 per cent for men. The start of the school year in September 2008 was disrupted by teachers' salary demands.

In the healthcare sector, doctors and nurses held a strike in January 2008. They demanded that the government grant decent compensation, pay off overdue salaries and risk premiums, bring these premiums into line with those granted to university professors, apply a specific status already promulgated by the president of the Republic, and automate new units.

The healthcare system is ineffective because of low health coverage. The number of hospital admittances, which was 35 per thousand inhabitants during the 1980s, fell to less than 15 per thousand in 2007. Access to health services is below 26 per cent. Morbidity and mortality rates are increasing sharply in some of the country's provinces, mainly because of malaria and typhoid fever. Malaria tops the list of fatal diseases in the DRC.

The rapid propagation of typhoid fever is due mainly to limited access to potable water: 48.2 per cent of the population uses water from an improved source. It must be noted that in rural areas, three quarters of households rely on unprotected springs and surface water.

With regard to AIDS, HIV prevalence remains very high, mainly because of prostitution and the violence against women in the east of the country. The most common mode of AIDS transmission is sexual contact (83 per cent of cases). Approximately 3 million people are living with the virus. The 20-49 age bracket is the most affected, and women represent the majority of cases.

The population also faces serious housing problems, with an annual deficit estimated at 240 000 units. Although the average household size is 5.4 people, two-thirds of households live in a home with fewer than three rooms. Furthermore, bare unserviced areas with no support infrastructure are common in the cities. There is a notable lack of a framework and appropriate mechanisms for building and maintaining basic community facilities.

Serious problems still persist in electricity and water distribution. Nearly 85 per cent of households do not have access to electricity. The problems with water distribution are due to the aforementioned deficit in the electricity supply and to ongoing repair efforts on the domestic network.

In 2008, women represented 52.2 per cent of the country's workforce and took on approximately 75.1 per cent of food production. They remain a minority within government institutions, the private sector, unions, co-operatives, professional organisations and basic community organisations. Their rate of representation in positions of power is estimated at 10 per cent for the country as a whole and 5 per cent for the city of Kinshasa.

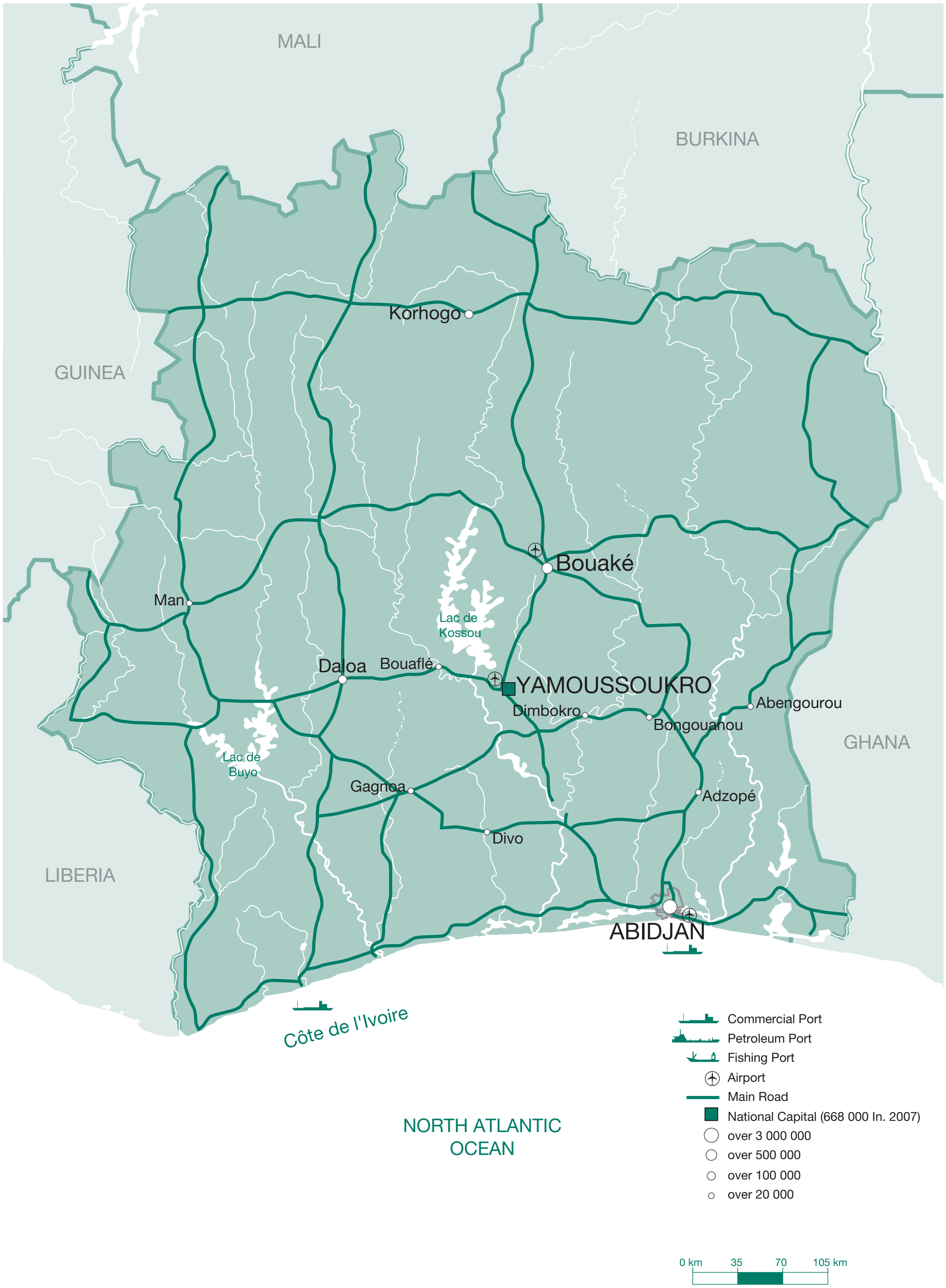
In August 2008, the government established a permanent structure for social dialogue. Organised into eight commissions, this structure tackles issues related to employment and social security within the country. Belgian co-operation with the directors of the National Institute for Vocational Training (INPP) addressed the need to improve the institute's infrastructures to help it meet the needs of the job market.

Côte d'Ivoire

key figures

• Land area, thousands of km²:	318
• Population, thousands (2008):	20 591
• GDP per capita, PPP valuation, USD (2008):	1 673
• Life expectancy (2008):	47.7
• Illiteracy rate (2008):	n.a.

Côte d'Ivoire



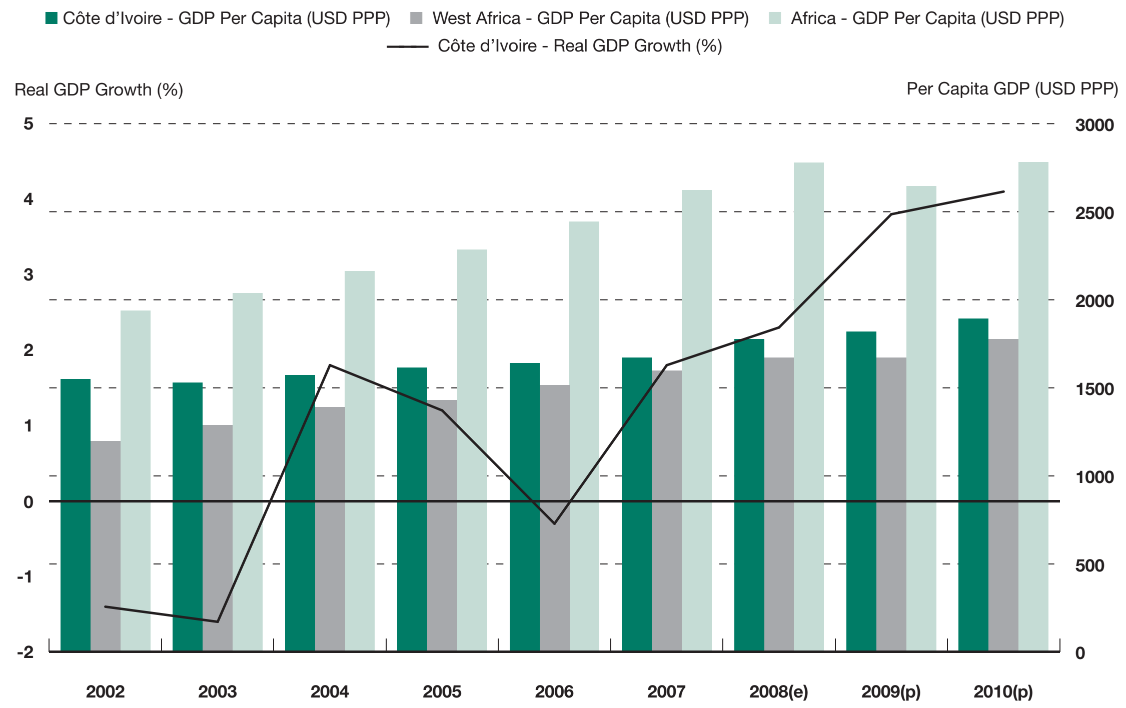
Côte d'Ivoire

CÔTE D'IVOIRE HAS BEEN IN A STATE of socio-political crisis since 1990, marked by: *i)* a coup d'état in 1999; *ii)* contested elections in 2000, which brought President Laurent Gbagbo to power; and *iii)* an armed internal conflict since 2002. The situation has caused a slowdown in economic growth. Following a long reconciliation process and the signature, on 4 March 2007, of the Ouagadougou Political Agreement (APO) by all key players in the crisis, the country's political situation is gradually returning to normal. The holding of the presidential election scheduled for late 2009 is nonetheless crucial to the improvement of the political and economic landscape.

The Ivorian economy found renewed vigour in 2007. Growth was estimated at 2.3 per cent in 2008, driven primarily by strong performance in the construction sector and cocoa exports. This favourable economic trend is expected to continue over the next few years. Indeed, economic growth is expected to reach 3.8 and 4.1 per cent in 2009 and 2010 respectively, levels of growth not seen since before the crisis. The country is nonetheless in a difficult transition phase due to the uncertain political climate, which has weakened the economic recovery.

Growth exceeded 2 per cent for the first time since 2002.

Figure 1 - **Real GDP Growth and Per Capita GDP**
(USD/PPP at current prices)



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

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Recent Economic Developments

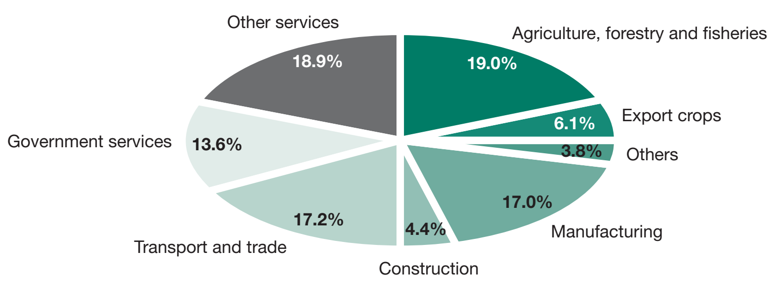
In 2008, and for the first time since 2002, Côte d'Ivoire's economy passed the 2 per cent growth threshold. Gross domestic product (GDP) rose by 2.3 per cent, compared to 1.5 per cent in 2007, driven by the construction, telecommunications and oil sectors. The primary sector remains crucial, at 28.1 per cent of GDP.

Nominal GDP in Côte d'Ivoire was estimated at XOF 10 219.4 billion (CFA francs BCEAO) in 2008, following XOF 9 486.5 billion in 2007. This increase was mostly driven by growth in telecommunications (10.9 per cent), construction (9.3 per cent) and oil (7.8 per cent). If the political landscape remains stable in 2009 and 2010, real growth should accelerate to 3.8 and 4.1 per cent respectively, returning to the levels that preceded the socio-political crisis in 2002.

The primary sector continues to dominate and accounted for 28.1 per cent of GDP in 2008, compared to 27.2 per cent in 2007. Most income in this sector is generated by cash crops such as cocoa, coffee, rubber and palm oil. Cotton production, on the other hand, is on the decline, supplanted by cashew nuts in the north. Growth in the agricultural sector continued in 2008 (reaching 3.2 per cent, after 0.1 per cent growth in 2007), despite drops in the production volume of some goods[1]. This notable growth was driven above all by the increase in international prices of commercial goods, including cocoa, which rose by approximately 18 per cent in 2008. Additionally, abundant rainfall helped increase production volumes of some crops, including cashew nuts (19.8 per cent), cottonseed (8.6 per cent), cocoa (6.1 per cent) and rubber (6.1 per cent). Coffee and cocoa remain the twin drivers of Côte d'Ivoire's economy. Côte d'Ivoire is the world's largest cocoa producer and Africa's largest coffee producer. After a 4.9 per cent decrease in 2007, coffee bean production rose from 1.3 million tonnes in 2007 to 1.38 million tonnes in 2008. Coffee production followed the opposite trend, due to poor maintenance of plantations; production dropped from 170 800 tonnes in 2007 to 80 000 tonnes in 2008. The socio-political crisis contributed to international increases in the prices of these two products from 2002 to 2008.

Given recent difficulties at management level, related to embezzlement in the coffee and cocoa sector, some producers turned to other export products, such as rubber and palm oil. Rubber production, for example, reached 224 700 tonnes in 2008, an increase of approximately 57.8 per cent from 2002 production levels. Palm oil production rose by close to 31.9 per cent from 2002 to 2008, reaching approximately 300 000 tonnes in 2008. As for cotton, a crop grown mostly in the north, production dropped by 41.4 per cent from 2002 to 2007, but standardisation of sales transactions between the country's northern and southern regions fostered an increase in cotton output

Figure 2 - **GDP by Sector in 2007** (percentage)



Source: Authors' estimates based on IMF and Ministry of Economy and Finance data.

StatLink http://dx.doi.org/10.1787/571380563670

1. Coffee (down 53.2 per cent), pineapples (down 9.3 per cent) and plantains (down 3.7 per cent).

in 2008, as production rose to 201 200 tonnes, up 8.6 per cent over 2007. Regarding the country's other agricultural export products, pineapple production dropped, while cashew nut production increased. In 2008, pineapple production fell for the third consecutive year, to 125 100 tonnes. Production of this crop has dropped by close to 49.8 per cent since the onset of the socio-political crisis in 2002. Cashew nuts have become the main cash crop of the country's northern and central regions, with production increasing by over 186 per cent from 2002 to 2008.

The primary sector was also driven by mining, up by 3 per cent in 2008 after an 18.7 per cent drop in 2007. Extraction of mineral reserves remains below its full potential, however, due to difficulties in managing, funding and rehabilitating cottage-type and semi-industrial extraction sites.

Real value added in the secondary sector, including the oil sector, grew by 3.7 per cent in 2008, compared to 1.5 per cent in 2007. This growth was mainly driven by construction and petroleum products. The secondary sector's share in GDP stabilised at around 22 per cent in 2008, with construction and petroleum products accounting for 37 per cent of the sector's contribution. Industrial activity also increased in 2008. The Industrial Production Index rose by 1.1 per cent over the first nine months of 2008. This rise in industrial activity was mainly driven by increased electrical power generation, related to an increase in natural gas production and the upswing in activity in the agrifood industries.

Real growth in construction was very strong in 2008 (9.3 per cent), as in 2007 (9.8 per cent), owing in particular to the resumption of housing construction under the stimulus of strong demand, especially in Abidjan. From 2002 to 2008, real value added in the construction sector rose by almost 133 per cent, despite the crisis. Electrical power generation, for its part, totalled 4 208.5 gigawatt hours (GWh) for the first nine months of 2008, a 5.7 per cent increase over 2007. Thermal generation, having benefited from growth in natural gas production, contributed to the increase in power generation. Domestic electricity consumption thus also increased over the first nine months of 2008, rising 6.2 per cent to 2 719 GWh, well below national production levels. The power generation surplus is exported to neighbouring countries.

The oil sector is beginning to play a key role in the economy of Côte d'Ivoire. The sector grew by 1.2 per cent in 2008, after shrinking 8.3 per cent in 2007, as a result of the rise in international oil prices, which pushed up the value of oil production by close to 7.8 per cent between 2007 and 2008. Crude oil production, however, dropped by 2.8 per cent over the first seven months of 2008, to 10.1 million barrels. This decline was due to the closing of several wells for desanding, which reduced the output of two leading operators: Devon (down 47.1 per cent) and CNR (down 1.6 per cent). Even the huge (close to 115 per cent) increase in Foxtrot's production, due to its increased extraction capacity, did not suffice to offset the drop in production by these two other operators.

The value added of the tertiary sector rose by 2.4 per cent and accounted for 36.6 per cent of GDP in 2008. This growth was driven by telecommunications, transport and trade. The telecommunications sector was the most robust, with 10.9 per cent real growth. Growth was quite strong in the transport sector also, at 6 per cent, compared to 1.3 per cent in 2007, confirming the revival of domestic trade as well as trade with neighbouring countries, thanks to the country's improved security climate. Real growth in trade was 2.6 per cent. In 2009 and 2010, growth in the tertiary sector should see a slight increase, with real rates of 3.3 and 4.2 per cent respectively. The sector is nonetheless expected to grow at a slower rate than the primary and secondary sectors.

On the demand side, growth in final consumption slowed in 2008 to 1.7 per cent, from 8.7 per cent in 2007. This downturn can be attributed to slower growth in household and public consumption. Growth in household consumption dropped from 8.7 per cent in 2007 to 1.3 per cent in 2008. The slowdown in public consumption was less marked, dropping from 9.8 per cent in 2007 to 4.9 per cent in 2008. The slowdown in final consumption is explained by several factors, including the weak performance of the agricultural

Table 1 – **Demand Composition**

	Percentage of GDP (current prices)		Percentage changes, volume			Contribution to real GDP growth		
	2000	2007	2008(e)	2009(p)	2010(p)	2008(e)	2009(p)	2010(p)
Gross capital formation	**10.8**	**8.8**	**14.7**	**12.9**	**15.0**	**1.6**	**1.5**	**2.0**
Public	2.8	2.7	20.0	14.7	19.3	0.7	0.6	0.8
Private	8.0	6.1	12.4	12.0	13.0	0.9	1.0	1.1
Consumption	**82.1**	**83.9**	**1.7**	**2.7**	**3.8**	**1.5**	**2.4**	**3.2**
Public	7.2	8.7	4.9	1.5	4.0	0.4	0.1	0.4
Private	74.9	75.2	1.3	2.9	3.7	1.0	2.2	2.8
External demand	**7.1**	**7.3**				**-0.7**	**-0.1**	**-1.1**
Exports	40.4	47.7	1.5	2.0	3.8	0.7	1.0	1.7
Imports	-33.3	-40.5	3.3	2.4	6.4	-1.4	-1.1	-2.8
Real GDP growth						**2.3**	**3.8**	**4.1**

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

StatLink http://dx.doi.org/10.1787/575740844782

sector, increased food prices worldwide and the financial crisis. In 2009 and 2010, growth in final consumption is expected to accelerate to 2.7 per cent and 3.8 per cent respectively. In theory, 2009 should be an election year in Côte d'Ivoire, and hence a year fraught with uncertainty. Growth in public consumption is therefore expected to slow to around 1.5 per cent in 2009 before picking up again at 4 per cent in 2010.

Following a slight drop in 2007, the rate of investment rose by nearly a full percentage point year-on-year in 2008, to 9.4 per cent of GDP. This increase was due mostly to a rise in the public investment rate, from 2.7 per cent of GDP in 2007 to 3 per cent of GDP in 2008. The private investment rate also increased slightly from 2007 to 2008, rising from 6.1 to 6.4 per cent of GDP. Real growth in investment accelerated in 2008 to 14.7 per cent. This increase in total investment was stimulated primarily by public investment, which surged by 20 per cent in 2008, compared to 1.2 per cent growth in 2007. Public investment was driven by the construction of housing complexes, the national reconstruction programme and road rehabilitation. Private investment grew much more slowly, with real growth of 12.4 per cent (up slightly from 12.2 per cent in 2007), reflecting the uncertainty that continues to surround the political reconciliation process. In 2009, growth in investments should slow slightly, before picking up again in 2010. If elections are held, as planned, in 2009, private investment could increase by 12 per cent and 13 per cent respectively in 2009 and 2010.

As for external demand, exports grew by 1.5 per cent in 2008, despite the drop in oil production, which was offset by the strong performance of traditional cash crops. In 2009 and 2010, growth in exports should register at 2 per cent and 3.8 per cent respectively, driven by solid performance from the country's main products (crude oil, cocoa, coffee, cotton, rubber and cashew nuts). Growth in imports, meanwhile, slowed to 3.3 per cent in 2008, from 4.1 per cent in 2007. This trend is expected to continue, with imports estimated to increase by 2.4 and 6.4 per cent in 2009 and 2010 respectively.

Macroeconomic Policies

The government continued implementation of the economic and structural reform programme over the 2007-08 period. The programme aims to re-establish macroeconomic stability and accelerate structural reforms in key sectors such as energy and coffee/cocoa. This government programme has been supported thus far by two post-conflict assistance programmes (PCAP) of the International Monetary Fund (IMF). Implementation of the first PCAP, satisfactory on the whole, improved the macroeconomic framework and led to approval of a second IMF programme (PCAP-II) in April 2008. Reforms implemented in 2008 included: *i)* quarterly publication of budget implementation; *ii)* improved transparency in the energy and coffee/cocoa sectors; *iii)* improved management of public expenditure; and *iv)* maintenance of a slight surplus of the basic primary balance. Signature of a three-year Poverty Reduction and Growth Facility agreement with the IMF covering the 2009-11 period is expected for the first quarter of 2009.

Fiscal Policy

Since 2007, the government has adopted a cautious fiscal policy aimed at recreating the climate of confidence necessary for a long-term recovery of the private sector. Public revenue (excluding grants) was estimated at 19.2 per cent of GDP in 2008, compared to 19.4 per cent of GDP in 2007. The dip in revenue in 2008 was related to decreased crude oil production, due to the closing of several wells for desanding. Government expenditures dropped only slightly, from 20.7 per cent of GDP in 2007 to 20.6 per cent in 2008. The basic primary balance should show a 1.6 per cent surplus in 2008, compared to the 1 per cent surplus of 2007. The balance is expected to shift to a deficit in 2009 (- 0.1 per cent).

Government efforts, coupled with the country's membership of the Franc Zone, have helped keep inflationary pressures at bay. In 2007, inflation settled to an average 1.9 per cent, thanks to controls over non-food prices (transport and housing, which dropped 0.4 per cent and 0.7 per cent respectively). In 2008, however, given the world food crisis, the prices of rice, milk, oil and other food products rose significantly. These price hikes had an unfavourable impact on an already vulnerable population, bringing protestors into the streets. In March 2008, the government cut taxes on certain food products, in particular lowering the rate of value added tax (VAT) from 18 to 9 per cent. This measure helped contain inflation at 6.4 per cent in 2008.

The debt burden continues to weigh heavily on public finances, forming a major handicap to the country's economic recovery. Côte d'Ivoire's public debt remains untenable, even though it has eased down from 73.4 per cent of GDP in 2005 to 58.5 per cent of GDP in 2008. After raising funds on the regional financial market, the country has settled a significant share of domestic arrears since 2007. The ratio of domestic debt arrears to GDP dropped from 5.4 per cent in 2006 to 3.5 per cent in 2007. These arrears

Table 2 - **Public Finances** (percentage of GDP at current prices)

	2000	2005	2006	2007	2008(e)	2009(p)	2010(p)
Total revenue and grants[a]	**17.1**	**18.2**	**19.1**	**20.0**	**20.3**	**18.8**	**19.7**
Tax revenue	14.5	14.5	15.5	15.7	15.5	14.9	15.0
Grants	0.5	1.1	0.6	0.6	1.1	0.2	0.9
Total expenditure and net lending[a]	**18.3**	**19.9**	**20.9**	**20.7**	**20.6**	**20.1**	**21.3**
Current expenditure	15.4	16.9	17.6	17.8	17.5	16.6	17.4
Excluding interest	*11.4*	*14.9*	*15.8*	*16.0*	*15.7*	*15.4*	*15.5*
Wages and salaries	6.1	6.5	6.5	6.8	6.5	6.6	6.6
Interest	4.0	2.1	1.8	1.8	1.8	1.2	1.9
Capital expenditure	2.8	2.7	3.1	2.7	2.9	3.3	3.8
Primary balance	**2.8**	**0.3**	**0.0**	**1.0**	**1.6**	**-0.1**	**0.2**
Overall balance	**-1.2**	**-1.7**	**-1.8**	**-0.8**	**-0.2**	**-1.3**	**-1.6**

a. Only major items are reported.
Source: National Statistics Institute data; estimates (e) and projections (p) based on authors' calculations.

StatLink http://dx.doi.org/10.1787/576784081866

nonetheless continue to burden public finances, the private sector and households alike.

Monetary Policy

Côte d'Ivoire is a member of the West African Economic and Monetary Union (WAEMU). As such, monetary and credit policy is directed by the Central Bank of West African States (BCEAO), which is linked to the European Central Bank. In addition, its currency is linked to the euro at fixed parity. The broad money supply increased by 8.1 per cent in 2008, compared to 23.6 per cent in 2007, due in most part to 4.8 per cent growth in fiduciary currency circulation and 10.5 per cent growth in bank deposits in 2008. Credit to the economy rose sharply from 2007 to 2008 (11.9 per cent). Net external assets increased by 11.1 per cent in 2008. This rise was due exclusively to the increase in the central bank's external assets, as the external position of commercial banks remained stable between 2008 and 2007. Domestic credit also rose by nearly 11.9 per cent in 2008, driven by the government's net position (up 14.1 per cent) and credit to the economy (up 7 per cent).

Regarding the WAEMU convergence criteria, only two of the ten criteria were met, as in 2007: the ratio of outstanding external debt to GDP and the ratio of the current account balance (excluding grants) to GDP.

External Position

The country's external position has recently improved, even though Côte d'Ivoire's current account is structurally in deficit. In 2007, the trade surplus shrank to 13 per cent of GDP. This drop, due mostly to crude oil imports, caused a current account deficit of 0.7 per cent of GDP. In 2008, however, the current account showed a 2.2 per cent surplus. It is worth noting that Côte d'Ivoire's two main exports (cocoa and petroleum products) accounted for nearly 67 per cent of the value of all exported merchandise in 2008, compared to a 59 per cent share in 2007. Projections point toward a current account surplus of 0.3 per cent in 2009, followed by a return to deficit in 2010 (-1.3 per cent).

Côte d'Ivoire signed a temporary economic partnership agreement (EPA) with the European Union (EU) in November 2008. The main purpose of this agreement is to preserve existing trade preferences between the EU and Côte d'Ivoire, in the period leading up to signature of the regional EPA currently under negotiation with the Economic Community of West African States (ECOWAS). The negotiations should draw to a close by July 2009.

With regard to regional integration, Côte d'Ivoire is also a member of the African Union. Before the crisis, Côte d'Ivoire played a leading role in the sub-region's economy. Starting in 2002, however, the crisis cut drastically the volume of trade between Côte d'Ivoire and neighbours such as Mali and Burkina Faso.

As of 31 December 2007, the country's outstanding external debt, including arrears, equalled 14.3 billion US dollars (USD). Bilateral and commercial debt accounted

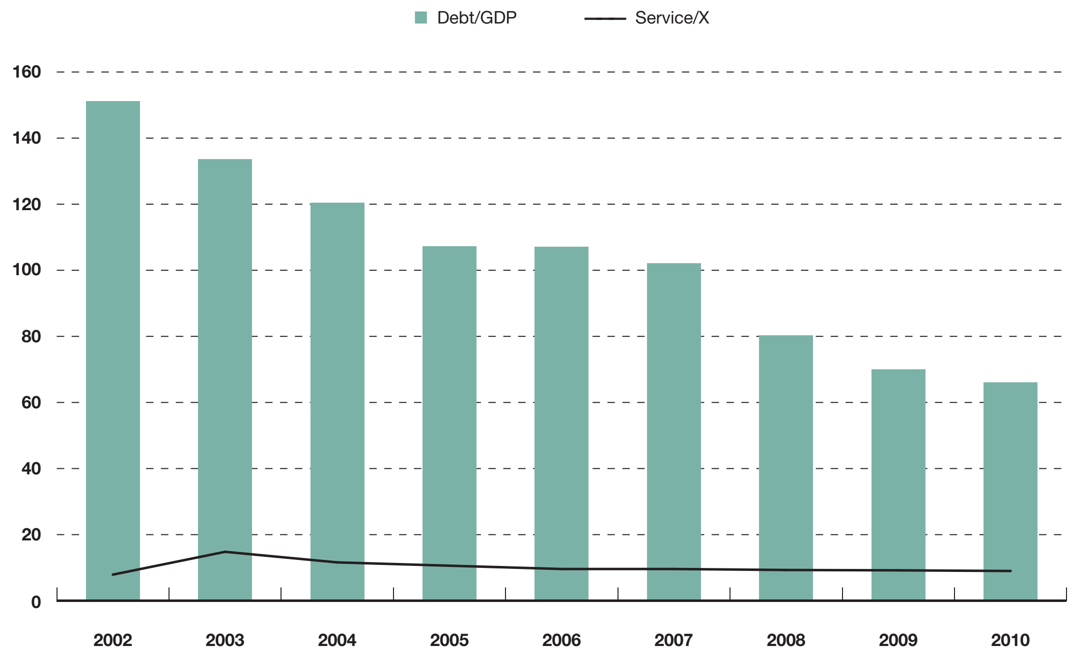
Table 3 - **Current Account** (percentage of GDP at current prices)

	2000	2005	2006	2007	2008(e)	2009(p)	2010(p)
Trade balance	13.8	14.6	17.6	13.0	14.4	11.1	10.2
Exports of goods (f.o.b.)	35.8	45.7	47.7	43.3	45.7	37.9	37.9
Imports of goods (f.o.b.)	22.0	31.1	30.1	30.3	31.4	26.9	27.7
Services	-5.3	-6.0	-6.2	-6.0	-5.4	-3.8	-4.8
Factor income	-8.1	-5.6	-5.6	-5.6	-5.2	-5.2	-5.0
Current transfers	-3.2	-2.8	-3.1	-2.1	-1.6	-1.8	-1.7
Current account balance	**-2.8**	**0.2**	**2.8**	**-0.7**	**2.2**	**0.3**	**-1.3**

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

StatLink http://dx.doi.org/10.1787/578353773511

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



Source: IMF.

StatLink http://dx.doi.org/10.1787/573160053225

for 78 per cent of the outstanding debt, and multilateral debt 28 per cent. Debt service in 2007 was USD 5.2 billion. Regarding external arrears due to multilateral institutions, Côte d'Ivoire settled its full World Bank arrears (USD 508.1 million) in February 2008. Regarding its arrears due to the African Development Bank, the government intends to sign a memorandum of understanding with the institution in 2009 to settle the arrears before the end of the year. Côte d'Ivoire has been eligible for the Heavily Indebted Poor Countries Initiative (HIPCI) since the initiative's inception in 1996. Preliminary analysis of its debt sustainability shows that Côte d'Ivoire should qualify with the revenue criterion (budget revenue). The most recent debt reconciliation (May 2008) showed the ratio of the public debt's net present value (NPV) to budget revenue (in 2007) at 327 per cent, a figure decidedly higher than the 250 per cent reference threshold. Once the decision point is reached (expected for early 2009), the amount of HIPCI debt reduction needed to bring Côte d'Ivoire's debt to a sustainable level is estimated at USD 3 billion (in NPV). Assuming a proportional sharing of the burden, multilateral assistance would amount to USD 694 million (in NPV), while the bilateral and commercial assistance required would be close to USD 2.3 billion (in NPV).

Structural Issues

Private Sector Development

In response to the challenge of economic development, Côte d'Ivoire has committed itself to transforming the private sector into the main driver of growth over the years to come. In this context, the government recently implemented significant tax relief measures in an effort to create the conditions needed for a sustainable recovery of the private sector. Measures in this direction have included a reduction in the tax on income derived from trade and manufacture (*bénéfice industriel et commercial*), which fell from 35 per cent to 27 per cent, and a drop in the minimum fixed tax (*impôt minimum forfaitaire*), which was cut from

XOF 2 million to XOF 1 million in early 2008. Additionally, reforms of the institutional, regulatory and legal frameworks were formulated, including a programme in support of entrepreneurship[2]. This programme strengthens the investment incentives provided for in the investment and labour codes.

Despite these measures, the private sector view is that corporate taxes continue to be quite restrictive and the business climate unfavourable to private investment. Additionally, the government has accrued domestic arrears, which weigh heavily on the finances of private companies. According to the World Bank's 2009 *Doing Business* report, Côte d'Ivoire's ranking slid from 2007 to 2008, whereas it had risen slightly from 2006 to 2007. The country is currently ranked 161st among 181 countries; in 2007, it was ranked 155th. This drop in Côte d'Ivoire's ranking reflects the significant constraints impeding development of the private sector. These include: *i)* the complexities of administrative procedures; *ii)* the absence of a framework law for small and medium-sized businesses; *iii)* the gap between training opportunities and company needs; and *iv)* illegal payments ("racketeering"[3]). Côte d'Ivoire is also one of the world's least competitive countries. In 2008-09, the country ranked 110th out of 134 countries, according to the World Economic Forum's Global Competitiveness Index[4].

Other Recent Developments

Structural reforms related to the management of public finances, the energy sector and the financial sector were implemented in 2008. The country displayed a firm willingness to adopt sound financial management practices, by conducting a public expenditure management and financial accountability review (PEMFAR), with support from development partners. This study, finalised in June 2008, offered an opportunity to evaluate management of the public finance system, including the government procurement system, and it identified real progress: *i)* a gradual return to orthodoxy in budget formulation and adoption, starting in 2007, with approval of the 2008 budget preceding the start of the fiscal year; *ii)* publication of quarterly budget implementation reports since September 2007, *iii)* implementation of an independent government procurement regulatory mechanism, with separation of implementation and oversight functions. In regard to VAT collection, furthermore, the government continues to be more strict in its monitoring of the use of standardised invoices. The government pledged to implement priority action items and reforms in the medium term, as recommended in the PEMFAR report.

In public sector reforms, the government continued its policy of divesting state-owned enterprises in the competitive economic sectors, which include the agro-industrial, railway transport, petroleum products distribution and telecommunications sectors. The hotel and land transport sectors, among others, have been partially privatised. As of today, the state has divested itself from over 60 companies, and the privatisation of state-owned corporations generated over XOF 300 billion from 1992 to 2008, including XOF 15 billion in 2008. The privatisation process was hindered by a number of obstacles: *i)* the slowness of the process itself; *ii)* the failure to formulate and implement a policy for monitoring post-privatisation operations; and *iii)* the low level of participation by public shareholders in state enterprises. The social impact of the privatisations cannot be assessed.

The government has pledged to reform the energy sector, in the direction of better transparency and improved resource management. The audit reports of the national refining company (Société ivoirienne de raffinage – SIR), oil company (Société d'opérations pétrolières de la Côte d'Ivoire – PETROCI) and power

2. This programme includes the ministry that handles promotion of the private sector, along with support structures, the arbitration court of Côte d'Ivoire and the arbitration court of the Organisation for the Harmonisation of Business Law in Africa.

3. Racketeering is a practice whereby travellers are required to pay money to pass security checkpoints.

4. The country was not ranked for 2007-08.

company (Compagnie ivoirienne d'électricité – CIE) have been finalised. PETROCI plans to invest in developing its distribution capacity; construction of a 400-kilometre pipeline connecting Abidjan and Bouaké, via Yamoussoukro, could begin in August 2009. Construction of a new refinery in Abidjan is also planned, to increase crude oil processing capacity. In May 2008, the country applied for membership of the Extractive Industries Transparency Initiative, and has two years to meet the initiative's eligibility criteria.

Regarding urban transport, a drop in the capacity of the Abidjan transport company (Société des transports abidjanais – SOTRA), coupled with the rise in potential demand for transport (up 29 per cent over the same period, from 2007 to 2008), led to a decrease in public transport services, with a shift towards informal transport. Starting in 2007, SOTRA restructured to improve its services offering. This included construction of a public transport bus assembly factory, which is expected to reach full production capacity in 2009. Regarding sea transport, the country has two deep-water ports: the port of Abidjan and that of San Pedro. On average, the port of Abidjan generates 85 per cent of customs receipts and handles 90 per cent of the country's foreign trade.

In the financial sector, audits were conducted within Banque nationale d'investissement, Caisse nationale des caisses d'épargne and Caisse nationale de prévoyance sociale. These audits offered an opportunity to propose measures to correct the imbalances of these financial institutions. The government plans to invest more effort towards bringing Côte d'Ivoire's banks into compliance with prudential mechanisms and WAEMU recommendations. In 2008, the banking system was comprised of 21 lending institutions, consisting of 19 banks and two other financial institutions. Even though 2007 brought progress in recapitalising four of the eight banks not in compliance with the risk coverage ratio, six banks have been under WAEMU supervision since 2008. Despite the positive results of the banking system since 2004, the financial system still displays a number of structural weaknesses. Starting in January 2008, for instance, the BCEAO decided to increase the minimum capital requirement for new banks, from XOF 1 billion to XOF 5 billion; existing banks were accorded a three-year window to comply with the new minimum. As of 30 June 2008, the microfinance sector counted 104 active, authorised microfinance institutions, 18 of which had been recently created in the central, north and western (CNO) region. Distressed loan levels remain high, even after an 18 per cent drop from the first to the second quarter of 2008. As a result, a new legal framework, stipulating a partial transfer of oversight authority from the microfinance office to the BCEAO, was adopted by the community's institutions and integrated into Côte d'Ivoire's legal system in 2008.

In the agricultural sector, reforms implemented have mainly focused on the coffee/cocoa industry. Enhancement of the coffee/cocoa committee's authority, for example, has allowed for improved transparency and management of the sector. Likewise, the coffee/cocoa committee initiated reforms aimed at raising producer incomes and providing the marketing system, along with effective government monitoring of the sector. A judiciary inquiry into allegations of embezzlement in the cocoa sector, initiated in October 2007, led to the arrest of almost all regulatory body executives in 2008. It should be pointed out that quasi-taxes on the 2005-06 and 2007-08 harvests were lower.

With regard to environmental management, the country experienced an unprecedented environmental disaster in August 2006, when a ship dumped nearly 400 tonnes of toxic waste into the port and several residential neighbourhoods of Abidjan. This disaster caused the poisoning of thousands of individuals, who were later compensated by the government[5]. Clean-up operations, begun in 2006, continue and are expected to draw to a close in 2009.

5. In 2007, the government received XOF 95 billion (equivalent to 1 per cent of GDP) following a settlement reached in the case against the shipping line.

Innovation and ICT

The telecommunications sector covers fixed-line telephony, mobile telephony and Internet services. The telecommunications sector in Côte d'Ivoire is characterised by significant technological innovations and a rapidly growing local market, despite the crisis. The country is a member of the African Telecommunication Union (ATU), which has 46 member states.

The telecommunications sector is regulated by the telecommunications code of 1995 and its main regulatory body is the Côte d'Ivoire Telecommunications Agency (ATCI). This agency establishes and implements the fee structure, approves terminals, manages frequencies and issues operating permits. The ATCI is also the leading arbitration body for disputes within the sector. In the case of appeal, however, operators can turn to the Telecommunications Council of Côte d'Ivoire, the sector's secondary regulatory body.

The telecommunications sector today is active and growing at a fast pace. At end-2007, nearly 4 000 individuals were directly employed by the sector, which was also generating over 20 000 induced jobs. The development of telephony began in 1997, when the first global system for mobile communications (GSM) licence was granted, and the national telecommunications company, CI-Télécom (Côte d'Ivoire-Télécom), was sold to France Télécom. The fixed-telephony market, dominated by CI-Télécom[6], counted over 247 573 subscribers and 650 000 landlines at the close of 2007, but its penetration of rural markets remains low. A second operator, Arobase, which entered the fixed-telephony market in 2003, counted 80 000 subscribers and 120 000 landlines at end-2007. Due to competition with mobile telephony, fixed-telephony prices (both postpaid and prepaid) dropped quite significantly: by 66 per cent for postpaid fixed-line telephony toward land or mobile lines, and by 63 per cent for prepaid fixed telephony. The cost of international calls to Europe and North America over fixed networks has decreased by 88 per cent. Infrastructure is modern, but limited in its geographical coverage, and is currently unable to meet the emerging needs for interactive multimedia. The fixed telephony network extends over 263 667 kilometres, including 3 715 kilometres of digital radio-relay links, 20 000 kilometres of fibre-optic links and 280 kilometres of analogue radio-relay links.

Mobile telephony has become the foundation of the telecommunications sector. Four private companies are operating in the market; Orange Côte d'Ivoire (French; France Telecom), MTN (South African; MTN International), Moov (United Arab Emirates; Atlantique Telecom) and Koz (Lebanese; Comium). According to the most recent available statistics[7], at end-2007 there were over 7.5 million subscribers in Côte d'Ivoire, which calculates to a penetration rate of approximately 40 per cent. Orange Côte d'Ivoire has maintained its position as market leader, with 2.9 million subscribers (38.7 per cent of the market), but MTN is close behind, with 2.7 million subscribers. At end-2007, the third-largest operator, Moov, counted 1.3 million subscribers, and Koz, the smallest, already had over 604 285 subscribers for the same period. The four mobile telephony operators are attempting to increase their respective market shares, with competitive rates, promotional campaigns and advertising campaigns. As a result, mobile rates have dropped significantly[8]; the dynamism and growth of the sector has also led to the development of an informal sector, with the creation of "cellular phone booths" at all big-city intersections. Given the mobile telephony market's potential in Côte d'Ivoire, the government granted permits to two new operators, Oricel (Libyan; LAP Green) and Celcom (United Arab Emirates; Warid and partner of Singapore Telecom), which are expected to commence operations in 2009.

6. The Ivorian government holds a 49 per cent stake in Côte d'Ivoire Télécom, but the company is managed by France Câbles et Radio, a subsidiary of France Télécom.

7. Source: ATCI (http://www.atci.ci/index.php).

8. By 33 per cent for international calls, 44 per cent for in-network rates per minute and 66 per cent for out-of-network calls.

In addition to these services, an information technology and related services market is developing and experiencing rapid growth. In terms of the Internet, Côte d'Ivoire has connectivity via the Leland node, which provides 512 kilobits per second (Kbit/s) with international connectivity via the Internet backbone and the possibility of "peering" between the nine local access providers. Internet access is constantly expanding with the five main providers (Aviso, Global Access, Comète, Afnet and Africa Online). The strengthening of networks like the asymmetric digital subscriber line (ADSL) network has allowed for a doubling of connectivity capacity and ensured better city-based coverage. Internet access, however, has not expanded as quickly as mobile telephony, due in most part to the obstacle of acquiring computer hardware. People are increasingly turning to cybercafés for Internet access. The city of Abidjan reportedly has over 500 cybercafés.

Despite this remarkable growth, it must be recognised that the sector continues to face several obstacles, the most significant of which are: *i)* insufficient coverage in rural areas; *ii)* saturation of the telephone network; and *iii)* the excessive cost to households of hardware acquisition. Mobile telephone network coverage in rural areas is very limited. To access the network, most people must travel to the nearest city. The same applies to Internet access.

Political Context

In 2008, the political climate in Côte d'Ivoire continued to calm down, thanks to progress made in implementation of the APO, signed on 4 March 2007. By virtue of this agreement, a new national reconciliation government was established in March 2007, and a post-crisis programme established in July 2007, to translate the agreement's substance into operational terms. With regard to the electoral process, Côte d'Ivoire's political parties signed a "code of good conduct" in April 2008, in advance of the presidential election campaign. Authentication of the electoral roll of 2000 drew to a close in April 2008 and the campaign to register citizens on this list started in September 2008. At end-December 2008, approximately 3 million individuals had been registered, including 1.9 million in Abidjan. At end-December 2008, voter registration in Abidjan was at 95 per cent, compared to the national rate of 33.8 per cent. Regarding the presidential election, the two supplementary agreements to the APO, signed on 27 November 2007, called for the election to take place in June 2008. Due to delays in updating voter rolls, however, the elections were postponed once again (for the third time) to 2009. Following this most recent postponement, a fourth supplementary agreement was signed on 22 December 2008 to resolve the most recent issues causing the delay. A smooth rollout of the electoral process should build peace and bolster the security climate in the country, two pre-requisites to sustainable economic growth.

Due to the APO, nationals can now circulate, free from major impediments, throughout the country, which is currently on the path to reconciliation. The security environment was relatively stable throughout the year in 2008, despite a few sporadic incidents in some cities. Following complaints from trade unions and individuals alike, the government also took measures to stem racketeering.

The long period of political instability and conflict caused a deterioration of governance and the transparency of government affairs. Perception of the level of corruption in the country has deteriorated; the country's Corruption Perception Index (CPI), according to Transparency International, dropped from 2.1 in 2007 to 2 in 2008, confirming that corruption remains a significant challenge for the government. With regard to governance, the PEMFAR study found the public finance system performs poorly. The study also found the level of integrity and transparency of the government procurement system to be lacking. The government has firmly pledged to implement reforms to improve transparency and governance. These measures include: *i)* strengthening the budgetary nomenclature and categorisation; *ii)* consolidating the budgets of all public institutions into the state budget and preparing the Medium Term Expenditure Framework; and *iii)* improving operations at the court of accounts and decreasing the time it takes to review and implement finance laws.

Social Context and Human Resources Development

At the time of writing, the economic recovery of 2007 and 2008 had not sufficed to improve the country's highly downgraded social indicators. On the 2007 Human Development Index, Côte d'Ivoire obtains one of the worst scores in the world, ranking 166th out of 177 countries. Given the succession of crises Côte d'Ivoire has experienced, the Millennium Development Goals most certainly will not be met by 2015.

The 2008 survey of household living standards revealed that one of every two people in Côte d'Ivoire lives in poverty. The poverty rate has risen sharply, from 38 per cent in 2002 to 48.9 per cent in 2008. The region most affected by poverty is the north (77.3 per cent), followed by the west (63.2 per cent), while that least affected is the Abidjan area (21 per cent). Additionally, the poverty rate in rural areas rose from 49 per cent in 2002 to 62.5 per cent in 2008, compared to a 24.5 per cent to 29.5 per cent shift in urban areas over the same period. Income distribution is also highly imbalanced: the wealthiest 10 per cent of the population holds 32.8 per cent of total income, whereas the poorest 60 per cent receives only 30.4 per cent of total income. Regarding food security, the minimum needs of approximately 40 per cent of the population are not being met. According to the most recent available figures[9], approximately 1 109 600 individuals, or 20 per cent of rural households, are living with high risk of food insecurity. Nutritional issues are most pronounced in the CNO region, with approximately 566 500 individuals (9 per cent of rural households) in the region living in food insecurity. The population is most affected by protein-calorie malnutrition, nutritional anaemia and vitamin A deficiencies.

Côte d'Ivoire's education system covers four levels: preschool, primary, secondary and higher education. In general, the enrolment rate for preschool is very low, at 13 per cent in urban areas and 1 per cent in rural areas. The same trend was observed for primary school; in 2008 according to national sources, only 44 per cent of children of official school age had access to first year of primary school, with considerable disparity between urban areas (69 per cent) and rural areas (20 per cent). The quality of instruction, particularly at the primary level, dropped significantly due to the absence of qualified teachers. The education system, furthermore, is characterised by high repetition and dropout rates. In addition, frequent teacher strikes, combined with persistent security problems in some localities, have prevented many children from following a normal educational track.

On the labour market, the gross labour force participation rate was 50.2 per cent in 2008, compared to 42.4 per cent in 1998. Self-employed workers accounted for the highest proportion of those employed (48.8 per cent), followed by unpaid workers (31.6 per cent), and salaried employees (18.7 per cent). In general terms, unemployment among the economically active population rose from 6.4 per cent in 2002 to 15.7 per cent in 2008. Unemployment affected more women (19.8 per cent) than men (12.1 per cent) and was higher in urban areas (27.4 per cent), particularly big cities such as Abidjan, than in rural areas (8.7 per cent). In 2008, the criteria for retirement applicable to teachers and all civil servants were modified, with removal of the rule imposing retirement after 30 years of service. The retirement age will rise from 55 to 60 in two stages; an initial increase from 55 to 57 became effective in January 2008, and a second, from 57 to 60, is planned for January 2010.

Inequalities persist at several levels regarding access to basic social services, employment, decision-making and participation in public and private life. In primary education, the net enrolment rate for girls was 53.1 per cent in 2008, compared to 58.8 per cent for boys. In employment, only 12.7 per cent of modern sector jobs were held by women in 2005. The proportion of women participating in politics and decision-making remains low: only 8.7 per cent of parliament seats, for example, were held by women in 2008.

9. Multiple Indicator Cluster Survey and World Food Programme, 2006.

Infant mortality rates have followed no regular trend. According to the most recent available figures, infant mortality rose from 112 per thousand births in 1999 to 115.3 per thousand births in 2008. Neonatal mortality, despite decreasing on the whole, remains high: 41 deaths per thousand live births in 2005, compared to 62 deaths per thousand live births in 1999. The maternal mortality rate also remains high, at 543 deaths per 100 000 live births in 2005, mainly because of insufficient integration of maternal and child health-care services and low levels of involvement in maternal health matters on the part of communities and local authorities.

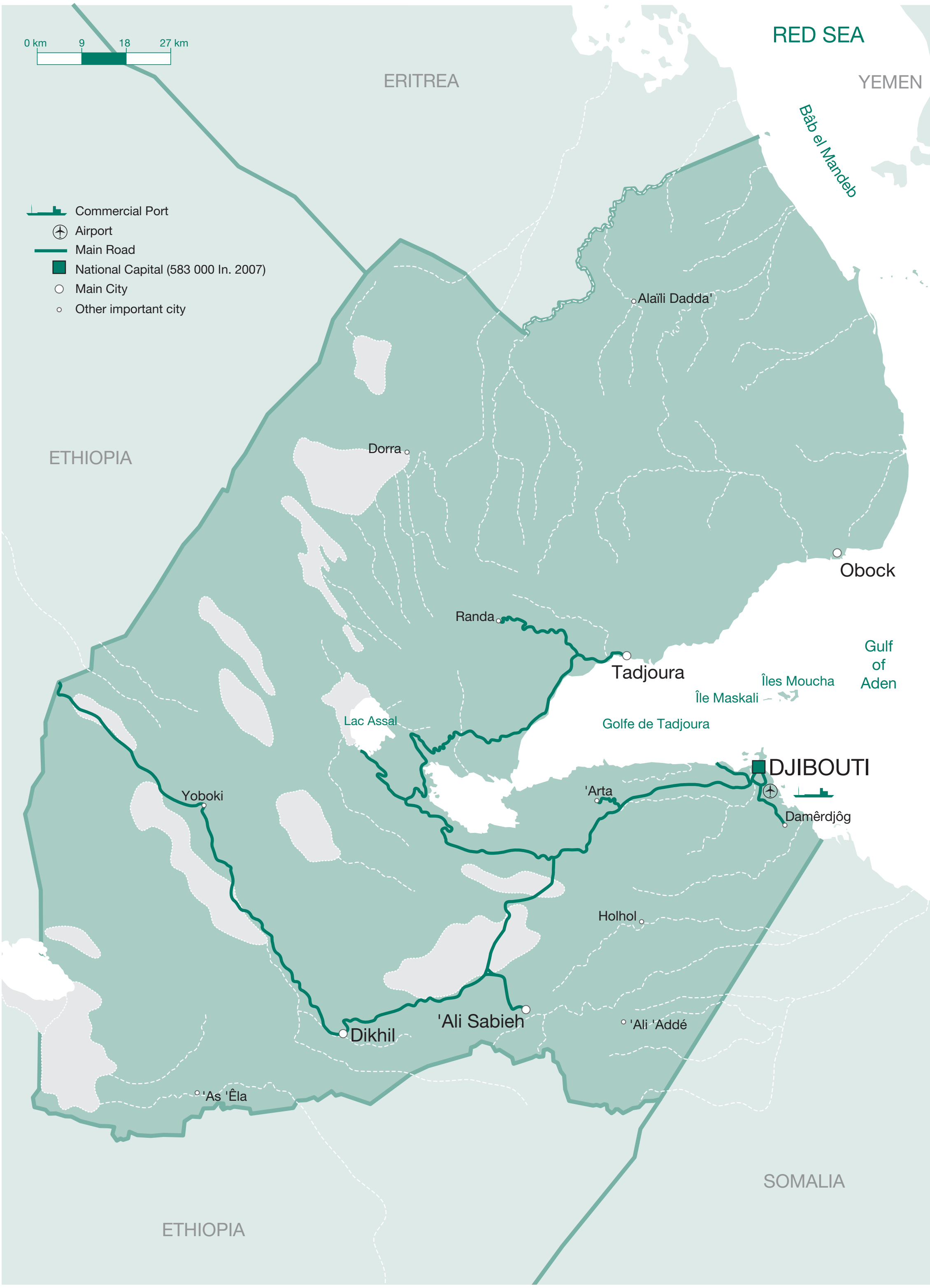
Currently, infectious and parasitic diseases account for 60 per cent of diagnosed morbidity in Côte d'Ivoire. The incidence of endemic disease remains high, particularly among children. Most frequent are tuberculosis, malaria and HIV/AIDS. The country is ranked ninth worldwide in terms of tuberculosis prevalence (651 cases per 100 000 inhabitants). In recent years, diseases of epidemic potential (including meningitis in the north; cholera, particularly in cities; measles throughout the country; and yellow fever in the north and west) are experiencing an upsurge. Malaria, meanwhile, is the leading cause of death in the country, with an incidence of 74 per cent. Côte d'Ivoire is the country most affected by HIV/AIDS in West Africa (3.5 per cent in 2007). Prevalence is higher in urban areas than rural areas (5.4 per cent versus 4.1 per cent). The geographic distribution of prevalence shows Abidjan and the Centre-East regions to be most affected (at 6.1 per cent and 5.8 per cent prevalence, respectively). Furthermore, screening levels remain low: only 13 per cent of women and 10 per cent of men have been tested, which means that nationally, an average of 88.5 per cent of people have never been tested. The government has drafted a 2008/09 action plan that sets out intervention strategies and anti-AIDS efforts.

Djibouti

key figures

- Land area, thousands of km²: 23
- Population, thousands (2008): 849
- GDP per capita, PPP valuation, USD (2008): 2 062
- Life expectancy (2008): 55.4
- Illiteracy rate (2008): n.d.

Djibouti

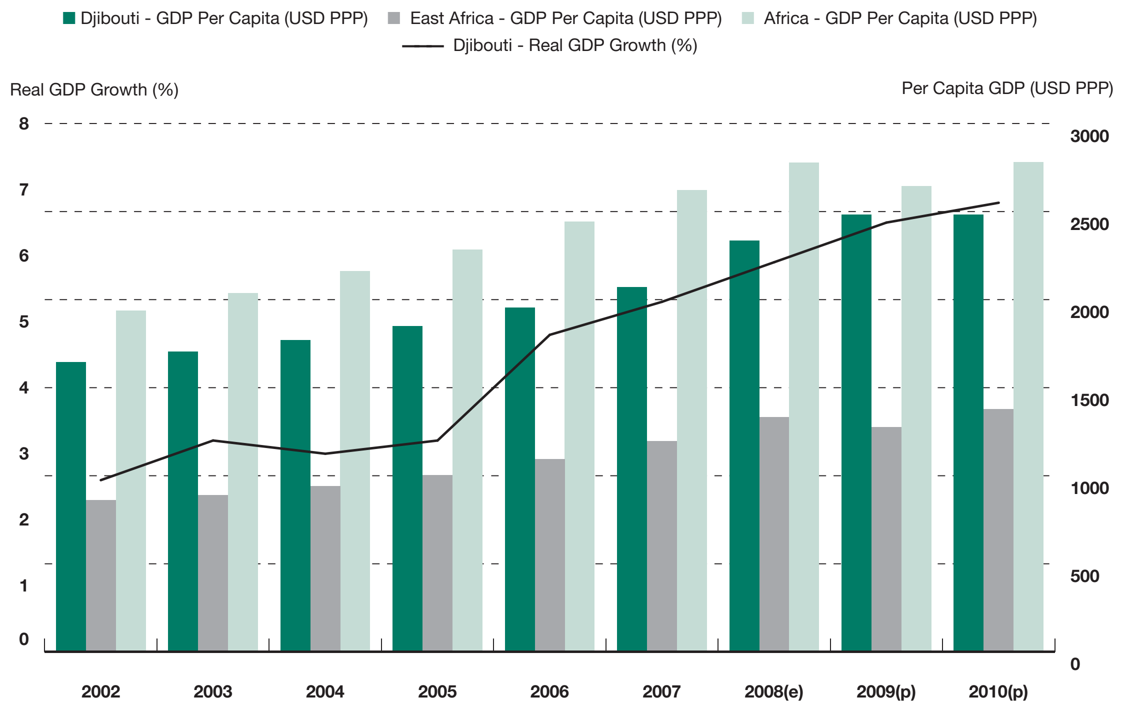

0 km
9
18
27 km
Commercial Port
Airport
Main Road
National Capital (583 000 In. 2007)
Main City
Other important city
RED SEA
YEMEN
ERITREA
Bâb el Mandeb
Alaïli Dadda'
ETHIOPIA
Dorra
Obock
Randa
Tadjoura
Gulf
of
Aden
Îles Moucha
Île Maskali
Lac Assal
Golfe de Tadjoura
DJIBOUTI
'Arta
Yoboki
Damêrdjôg
Holhol
'Ali Sabieh
Dikhil
'Ali 'Addé
'As 'Êla
SOMALIA
ETHIOPIA

DJIBOUTI HAS THE ADVANTAGE OF exceptional geographic placement, located at the confluence of maritime routes to Asia, Europe, the Arabian Peninsula and East Africa. The bulk of its neighbouring countries' foreign trade passes through its international port. Djibouti is an entry point to the Common Market for Eastern and Southern Africa (COMESA), an economic area of close to 400 million consumers.

This small country, with 23 000 square kilometres in land area and a population of 850 000, also stands out for the unique climate of security it enjoys, within the otherwise tumultuous Horn of Africa. This security is bolstered by the presence of large United States and French military bases, and has contributed to a favourable environment for foreign direct investment (FDI), which in four years doubled the country's real GDP growth rate from 3 per cent in 2004 to 5.9 per cent in 2008. Rapid growth should continue in 2009 and 2010, at rates of 6.5 and 6.8 per cent respectively. The Port autonome international de Djibouti (PAID) continues to anchor development, given its commercial activity and significant investments in infrastructure. Services accounted for upwards of 78.8 per cent of GDP in 2008, agriculture 3.8 per cent and industry 17.4 per cent.

The port remains the mainstay of development. Inflation has spiked hard in the last two years.

Figure 1 - **Real GDP Growth and Per Capita GDP**
(USD/PPP at current prices)



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

StatLink http://dx.doi.org/10.1787/568714574152

Inflation accelerated from 5 per cent in 2007 to 11.9 per cent at the close of December 2008, due to rising food and oil prices. Public investment and a sharp increase in imports related to construction projects at the Doraleh Port increased the country's current account deficit, which swelled to over 31 per cent of GDP in 2008, compared to 14.8 per cent in 2006 and 24.2 per cent in 2007. In a bid to raise tax revenue, the government introduced a single-rate value added tax (VAT) in January 2009 (7 per cent).

In October 2008, the Paris Club creditors and Djibouti's government reached an agreement for rescheduling the country's external debt. This agreement followed approval from the International Monetary Fund (IMF), in September 2008, for a second Poverty Reduction and Growth Facility (PRGF).

Recent Economic Developments

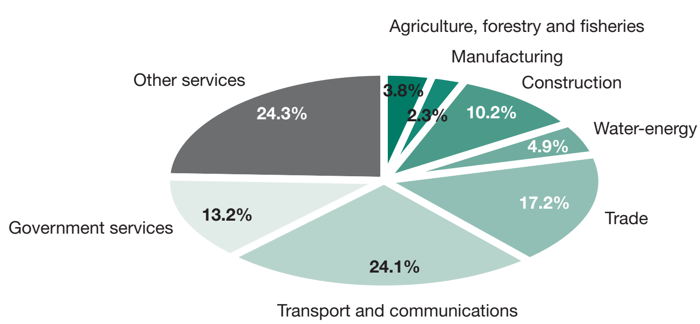
Growth doubled over a period of four years, rising from 3 per cent in 2004 to an estimated 5.9 per cent in 2008, with 6.5 per cent expected in 2009. The acceleration was due to increased flows of public and private investment, which amounted to 370 million US dollars (USD) in 2008. These investments benefited five sectors in particular: transport, port operations, telecommunications, finance and construction.

Per capita GDP rose from USD 1 020 in 2007 to an estimated USD 1 140 in 2008, for a population generally estimated at 850 000. The 2009 census is expected to provide more precise data on the demographic situation.

With growth at approximately 19 per cent, the primary sector accounted for 3.8 per cent of GDP in 2008. Growth in this sector continues to be hindered by Djibouti's harsh climate and lack of natural resources.

Despite an increase in cultivated land, the agricultural sector operates at less than 15 per cent of its potential, estimated at a total of 10 000 hectares. Climate conditions allow only for irrigated, oasis-type agriculture, and even this is subject to the possibility of developing and exploiting groundwater resources. According to official estimates, agricultural activity meets only 20 per cent of the country's grain needs, and only 10 per cent of its fruit and vegetable needs. Animal husbandry, an activity well-suited to the country's climate, continues to be the focus in rural areas, securing the livelihoods of close to one-third of the population. Milk and beef production plays a key role in ensuring food security. In 2004, Djibouti, which has been affected by drought and epidemics the past few years, resumed its role as a regional hub for livestock trade, with an upswing in livestock exports, to the Arabian Peninsula in particular. The country exported 1 952 542 head of livestock in 2007, compared to 357 396 and 39 129 head exported in 2006 and 2005 respectively. The fisheries sector remains under-exploited. Less than 4 per cent of the sector's potential, estimated at 48 000 tonnes per year, is tapped. Fishing remains a cottage

Figure 2 - **GDP by Sector in 2007** (percentage)



Source: Authors' estimates based on local authorities' data.

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industry and employs just 1 000 individuals, due to shortcomings in storage, processing and distribution.

Industry, despite close to 24 per cent growth in 2008, remains under-developed and accounts for only 17.4 per cent of GDP. Two state-owned enterprises dominate the industry: the Office national de l'eau et de l'assainissement de Djibouti and Electricité de Djibouti. These two national corporations, which are among the country's largest employers, have benefited from growth and investment in recent years. The upturn in the construction sector (up 37.7 per cent in 2008) can mainly be attributed to projects under way at the Doraleh Port, low-income housing construction and expansion of the Djibouti Palace Kempinski hotel. These have generated spillover effects benefiting the aluminium and cement industries. Despite recent government initiatives to promote cement works, marble works and mineral water bottling factories, the industrial sector suffers from the exiguity of the market, high cost of labour and other inputs, and shortfalls in entrepreneurial capacity and qualified workers.

Services dominate the economy, accounting for 78.8 per cent of GDP in 2008. Transport and telecommunications are among the top sectors (24.1 per cent in 2008), due to the PAID and services provided to foreign military personnel stationed in Djibouti. Most currency is brought into the country by the tertiary sector. Most of the region's countries, particularly Ethiopia, use the PAID, given the relatively high quality of its infrastructure and its constant modernisation efforts. Located along one of the most frequented trade routes, the PAID also provides many services to commercial vessels passing through the port.

Growth in port operations has remained steady in recent years. With close to 7.5 million tonnes in 2008 (compared to 5.5 million tonnes in 2006), total traffic rose by over 36 per cent. Traffic has been sustained by the growth in the Djiboutian and Ethiopian economies, as well as by the resumption of transhipment activities in 2007. The new Doraleh complex has provided the country with a new oil terminal and pier. Construction started in November 2006 will add a container terminal and free zone to the port. Upon completion, Doraleh will become the first African port to receive 14 000 TEU container carriers. It will have the capacity to accommodate all types of vessels arriving from Chinese and Indian ports, serving as a transhipment and dispersal hub for the region's countries.

Djibouti also has a railway connecting the country to Ethiopia's capital, Addis Ababa; an international

Table 1 – **Demand Composition**

	Percentage of GDP (current prices)		Percentage changes, volume			Contribution to real GDP growth		
	2000	2007	2008(e)	2009(p)	2010(p)	2008(e)	2009(p)	2010(p)
Gross capital formation	**8.8**	**53.8**	**17.5**	**10.1**	**6.9**	**8.7**	**5.6**	**4.0**
Public	2.7	11.5	8.3	31.0	10.0	0.9	3.4	1.3
Private	6.1	42.3	20.0	5.0	6.0	7.9	2.2	2.6
Consumption	**106.4**	**77.4**	**3.6**	**5.1**	**4.4**	**2.8**	**3.9**	**3.3**
Public	29.5	27.3	5.9	6.1	0.6	1.5	1.6	0.2
Private	77.0	50.1	2.5	4.6	6.4	1.3	2.3	3.2
External demand	**-15.2**	**-31.2**				**-5.6**	**-3.0**	**-0.5**
Exports	34.8	62.2	6.1	5.5	6.3	3.4	3.0	3.5
Imports	-50.0	-93.4	10.9	7.0	4.6	-9.0	-6.1	-4.0
Real GDP growth						**5.9**	**6.5**	**6.8**

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

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Table 2 - **Public Finances** (percentage of GDP at current prices)

	2000	2005	2006	2007	2008(e)	2009(p)	2010(p)
Total revenue and grants[a]	**30.8**	**37.1**	**35.1**	**35.4**	**36.0**	**36.1**	**36.5**
Tax revenue	24.3	24.4	23.2	23.1	22.8	22.7	22.5
Grants	6.6	6.2	3.9	5.0	5.9	6.2	6.7
Total expenditure and net lending[a]	**32.6**	**36.8**	**37.6**	**38.0**	**38.5**	**38.0**	**38.4**
Current expenditure	29.9	27.5	30.0	26.7	27.1	25.3	24.9
Excluding interest	*29.5*	*27.1*	*29.6*	*26.3*	*26.7*	*24.9*	*24.4*
Wages and salaries	15.8	14.8	14.7	13.9	13.5	13.3	12.9
Interest	0.5	0.4	0.5	0.4	0.4	0.3	0.4
Capital expenditure	2.7	9.3	7.6	11.3	11.4	12.7	13.5
Primary balance	**-1.3**	**0.7**	**-2.0**	**-2.2**	**-2.0**	**-1.5**	**-1.5**
Overall balance	**-1.8**	**0.2**	**-2.5**	**-2.6**	**-2.4**	**-1.9**	**-2.0**

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

StatLink http://dx.doi.org/10.1787/576835263332

airport; a road network that could be developed for inter-modal traffic; and a growing banking system.

Private investment was the main driver of growth in 2008, rising by 20 per cent. It is expected to drop sharply in 2009 and 2010, as the large-scale infrastructure projects of the past few years draw to a close. Private investment's contribution to growth is expected to drop by two-thirds by the close of 2010. An increase in public investment will not suffice to offset the drop in private investment's contribution to growth. Final consumption is expected to increase only slightly in 2009 and 2010, due in particular to government restrictions on salary-related spending. Its contribution to GDP growth will range from 2.8 to 3.9 per cent. Trade makes a negative contribution to growth. Imports grew faster than exports in 2008, and this trend is expected to continue in 2009, but reverse in 2010, with the completion of large infrastructure projects. In 2010, trade's contribution to growth will be close to neutral.

Macroeconomic Policies

In 2008, Djibouti signed a new three-year agreement with the IMF under the PRGF. This economic and structural adjustment programme is based on the government's National Initiative for Social Development (INDS), introduced in January 2007, and is considered to be the new frame of reference for the country's socio-economic development plans.

Fiscal Policy

The overall budget balance showed a deficit of 2.6 per cent of GDP in 2007, a result very close to that of 2006. According to official estimates and projections using the accrual basis of accounting, the deficits for 2008 and 2009 will be slightly higher than initial objectives, at 2.4 per cent and 1.9 per cent respectively. With regard to the 2008 budget act, budget execution was expansionary, given international price increases, the appreciation of the euro, the INDS and expenditures related to the legislative elections of February 2008.

The lion's share of government revenue comes from the domestic consumption tax, the tax on wages and salaries, and contributions from France and the United States, related to their military presence in Djibouti. Tax revenue, at 22.8 per cent of GDP in 2008, fell due to tax exemptions granted to investments in the port, the free zone and the tourism sector. An increase in external financing allowed for net repayment of domestic and external arrears valued at an estimated 0.7 per cent of GDP, despite the accumulation of new external arrears.

Public sector wages and salaries, equivalent to 13 per cent of GDP in 2008, accounted for approximately 60 per cent of tax revenue, half of current expenditures and 35 per cent of total expenditures. Public investment expenditures, focusing mainly on infrastructure and social programmes, remained steady at over 11 per cent of GDP in 2008, financed in large part by grants and concessional foreign loans (7.5 per cent of GDP in 2008). In relation to the PRGF, the current expenditures/GDP ratio is expected to drop from 26.7 per cent in 2007 to 25.3 per cent in 2009, as a result of cuts in non-priority spending on goods and services and better control over civil service payroll expenditures. No new hires are expected, except within the health and education ministries and the tax bureau. A new master employee record should help eliminate fictitious jobs and harmonise wage costs.

Djibouti's debt position improved substantially in 2006, following a debt-restructuring agreement with Italy. The situation remained stable in 2007 and improved again in 2008, with external debt rising from 58 per cent of GDP in 2006 to 59 per cent in 2007 and falling back to 56 per cent in 2008. External and domestic public debt fell from 64 to 62 per cent of GDP. New foreign loan disbursements were offset by sustained growth in nominal GDP and net repayment of domestic arrears. The government intends to settle all external arrears and reduce outstanding domestic arrears to 2.5 per cent of GDP in 2008-09.

VAT fixed at 7 per cent replaced the domestic consumption tax in January 2009. The COMESA's common external tariff is scheduled to be introduced in 2010, due to delays at ministerial level in the adoption of common rates within the sub-region. The new VAT, implemented in early January 2009, applies to companies that recorded over 80 million Djiboutian francs (DJF) in sales in 2007 (USD 450 000). The tax bureau has published an initial list of companies subject to VAT. Companies that were not included on this list because their 2007 sales were below the DJF 80 million mark, but exceeded this threshold in 2008, must also bill and collect VAT from their customers as from 1 January 2009.

Measures to modernise the tax administration and improve tax collection are expected in 2009. The measures will focus in particular on increasing the tax bureau's staff, promoting taxpayer compliance, stepping up inspections and restructuring tax collection procedures. Additionally, new measures will be taken in an effort to simplify the tax system and broaden the tax base. The measures include a revision of the scale for the tax levied on wages and salaries, along with certain provisions of the free zone legislation, to avoid distortions related to the social security system and wage taxation. The investment code will also be amended, to rationalise tax exemptions and bolster monitoring of exempt projects.

The government intends to improve management of its cash position by combining various accounts currently held by the banking system and transferring the proceeds to a single Treasury account. The information systems of the Finance Department and Treasury will be linked in early 2009. The new purchasing pool for government procurement contracts, created in August 2008, should reduce the average cost of procurement by generating economies of scale.

Monetary Policy

Djibouti has had a currency board system since 1949, which has made it possible to ensure price stability. The national currency exchanges at a fixed rate of DJF 177.721 per US dollar. This system has substantially improved the country's external competitiveness in recent years, while also bolstering the confidence of the private sector. Official reserves provide robust coverage of foreign exchange commitments, with a coverage ratio of at least 105 per cent of currency in circulation. The country's commercial banks have large and stable foreign exchange reserves. No exchange restrictions are applied. The government intends to maintain the system of fixed parity to the dollar.

The authorities are taking steps to improve liquidity management and make financial intermediation more efficient. To reduce excess liquidity in the banking system and contribute to price stability, the central bank (BCD) plans to adopt a new monetary instrument, consisting in a reserve requirement on deposits. Furthermore, given the increased number of banks in operation and the effects of the international financial crisis, the BCD is determined to build its banking supervision capacity in 2009, in accordance with the Basel principles. To this end, the BCD plans to hire more employees and improve its staff's technical expertise in matters related to banking supervision. The bank also plans to establish accounting and regulatory standards for Islamic banking activities and double the minimum capital requirement for banks, from DJF 300 million to 600 million, with a grace period extended to existing banks. A joint IMF/World Bank mission from the Financial Sector Assessment Program (FSAP) reviewed the vulnerabilities of the new, expanded financial system and will be helping the government to strengthen its supervisory role.

The BCD is not involved in the control of inflation, inasmuch as it lacks the monetary instruments required for an active monetary policy. As a result of food and fuel price increases due to the international food and energy crises, inflation rose from an average of 3.5 per cent in 2006 to 9.2 per cent year-on-year at end-December 2008.

Food prices increased 26.9 per cent from December 2007 to December 2008. This unprecedented inflation also affected prices in the health services sector (up 12.6 per cent) and in hotels and restaurants (up 8 per cent). These changes have directly affected the population, and the lowest-income groups in particular, as their purchasing power has dwindled. This situation could give rise to social tension. To remedy the drop in household purchasing power, the government decided in May 2008 to eliminate the domestic consumption tax (8 per cent) for a basket of five basic foodstuffs (rice, sugar, powdered milk, wheat flour and edible palm oils), a tax subsidy equivalent to DJF 480 million.

External Position

The current account deficit increased significantly, from -14.8 per cent of GDP in 2006 to approximately -31.1 per cent in 2008, as exports provided only limited coverage of goods imports. The steady rise in imports has widened the trade deficit in recent years, from 31.5 per cent of GDP in 2000 to 56.4 per cent in 2008. An improvement is expected in 2009, with a projected trade deficit of 46.7 per cent.

Djibouti's exports and re-exports are mostly comprised of livestock traded to Ethiopia and Somalia. The Arabian Peninsula (Saudi Arabia, Yemen) and Egypt remain the principal markets for Djiboutian exports.

The structure of Djibouti's imports has changed very little since the late 1990s. The main imports are foodstuffs, beverages, hydrocarbons and hydrocarbon derivatives, manufactured goods (machinery, transport equipment), textiles, shoes and chemicals.

Most of Djibouti's imports come from the European Union (EU), particularly France and Italy. There has been an increase in the share of imports from the Near and Middle East, especially Saudi Arabia and the United Arab Emirates. Imports from that region account for 20 per cent of all imports, slightly ahead of Asian imports from China, India and Singapore (19 per cent). Few imports arrive from COMESA countries, and of those that do, over 90 per cent are from Ethiopia (khat, fruits and vegetables).

Djibouti is a net exporter of services, running a surplus of approximately USD 175 million between 2007 and 2008. Trade-related services exports have risen sharply, due in particular to transhipment activities at the PAID and the presence of foreign military contingents.

The year 2008 brought renewed strength to the capital and financial account, with an inflow of FDI in the transport, hotel and banking sectors. Significant investments are expected in 2009, with construction of a refinery in Doraleh and the start-up of the second phase of the new port. The balance on this account doubled between 2006 and 2008, rising from USD 161 million to USD 311 million. FDI's massive contribution to GDP (24.3 per cent) offset the trade deficit and resulted in an increase in gross official reserves (close to 16 per cent of GDP in 2008). These reserves reached USD 154 million at end-November 2008, enabling the currency board to guarantee convertibility of the Djiboutian franc. The real effective exchange rate of the Djiboutian franc depreciated by approximately 4 per cent in 2008, in line with the weakening of the dollar.

Although the Gulf states, the largest investors in Djibouti, were not directly affected by the financial crisis, certain projects could be postponed, such as construction of the Djibouti-Yemen bridge.

As Djibouti is not one of the heavily indebted poor countries, the rescheduling and cancellation of its bilateral debt are negotiated with the Paris Club. In October 2008, the government reached an agreement with the Paris Club creditors relative to rescheduling the country's external public debt. The agreement

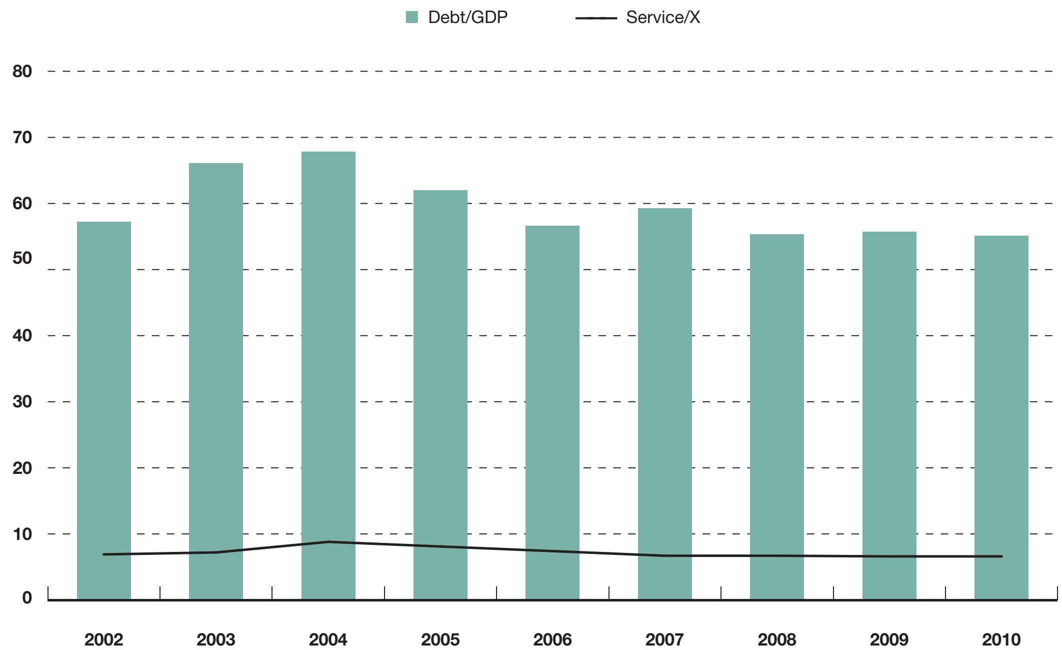
Table 3 - **Current Account** (percentage of GDP at current prices)

	2000	2005	2006	2007	2008(e)	2009(p)	2010(p)
Trade balance	-31.5	-37.7	-44.0	-53.5	-56.4	-46.7	-48.6
Exports of goods (f.o.b.)	5.7	5.6	7.2	9.4	9.1	7.9	7.3
Imports of goods (f.o.b.)	37.2	43.3	51.3	62.9	65.4	54.7	55.9
Services	16.9	23.2	21.0	20.6	18.0	19.5	22.4
Factor income	2.8	9.5	11.1	11.2	9.4	8.4	8.8
Current transfers	2.7	1.8	-2.7	-2.5	-2.1	-1.9	-1.8
Current account balance	**-9.0**	**-3.2**	**-14.8**	**-24.2**	**-31.1**	**-20.7**	**-19.2**

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

StatLink http://dx.doi.org/10.1787/578357168378

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



Source: IMF.

StatLink http://dx.doi.org/10.1787/573162727461

covers approximately USD 76 million, including USD 58 million in arrears and late-payment interest. Some USD 64 million will be rescheduled and USD 12 million will be deferred. This agreement, following comparable arrangements with Djibouti's other creditors, will allow the country to cover its financing deficit for the next three years. The external debt to GDP ratio should stabilise at around 56 per cent in 2009 and 2010, and the debt service to exports ratio at approximately 7 per cent.

Structural Issues

Private Sector Development

Improved coordination between the one-stop shop services of the national investment promotion agency (ANPI) and the other departments concerned by private investment (such as the tax bureau and customs) is on the agenda for 2009. Better coordination between these entities should expedite the process new companies must follow for registration and approval, and should reduce related administrative costs. Several obstacles must be addressed, including the high cost of wages, government services and utilities required for production (energy, water, telecommunications), in addition to the country's skills shortage. The World Bank placed Djibouti 153rd in its 2009 *Doing Business* ranking, the same rank as in 2008.

Djibouti has a reliable and modern banking system. Capital flows freely and no exchange controls are applied. The national currency is stable, freely convertible and tied at fixed parity to the US dollar, which encourages an inflow of foreign deposits to the country's financial system. The financial system is also characterised by free interest rates and an absence of limits on foreign share ownership. These provisions helped spur the establishment of three new banks over the past two years. This increased competition within the banking system should reduce the cost of credit. The growth of credit to the private sector accelerated from 9 per cent in 2006 to 23 per cent in 2007, and is expected to reach 35 per cent in 2008 and 29 per cent in 2009, with the boom in construction projects.

Other Recent Developments

An initial package of reforms was implemented in partnership with the IMF in 2004 and 2005. In September 2008, Djibouti signed a new three-year agreement with the IMF under the PRGF. A new commercial code is to be submitted to the National Assembly in 2009. The implementing orders of the new labour code, dating back to 2005, should also be adopted in 2009. Negotiation of collective labour agreements should follow, resulting in an improved business climate. Hiring procedures will become easier and the labour market will operate with greater fluidity. In addition, reforms to the public procurement code will allow for faster execution of public expenditures.

The government is aware of the importance of strengthening governance and institutional transparency. Efforts to strengthen the Inspectorate-General of Finance are under way: the organisation will be restructured in 2009, a tasking programme for 2009 will be established, and efforts to build staff capacity will continue.

The government plans to develop new energy sources, with priority placed on geothermal, solar and wind energy. A significant agreement was signed with Ethiopia, whereby electricity will be imported by linking the grids of the two countries. The interconnection with Ethiopia will allow for reduced power generation costs, which currently weigh heavily on household and corporate budgets. The Djiboutian authorities plan, in 2009, to negotiate the price of power purchased from Ethiopia.

With regard to environmental policy, the Ministry of Housing, Urban Planning, Environment and Land Use Planning introduced an informational website in January 2008 (http://www.environnement.dj/). Djibouti has ratified numerous international conventions (including Montreal, Kyoto, Ramsar and the Convention to Combat Desertification). A decree relative to procedures for environmental impact studies has been issued. Three areas require improvement: the first relates to the enforcement of environmental laws; the second, to cross-sector coordination and civil society involvement; and the third, to improving the collection, analysis, and public dissemination of information. Within the framework of African Development Bank operations, a reorganisation programme was introduced to improve the quality of life in rural communities, with support from the EU.

Innovation and ICT

Djibouti, much like other small states such as Singapore and Mauritius, wants to capitalise on its strategic location to become a regional hub for the trade, financial and telecommunications sectors.

Telecommunications services are provided by the wholly state-owned monopoly Djibouti Télécom. The Ministry of Postal Services and Telecommunications has low levels of human and financial capacity. Despite this less than favourable situation, the government hopes to turn Djibouti into a telecommunications hub for the entire Horn of Africa. The country is participating in modern infrastructure projects focused on access to the international market, projects that hold great potential for the sector's development.

Djibouti Télécom rehabilitated its global system for mobile communications (GSM) infrastructure in June 2007, with support from Chinese telecoms equipment manufacturer Huawei. This work included inauguration of the "Evatis-Edge" GSM exchange, which has capacity for 200 000 subscribers and can be expanded to accommodate 1.8 million customers. Technical problems nonetheless persist with regard to the quality of international calls. Huawei commenced operations that will favour high-speed Internet connections and open the door to commercialisation of a variety of services such as multimedia messaging and mobile Internet services.

At the intercontinental level, in May 2008 Djibouti Télécom co-signed the Europe-India Gateway (EIG) project with 16 partner companies. This project, for a high-capacity submarine cable system, will link India to Western Europe. The project is estimated to cost USD 700 million, with Djibouti Télécom contribution estimated at approximately USD 31.5 million. A fibre-optic cable network of this nature should meet the needs of all of East Africa. Marketing of cable services is expected to begin in mid-2010. Djibouti Télécom received a USD 25 million loan from the Agence française de développement to finance the link-up.

At the continental level, Djibouti Télécom ranks among the 30 operators of the Eastern Africa Submarine Cable System (EASSy), a high-capacity submarine cable project that will link the South African city of Mtunzini to Port Sudan, with landing points in Mozambique, Madagascar, Tanzania, Kenya, Somalia and Djibouti. Costing an estimated USD 235 million, this project will link together over 250 million customers. On land, installation of a fibre-optic cable linking Ethiopia and Djibouti is under way. This cable will link Ethiopia to the submarine cable systems.

The submarine cable systems are compatible with existing land stations, which ensures a reasonable level of security for certain traffic flows towards Europe and Asia. The international satellite transmission platform will also provide interconnections between operators in the sub-region.

With fibre-optic cable installed in the capital, Djibouti Télécom will be able to market asymmetric digital subscriber line (ADSL) services, and is also expected to gain rural telephony coverage via a wireless local loop radio system.

After establishing a national committee to formulate the country's information and communication technology (ICT) infrastructure development strategy, Djibouti passed legislation defining the country's national ITC policy in 2003. The ten-year National ITC Development Strategy (2003-13) was approved in relation to this law, along with the related action plan and creation of a National Steering and Monitoring Council. The Ministry of Information and Communication Technology will coordinate and monitor the strategy.

A law pertaining to reforms in the ICT sector approved in 2004 requires that three fundamental principles be upheld in the provision of ICT services.

The first relates to equality of universal access, with priority on telecommunications. The second stipulates continuity in the provision of telecommunications services, and the third requires that ICT be adaptable to changes in technology and user needs.

An independent ICT regulatory body (Agence djiboutienne de régulation des TIC – ADRT) is in the planning stages, but not yet operational. In the meantime, the role of regulator is assumed by Djibouti Télécom, the country's sole operator. As a utilities licensee, this operator must nonetheless submit written requests to the ADRT for approval of its proposed rates and services.

Djibouti's public telephone booths are managed by Djibouti Télécom, in association with local communities. The installation of telephone booths in partnership with small shopkeepers has helped to open up the outskirts of urban areas. The Djiboutian government hopes in particular to empower and involve rural communities. To stem vandalism, the payphones were installed close to shops, and shopkeepers receive a percentage on the sale of prepaid cards.

In 2006, the University of Djibouti introduced new tracks related to ICT development; these include university degrees (*diplômes d'études universitaires*) in computer science, information management, computer science and mathematics, and computer science methods applied to business management. The university also houses the Computer Resources Centre (CRI), which is responsible for determining broad guidelines in the field. The 2007-08 action plan called for improvements in access to all these services, along with staff support and the development of digital services related to management, university affairs and teaching. The CRI hosts the Cisco Regional Academy, a training centre focused on preparing students for Cisco certification, which has international validity and is recognised by companies worldwide.

A Science and New Technologies Institute (ISNT) was created in 2001 by the Centre d'études et de recherches de Djibouti, the national research centre. The ISNT's mission involves formulating the government administration modernisation programme, raising popular awareness of ICT and the Internet, promoting awareness-raising seminars and participating in international forums. More generally, the ISNT is tasked with research programmes relating to computer science, electronics and automation.

Regarding continuing education, the Djibouti Télécom Centre for Continuing Education (CFPDT) was introduced in 1981 as a way to meet the staffing needs of Djibouti Télécom. The CFPDT provides specialised training in the areas of transmission and network access for technicians, advanced courses for inspectors and a core curriculum for low-skilled workers. It established a partnership for refresher training internships with the multinational telecommunications school (*École supérieure multinationale des télécommunications*) in Dakar, a centre of excellence recognised by the International Telecommunication Union.

The United Nations report on e-government ranks Djibouti in 157th place worldwide. This report ranks 183 countries according to various criteria, such as online administrative services, government websites, electronic money and online payment systems. For each country, the report measures progress in ICT and its use towards improving access to government services. Djibouti has also established a master government employee database in a bid to gain better control over staff expenditures while also improving the system for managing civil service wages.

Table 4 shows changes in the numbers of Djibouti Télécom subscribers and short message service (SMS) messages exchanged, as of the close of the first half of 2008.

From 2007 to 2008, the total number of landlines increased by 14.5 per cent. The number of mobile subscribers rose by 114 per cent, due to promotional initiatives and a 50 per cent decrease in the price of subscriber identity module (SIM) cards. ADSL prices have fallen by up to 60 per cent, generating a 183 per cent increase in the number of subscribers, which nonetheless remains low (1 475 users). The introduction

Table 4 - **Change in Telecommunications Indicators for the First Half of 2008**

Services	First half of 2006	First half of 2007	First half of 2008	Year-on-year change (percentage)
Landline telephones	10 707	12 613	14 427	14.5
Rural telephony (fixed GSM)		20	38	80
Telephone booths (regions)	777 (85)	1 330 (125)	1 788 (150)	34.5
Active GSM subscribers	45 644	44 359	94 874	114
Average daily number of foreign subscribers to GSM roaming service	1 414	n.a.	1 643	---
Number of SMS			25 914 492	---
Internet subscribers	3 672	3 856	3 993	3.5
High-speed Internet		521	1 475	183
Connection time by fixed subscribers[1] (minutes)	n.a.	n.a.	71 711 398	----
Connection time by mobile subscribers (GSM) (minutes)	15 733 851	14 569 501	n.a.	----
Internet connections[2]	42 595 506	67 977 400	135 064 404	98

1. Measure implemented since July 2007.
2. Does not include traffic generated by high-speed subscribers connecting via specialised links.
Source: Bulletin d'information économique, first half of 2008.

StatLink http://dx.doi.org/10.1787/580383188755

of prepaid Internet and rate restructuring are planned in 2009.

Political Context

A multi-party system was introduced in Djibouti in 1992, following ratification of a Constitution. Legislative elections were held in February 2008 to fill the 65 National Assembly seats. Approximately 150 000 citizens were called upon to vote, and the Ministry of the Interior reported turnout of 72 per cent of registered voters. The president's political party Union pour la majorité présidentielle (UMP) won all of the seats in the Assembly. The opposition, including four parties that have joined forces as the Union for Democratic Change (Union pour l'alternance démocratique), launched accusations of electoral fraud. International monitors appointed by the International Organisation for the French-speaking World (OIF) and the Arab League did not contest the legality of the elections. Idriss Arnaoud Ali was thus elected to another five-year term as President of the National Assembly, with 61 votes in favour and 4 against. Regional and local elections were held in 2006, but the territorial authorities lack the resources required to operate effectively.

In June 2008, armed attacks occurred on the border between Djibouti and Eritrea, in the Doumeira area. In October 2008, Djibouti's president addressed the United Nations Security Council to request demilitarisation of the border region.

Djibouti played a key role in hosting and arranging the August 2008 meeting on Somalia that, under the auspices of the United Nations, paved the way for official signature of the peace agreement between the Transition Federal Government and the Alliance for the Reliberation of Somalia.

Social Context and Human Resources Development

Djibouti is marked by high urban concentration. No less than 95.4 per cent of the population lives in cities, and 83.3 per cent in the city of Djibouti. The country's population is very young (40 per cent under the age of 18), but unemployment remains high: 59 per cent in 2002, compared to 44 per cent in 1996. Poverty remains high, with a relative poverty rate of 74.4 per cent and an extreme poverty rate of 42.2 per cent in 2002. Khat continues to be a problem, as over 26 per cent of the population consumes the drug (45.5 per cent of men and 7.2 per cent of women).

The main socio-economic objectives of the 2004 Poverty Reduction Strategy Paper place Djibouti on a path toward reduced poverty and improved well-being for Djiboutians. Two initiatives testify to the government's efforts in this context: the launch of the National Initiative for Social Development (INDS) in 2007 and the creation of the Djiboutian Agency for Social Development (ADDS) in January 2008. Funding for the INDS, which is focused on poverty reduction, will come from earmarked long-term resources in the central budget. The INDS has set the three main areas of focus of the ADDS. The first relates to promoting access to basic social services. The second involves restructuring the country's production system to create enough jobs to eradicate poverty and lower unemployment, particularly among young workers, by taking the informal sector into consideration in national employment efforts. Finally, the government intends to assist individuals who are vulnerable or have specific needs so that they can provide for their daily needs and become integrated into society with dignity.

Concerning the Millennium Development Goals, the most significant progress has been made in health care. Infant mortality declined from 121 per thousand in 1990 to 67 per thousand in 2008. The literacy rate of 15-24 year olds increased from 27 per cent in 2002 to 42.5 per cent in 2006, but much remains to be done to reach the goal of 95 per cent literacy by 2015. HIV/AIDS prevalence has stabilised at a rate of approximately 3 per cent.

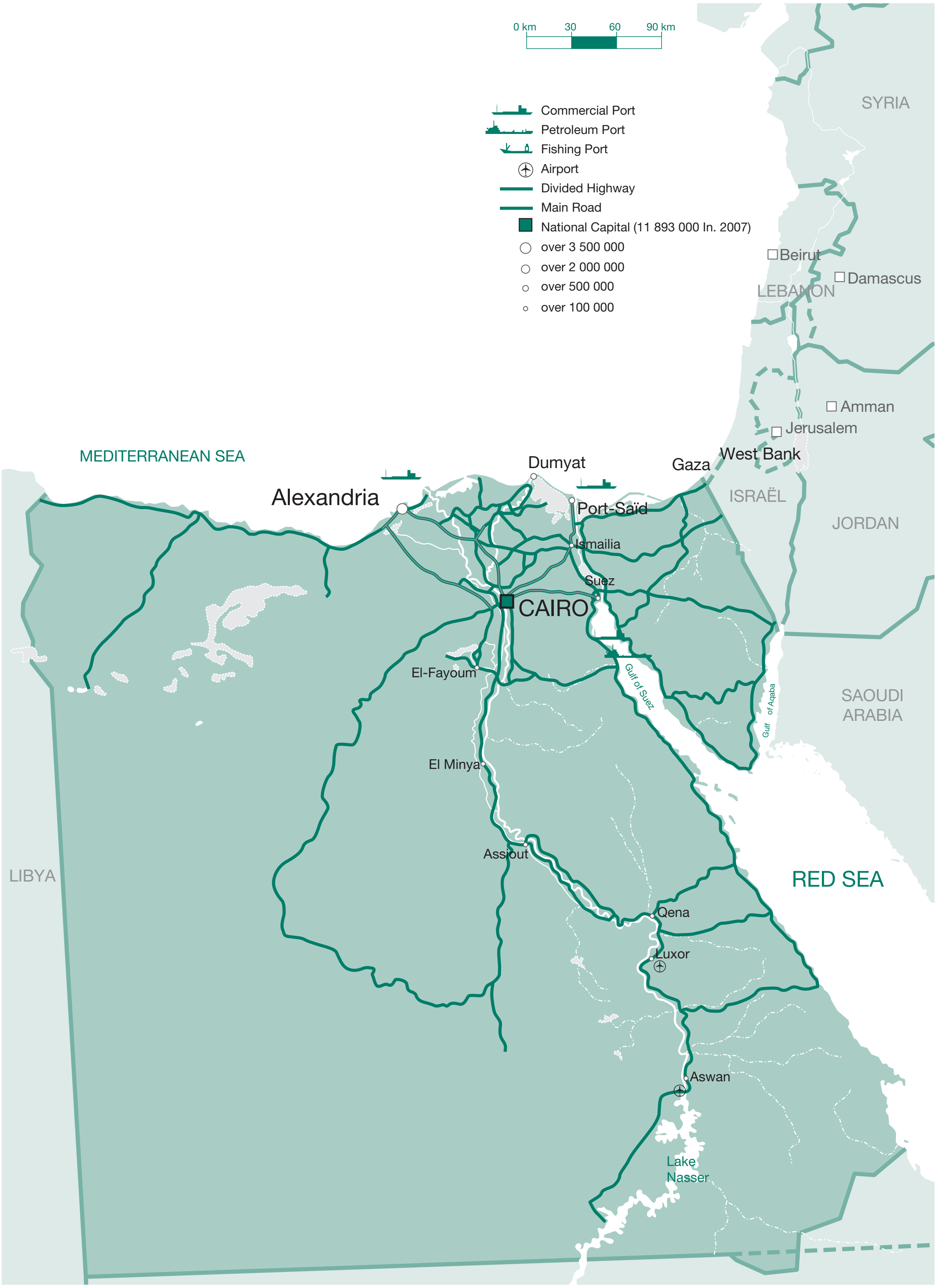
Education and health account respectively for 23.8 per cent and 9.9 per cent of the 2008 budget, reflecting the government's genuine commitment to poverty reduction.

Egypt

key figures

- Land area, thousands of km²: 995
- Population, thousands (2008): 81 527
- GDP per capita, PPP valuation, USD (2008): 5 352
- Life expectancy (2008): 70.1
- Illiteracy rate (2008): 28

Egypt



0 km
30
60
90 km
Commercial Port
Petroleum Port
Fishing Port
Airport
Divided Highway
Main Road
National Capital (11 893 000 In. 2007)
over 3 500 000
over 2 000 000
over 500 000
over 100 000
SYRIA
Beirut
Damascus
LEBANON
Amman
Jerusalem
West Bank
ISRAËL
JORDAN
Gaza
Dumyat
MEDITERRANEAN SEA
Alexandria
Port-Saïd
Ismailia
Suez
CAIRO
El-Fayoum
Gulf of Suez
Gulf of Aqaba
SAOUDI ARABIA
El Minya
Assiout
LIBYA
RED SEA
Qena
Luxor
Aswan
Lake Nasser

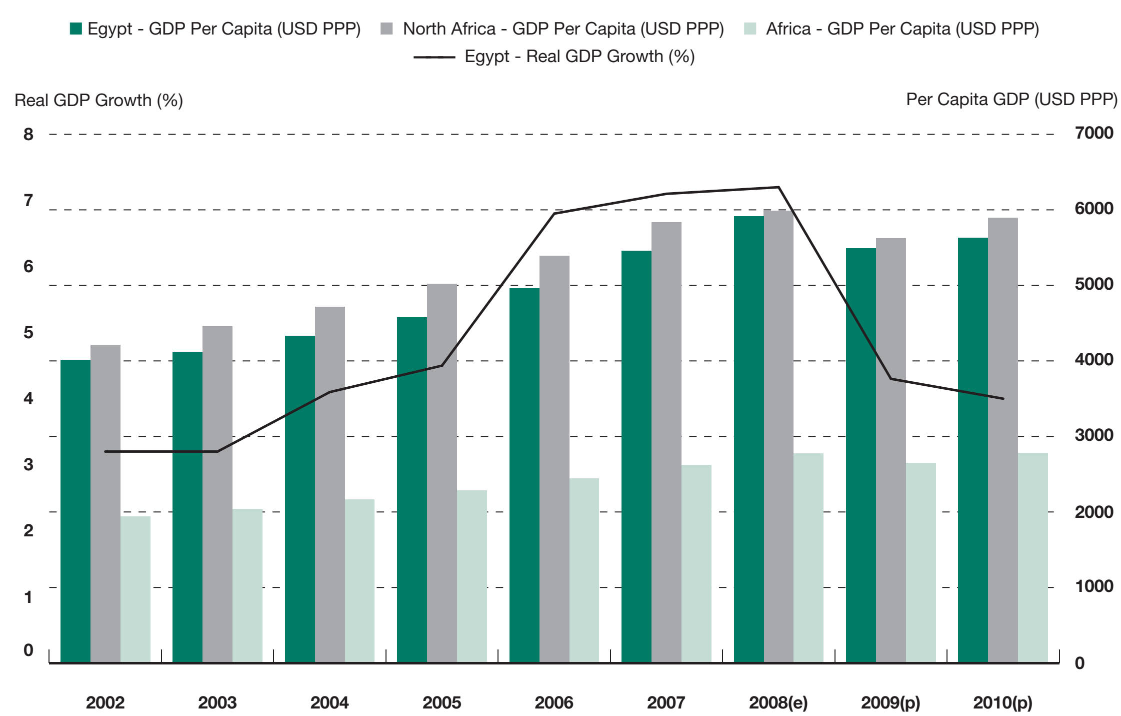
IN 2007/08 EGYPT'S ECONOMY GREW by 7.2 per cent. The prime engines of this robust growth were industry, tourism and revenues from the Suez Canal. Foreign direct investment (FDI) inflows also reached a new high of USD 13.2 billion (US dollars), more than triple the level in 2004/05. According to the *World Investment Report 2008*, Egypt is the top FDI recipient in North Africa and the second largest in Africa. On the demand side, growth was led by significant increases in consumption and investment. In 2007/08, implemented investments recorded real annual growth of 15.5 per cent, whereas total private and public consumption grew by 5.3 per cent. Rising oil and food prices increased inflation sharply and lowered real incomes, but boosted exports of oil and natural gas.

In the context of the global financial turbulence and the deteriorating international economic outlook, economic growth is expected to slow to 4.3 per cent in 2008/09 and to 4 per cent in 2009/10. The global recession will spill over to Egypt through decreases in exports, tourism revenues, Suez Canal revenues and workers' remittances.

Declining revenue from tourism, the Suez Canal and exports detracted from an otherwise strong growth performance.

Egypt's strong growth is the fruit of an ambitious market-oriented reform programme, with substantial price liberalisation and privatisation of state-owned enterprises. The international economic crisis may delay reforms, however. Egypt has been making

Figure 1 - Real GDP Growth and Per Capita GDP
(USD/PPP at current prices)



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

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tremendous efforts to reduce poverty, yet regional disparities in poverty and other social indicators remain a major concern.

Recent Economic Developments

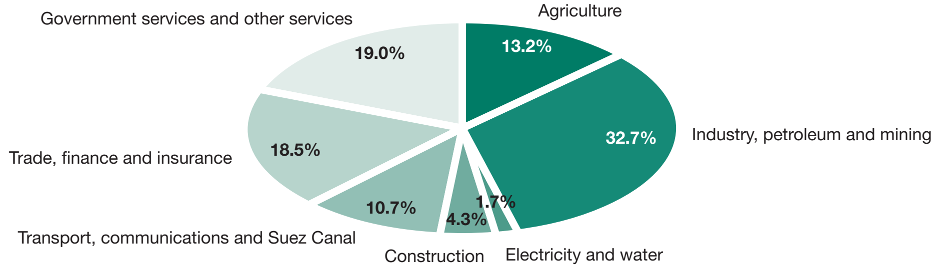
Increased world prices for energy, minerals and basic food commodities in 2007/08 had mixed effects on the Egyptian economy, given that Egypt is a net exporter of oil and natural gas as well as some agricultural commodities. While export revenues rose, higher prices adversely affected much of the population, particularly lower-income groups. Real GDP growth continued its upward trend to reach a high of 7.2 per cent in 2007/08, up from 6.8 per cent in 2005/06 and 7.1 per cent in 2006/07. The main sectors contributing to this growth in 2007/08 were manufacturing, extractive industries, Suez Canal revenues and tourism.

The world financial crisis is expected to slow economic growth in Egypt to 4.3 per cent in 2008/09 and 4 per cent in 2009/10. FDI inflows are likely to decline and domestic investors to become more cautious. Tourism receipts and workers' remittances are expected to be negatively affected as well, and Suez Canal revenues will probably fall due to lower trade, lower oil prices and pirate attacks near Somalia. Consequently, both domestic and foreign sources of demand are likely to decline. As a stimulus to economic activity, the government plans to increase expenditure on infrastructure projects, while avoiding increases in recurrent expenditure.

Industrial production has been the leading source of growth in Egypt, contributing 33 per cent of GDP in 2007/08. Manufacturing is responsible for about half of this contribution, while the rest results from extractive industries, mainly petroleum and natural gas. Manufacturing output rose by 8 per cent in 2007/08, an improvement over the previous year. Investments in manufacturing grew 3.5 per cent to EGP 43 billion (Egyptian Pounds) during 2007/08, 22 per cent of total investment. According to the Industrial Development Authority, which oversees the government's "1 000 Factory" and "Business Market" programmes, investments of EGP 19.7 billion led to the establishment of 700 factories with an absorptive capacity of 81 000 workers from the beginning of these programmes in 2005 to June 2008. During 2007/08, EGP 6.8 billion was invested to establish and/or expand 160 factories with employment capacity of about 24 000 jobs. Statistics on industrial land show that about 13.2 million m^2 were allocated for small industries in 16 cities, and another 1.6 million m^2 are currently under allocation.

Extractive industries contributed 17 per cent of GDP in 2007/08. The growth rate in these industries remained at 4 per cent, led by an 8.4 per cent increase in oil refining. Egypt is both an exporter and an importer of petroleum products, with an overall surplus in this sector. In 2007/08, total production of crude oil condensates, butagas and gases grew by 3.4 per cent to reach 75.8 million tonnes. Natural gas production rose by 4 per cent to about 43 million tonnes, while

Figure 2 - **GDP by Sector in 2007** (percentage)



Source: Authors' estimates based on Ministry of State for Economic Development data.

StatLink http://dx.doi.org/10.1787/571446036178

that of petrochemical products rose by 7 per cent to 37.2 million tonnes. Investments in the petroleum sector amounted to 17.6 per cent of total investment in 2007/08. Consumption of petroleum products and natural gas also increased, however (by 8 per cent to a level of 29.8 million tonnes for petroleum, and by 6 per cent to 29.7 million tonnes for natural gas), leaving export volumes largely unchanged. Nevertheless, as a result of higher prices, the trade surplus in oil and natural gas increased by 70 per cent to USD 10.2 billion in 2007/08, compared to USD 6 billion in 2006/07.

Although agriculture's share in GDP was only 13 per cent in 2007/08, farming plays an important role in rural incomes and employment, as well as export revenues. The agricultural sector accounted for around 27 per cent of total employment in 2006/07, and agricultural commodities exports for 4 per cent of total exports. Production grew by 6.5 per cent in 2006/07, and land under cultivation by 4.8 per cent. During 2007/08, wheat production reached 8 million tonnes, representing between 55 and 60 per cent of domestic consumption. On 2 March 2008, the government raised fertiliser prices by 90 per cent in an initial step towards full price liberalisation. In April, a six-month ban on rice exports was instituted to divert supplies to the local market and lower domestic prices in the face of a global shortage. Rice production averages 4.6 million tonnes per year. Local consumption is about 3.2 million tonnes, leaving 1.4 million tonnes available for export. Other key agricultural exports include cotton, potatoes, citrus fruits, medicinal plants, groundnuts, onions, and preserved and dried vegetables.

Services' contribution to GDP increased slightly from 51.6 per cent in 2005/06 to 52.4 per cent in 2007/08. Suez Canal revenues grew by 22.5 per cent to USD 5.1 billion in 2007/08 as the number of crossing vessels rose by 7.6 per cent to 5 371 and their net tonnage rose by 10.5 per cent to 226.1 million tonnes. Tourism accounts for 19.3 per cent of foreign currency earnings and 7 per cent of GDP. This sector has been booming, with its rate of growth accelerating from 13 per cent in 2006/07 to 24 per cent in 2007/08. The number of tourists increased almost 25 per cent to 12.3 million in 2007/08. The average length of stay also rose, from 9.8 nights in 2006/07 to 10.4 nights in 2007/08, so that the total number of tourist-nights increased by 32 per cent. Investments in tourism jumped 47.4 per cent in 2007/08 to EGP 5.6 billion.

The contribution of information and communication technology (ICT) to GDP was 3.9 per cent in 2007/08, with a growth rate of 14.2 per cent. Investments in ICT rose from EGP 9.6 billion in 2006/07 to EGP 14.7 billion in 2007/08, an increase of 53 per cent. In a country with a population of about 82 million people, the number of fixed-line subscribers reached 11.3 million in June 2008 and telephone capacity increased to 13.9 million lines. The number of mobile subscribers increased to 35.1 million, with a growth rate of 14 per cent during 2007/08, while Internet users rose by 39 per cent to 9.7 million. In June 2008, Egypt had 1 747 technology clubs, and there were 2 519 companies operating in the ICT sector. The sector employed a total of 164 900 people in 2007/08.

The construction sector contributed 4 per cent of GDP in 2007/08, after growing strongly by 14.8 per cent in 2007/08 and 15.8 per cent in 2006/07. This construction boom has led to increases in the prices of building materials, particularly steel and cement. In response, the government has taken several measures to contain these prices. In March 2008, export duties of EGP 160 per tonne on iron and of EGP 65 per tonne on steel products and cement were imposed. In May 2008, the government imposed another export tax of EGP 27 per tonne on cement and required steel companies to provide a weekly report on prices and quantities sold. The export duties on cement and steel were removed in October 2008.

Total investment increased in 2007/08 to almost EGP 200 billion from EGP 155 billion in the previous year, growing by 28.5 per cent in nominal terms, while the investment-to-GDP ratio rose to 22.3 per cent (20.9 per cent in 2006/07). Public investment accounted for one-third of capital formation in 2007/08 and grew by 12.7 per cent, reflecting investments in infrastructure and in human and social development. Private investment increased by 34.2 per cent in 2007/08.

Table 1 – **Demand Composition**

	Percentage of GDP (current prices)		Percentage changes, volume			Contribution to real GDP growth		
	1999/2000	2006/07	2007/08	2008/09(e)	2009/10(p)	2007/08	2008/09(e)	2009/10(p)
Gross capital formation	**19.6**	**20.8**	**15.5**	**10.4**	**9.4**	**3.4**	**2.3**	**2.2**
Public	10.2	7.9	12.7	9.0	9.6	0.9	0.6	0.7
Private	9.4	12.9	34.2	11.0	9.4	5.1	1.6	1.5
Consumption	**87.1**	**83.7**	**5.3**	**4.4**	**5.1**	**4.4**	**3.7**	**4.3**
Public	11.2	11.3	2.5	7.2	6.5	0.3	0.8	0.8
Private	75.9	72.4	5.7	3.9	4.9	4.1	2.8	3.6
External demand	**-6.6**	**-4.6**				**-0.6**	**-1.6**	**-2.5**
Exports	16.2	30.2	29.0	4.3	1.9	7.7	1.1	0.5
Imports	-22.8	-34.8	26.0	8.6	9.0	-8.3	-2.7	-3.0
Real GDP growth						**7.2**	**4.3**	**4.0**

Source: Ministry of State for Economic Development Data; estimates (e) and projections (p) based on authors' calculations.

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The commodities sector captured the largest share of implemented investments (53 per cent), followed by production services (26 per cent), and social services and public utilities (21 per cent). The distribution of investments by sector in 2007/08 was as follows: 22 per cent for manufacturing industry; 20 per cent for social services; 17 per cent for petroleum; 13 per cent for transportation and storage; 11 per cent for tourism and communications; 8 per cent for electricity and water; 4 per cent for agriculture; 3 per cent for trade and finance, and 2 per cent for building and construction. Total investment should continue to grow, but at lower levels than in 2007/08; the projected growth rates for 2008/09 and 2009/10 are 10.4 and 9.4 per cent respectively.

Macroeconomic Policies

Fiscal Policy

In 2007/08, the overall budget deficit increased to 6.8 per cent of GDP (5.6 per cent in 2006/07), due to increases in international food and oil prices and the ensuing increases in subsidies and social expenditures to cushion the blow to middle- and low-income consumers. On average, Egyptians spend some 45 per cent of their incomes on food, with this ratio rising to 60 per cent for the lowest quintile. Egypt has sought to reduce the level of these subsidies, particularly on petroleum.

Total revenue and grants increased by 22.9 per cent to EGP 221.4 billion, with tax revenues increasing by 20 per cent to EGP 137.2 billion and non-tax revenues rising by 27.8 per cent to EGP 82.7 billion. Total expenditures increased by 27 per cent to reach EGP 282.3 billion (31.5 per cent of GDP). The cost of subsidies surged by 56 per cent to EGP 84.2 billion. The largest subsidy is for petroleum products, which rose to EGP 72.1 billion in 2007/08, an increase of 68 per cent. Other categories of expenditure also increased: wages and salaries by 20.5 per cent to EGP 62.8 billion; interest payments by 5.9 per cent to EGP 50.5 billion; and public investment by 34.1 per cent to EGP 34.2 billion.

President Mubarak announced a 30 per cent rise in basic pay[1] for government employees. New compensation policies also increased the minimum

1. On average, basic pay represents 25-33 per cent of net salary.

salaries received by 3.4 million local government employees[2], who are among the lowest-paid government workers. A 20 per cent boost in monthly pensions (to a maximum of EGP 100) was also enacted. Distribution of rice, sugar and edible oil through the ration card system was expanded to new beneficiaries. The government relaxed the eligibility rules for ration cards, making 15 million more individuals eligible. This was the first time that new cardholders were added to the ration card registry since 1988.

In an effort to maintain fiscal discipline, cost-cutting measures were introduced on 5 May 2008: energy subsidies were scaled back by EGP 7.5 billion, sales taxes on cigarettes increased, fees on vehicle licences and cement quarries raised, and some income tax exemptions eliminated. The elimination of tax exemptions covers interest on treasury bills, profits of educational institutions and profits of energy-intensive free zone companies[3], such as producers of petrochemicals, fertilisers and steel, as well as companies specialising in liquid natural gas (LNG) manufacturing, liquefaction and transportation.

To counter the expected economic slowdown resulting from the global recession, the government will provide a stimulus package of EGP 15 billion to support economic growth. Government spending will increase mainly for infrastructure projects (especially water, sanitation and transport) and export subsidies.

The government remains committed to reducing the budget deficit to 3 per cent of GDP by the end of 2010/11, but this will be difficult if the world economic slowdown continues. The deficit is projected to reach 7.1 per cent of GDP in 2008/09 and 6.7 per cent in 2009/10. For 2008/09, total revenue is projected at 25 per cent of GDP, whereas expenditures are expected to be 32.1 per cent of GDP.

A new value added tax planned for 2008/09 is expected to increase government revenue by around 2 per cent of GDP annually. Tax collection should also improve if the income tax amendments designed to promote taxpayer compliance are implemented. In 2008, the parliament approved modifications to the Real Estate Tax Law which are expected to boost public revenue.

In 2007/08, gross domestic public debt amounted to EGP 537.7 billion (60 per cent of GDP), compared to EGP 493.9 billion at the end of 2006/07 (66.3 per

Table 2 - **Public Finances** (percentage of GDP at current prices)

	1999/2000	2004/05	2005/06	2006/07	2007/08	2008/09(e)	2009/10(p)
Total revenue and grants[a]	**22.2**	**20.6**	**24.5**	**24.2**	**24.7**	**25.0**	**24.9**
Tax revenue	12.6	13.3	15.2	14.8	14.8	14.7	14.5
Oil revenue	2.0	0.7	0.6	0.6	0.5	0.5	0.5
Total expenditure and net lending[a]	**0.5**	**30.0**	**33.6**	**29.8**	**31.5**	**32.1**	**31.6**
Current expenditure	26.1	25.3	29.9	26.0	27.2	28.0	27.6
Excluding interest	*20.5*	*19.3*	*23.9*	*19.6*	*21.6*	*22.9*	*22.9*
Wages and salaries	15.0	7.7	7.6	7.0	7.0	7.2	6.9
Interest	6.5	6.1	6.0	6.4	5.6	5.2	4.6
Capital expenditure	5.5	4.3	3.4	3.4	3.8	3.8	3.7
Primary balance	**1.6**	**-3.3**	**-3.2**	**0.8**	**-1.2**	**-2.0**	**-2.1**
Overall balance	**-3.9**	**-9.4**	**-9.2**	**-5.6**	**-6.8**	**-7.1**	**-6.7**

a. Only major items are reported.
Source: Ministry of Finance data; estimates (e) and projections (p) based on authors' calculations.

StatLink http://dx.doi.org/10.1787/576881536571

2. The government increased the maximum compensation for local government employees to EGP 75.

3. Of a total of 1 243 companies operating in free zones, 37 are affected by this measure.

cent of GDP). Gross external debt reached USD 33.9 billion in 2007/08, as against USD 29.9 billion in the previous year. As a percentage of GDP, gross external debt decreased from 22.8 per cent in 2006/07 to 20.1 per cent in 2007/08.

Monetary Policy

Average annual consumer price inflation edged up to 11.7 per cent in 2007/08 from 11.2 per cent a year earlier. Year-over-year inflation increased from 8.6 per cent in June 2007 to 20.2 per cent in June 2008 and a peak of 23.6 per cent in August 2008, due to pass-through of commodity price increases (especially for energy) and pressures from buoyant domestic demand.

Inflation started to decelerate in September 2008 (21.5 per cent) and declined further to 14.3 per cent in January 2009, as the deepening world recession sent commodity prices tumbling. Lower import prices coupled with slower economic growth should reduce Egypt's inflation rate to 13 per cent by the end of 2008/09.

The Central Bank of Egypt (CBE) tightened monetary policy during 2007/08. Beginning in February 2008, the CBE raised its overnight deposit and lending rates six times, by 50 basis points each time, to reach 11.5 per cent and 13.5 per cent respectively in September 2008. In November its rates were left unchanged, but following the observable decline in inflation to 14.3 per cent in January 2009, the CBE decided in February 2009 to adopt a less restrictive monetary policy and cut the overnight deposit rate by 100 basis points to 10.5 per cent.

External Position

In 2007/08 the overall balance of payments recorded a surplus of USD 5.4 billion, up from USD 5.3 billion in the previous year, due to a net inflow of USD 7.1 billion on the capital and financial account and a current account surplus of USD 0.9 billion. Although the trade deficit increased, a current account surplus was achieved due to positive balances in services and net unrequited transfers. The trade deficit grew by 43.7 per cent in 2007/08 to reach USD 23.4 billion. Merchandise exports rose by 33 per cent to USD 29.4 billion, with increases of 43.2 per cent in oil exports and 25 per cent in non-oil exports (mainly finished goods and raw materials). Merchandise imports grew by 37.8 per cent, to USD 52.8 billion, with oil imports more than doubling to USD 9.6 billion.

The surplus on services trade rose to USD 15 billion in 2007/08 from USD 11.5 billion in 2006/07. Services receipts rose by 33 per cent, with tourism revenues up 32.3 per cent to USD 10.8 billion and Suez Canal proceeds rising 23.6 per cent to USD 5.2 billion.

Net transfers grew by 32.2 per cent in 2007/08 to reach USD 9.3 billion. Net private transfers (remittances) increased by 33.8 per cent to USD 8.3 billion and official transfers by 20 per cent to USD 1 billion.

Table 3 - **Current Account** (percentage of GDP at current prices)

	1999/2000	2004/05	2005/06	2006/07	2007/08	2008/09(e)	2009/10(p)
Trade balance	-11.5	-11.1	-11.1	-12.3	-14.1	-16.2	-14.3
Exports of goods (f.o.b.)	6.4	14.8	17.1	16.7	17.7	13.8	12.5
Imports of goods (f.o.b.)	17.9	26.0	28.3	29.0	31.8	30.0	26.8
Services	4.7	8.7	7.1	7.8	8.2	10.0	7.9
Factor income	0.9	-0.3	0.5	0.9	0.8	0.5	0.5
Current transfers	4.7	5.8	5.1	5.3	5.6	4.4	4.1
Current account balance	**1.1**	**3.1**	**1.6**	**1.7**	**0.5**	**-1.2**	**-1.8**

Source: Central Bank of Egypt data; estimates (e) and projections (p) based on authors' calculations.

StatLink http://dx.doi.org/10.1787/578400661767

According to the United Nations Commission on Trade and Development's *World Investment Report 2008*, Egypt is the largest FDI recipient in North Africa and the second-largest in Africa. FDI inflows increased to 8.5 per cent of GDP over the last two years, reaching USD 13.2 billion in 2007/08, with the petroleum sector accounting for USD 4.1 billion (31.1 per cent). Greenfield FDI totalled USD 6.4 billion (48.5 per cent of net inflows), acquisitions USD 2.3 billion (17.4 per cent) and purchases of real estate USD 0.4 billion (3 per cent).

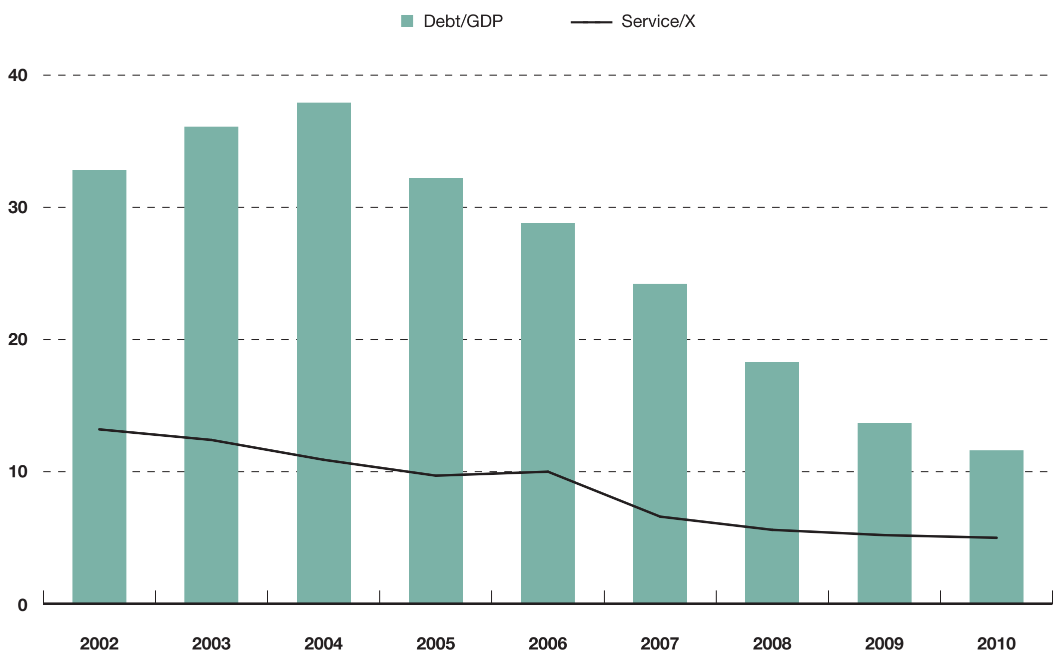
Looking ahead, the external current account balance is expected to move from a small surplus in 2007/08 to a deficit in 2009/10 and 2010/11 as exports decline due to the world economic slowdown. FDI inflows are unlikely to prevent a moderate decline in international reserves. Considering the volatility of the financial markets, there is also a risk of further capital outflows.

The import coverage of international reserves decreased to 7.9 months during 2007/08 (8.9 months in 2006/07), as the increase in the import bill outpaced that of reserves. Net international reserves increased from USD 28.6 billion in 2006/07 to USD 34.6 billion in 2007/08 (up 21 per cent), while imports rose from USD 38.3 billion to USD 52.7 billion (an increase of 38 per cent).

Egypt has used a floating exchange rate system since 29 January 2003. In 2007/08, the Egyptian pound appreciated by 5 per cent against the US dollar from EGP 5.68 in July 2007 to EGP 5.35 in June 2008. The appreciation was larger in real terms, given Egypt's relatively high inflation.

Foreign public debt increased by 13.4 per cent to reach USD 33.9 billion in June 2008 (20.1 per cent of GDP), compared to USD 29.9 billion (22.8 per cent of GDP) a year earlier. Only 7.4 per cent of total

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



Source: IMF.

StatLink http://dx.doi.org/10.1787/573181487228

foreign debt is composed of liabilities with short-term maturity. Gross external public debt accounted for 63.9 per cent of total foreign debt by end of June 2008.

Structural Issues

Private Sector Development

The government has sought to reduce barriers to business formation by lowering the paid-in minimum capital requirement by over 80 per cent and automating the tax registration system. In addition, the parliament approved the creation of economic courts in the fourth quarter of 2007/08. These courts are intended to resolve investment and commercial disputes rapidly. In May 2008 the insurance law was amended to strengthen the role of the Egyptian Insurance Supervisory Authority, to allow for banks' involvement in marketing of insurance products and to require companies to specialise in either life insurance or property insurance.

During the last four years, Egypt has pursued banking reforms aimed at encouraging mergers and acquisitions, restructuring state-owned banks, addressing the problem of non-performing loans and developing the CBE's regulatory and supervisory role. Significant progress has been achieved in divestiture of public ownership in banks and consolidation of the banking system; the number of banks decreased from 57 in 2004 to 33 in 2008. In 2006, the government sold its majority stake in Bank of Alexandria, previously one of the four main state-owned banks. In 2007, it announced that Banque du Caire, another state-owned bank, would be sold, but the auction of up to 67 per cent of its shares was cancelled in June 2008, as bids were too low. At the time of writing, the global financial crisis has had only a limited impact on the Egyptian banking system. The equity market, in contrast, has suffered great volatility and, like other emerging markets, dropped sharply in 2008 (-31.7 per cent).

Other Recent Developments

Egypt's strong economic growth is partly due to bold liberalisation of the economy, including privatisation and reduction of subsidies. Several measures have been taken in recent years to reduce energy subsidies. In September 2007, fuel oil prices were doubled to EGP 1 000 per tonne, and the price of natural gas for energy-intensive industries was adjusted to international levels over three phases ending in 2009, while subsidies for non-energy-intensive industries are to continue until 2013. The government has decided to keep energy prices (natural gas and electricity) unchanged for most industrial users until the end of 2009. For energy-intensive industries (fertilisers, cement, steel, aluminium and ceramics manufacturing), however, electricity prices were raised in July 2008 as follows: by 22 per cent for extra-high voltage users to EGP 0.217 per kilowatt hour (kWh), by 18 per cent for high-voltage consumers to EGP 0.255 per kWh and by 13 per cent for medium-voltage users to EGP 0.334 per kWh.

Targeting of food subsidies has not been very effective: the bottom quintile receives only 17 per cent of the total food subsidy, while as much as 21 per cent accrues to the top quintile. The government intends to improve targeting of subsidies to low-income groups, introduce automatic adjustment mechanisms for administered prices and strengthen transfer programmes to assist the most vulnerable groups.

Innovation and ICT

Egypt uses state-of-the-art technology in its telecommunications infrastructure. For the fixed-line network, the technologies include copper network, fibre-optic synchronous digital hierarchy (SDH) and dense wavelength division multiplexing (DWDM), and submarine cables. The mobile networks use global system for mobile communication (GSM), third-generation (3G), WiFi, wireless local loop (WLL) and satellite technologies. For Internet, very small aperture terminal (VSAT), asynchronous digital subscriber line (ADSL), cable, fibre-optic and WiFi technologies are all being used. The fixed-line incumbent, Telecom Egypt (TE), is required to share infrastructure with other licensed operators through leases and interconnection agreements. TE is 80 per cent owned by the government.

TE had 11.3 million fixed-line subscribers as of June 2008. The number of mobile subscribers shot up from 7 million in 2005 to 35.1 million in 2008, with a penetration rate of 47 per cent. Egypt's Free Internet Initiative and broadband connectivity programmes have helped make Internet access easier and more affordable. As a result, the number of users increased from 0.65 million in 2000 to 11.3 million in June 2008, while Internet penetration rose from 1 to 15 per cent over the same period. Broadband is increasingly replacing dial-up connections, with a monthly cost of USD 8 for ADSL. The number of ADSL subscribers reached 536 290 with 3.8 million users in June 2008. The country's international Internet bandwidth grew by 107 per cent during the year, reaching 24 522 megabytes per second by the end of June.

Since the late 1990s, the government has made the deregulation and development of the telecommunications sector a priority. Liberalisation of mobile services in 2006 led to the establishment of two mobile operators, and a third was licensed in 2007. Three 3G licenses have also been granted, and 3G services were introduced in 2007, based on high-speed packet access (HSPA) technology offering speeds surpassing those of conventional ADSL services. A law on data protection, privacy and cybercrime has been drafted and may soon be considered by the legislature.

In 2007, the Ministry of Communications and Information Technology (MCIT) announced that it would auction a second fixed-line licence that includes the provision of international services, but the auction has been postponed due to the global financial crisis. In the cellular digital segment there are three operators: Vodafone, Mobinil and Etisalat. TE owns 44.95 per cent of Vodafone Egypt.

The National Telecom Regulatory Authority (NTRA) was established by the Telecom Regulation Law in 2003. In March 2005, NTRA set up a universal service fund with an initial budget of EGP 50 million. The aim of the fund is to compensate telecommunications operators and service providers for "price differences between the approved economical price for a service and that which may be determined by the government in favour of the user" and to fund universal service provision in under-served areas. NTRA aims to increase the average penetration rate of fixed-line telephony from the current 15.1 per cent to 20 per cent across the 26 governorates.

The information and communication technology (ICT) policy also aims to increase the number of households having broadband Internet connections to 1.5 million and raise the mobile penetration rate to 70 per cent by the end of 2011. It also seeks to attract USD 1 billion in ICT investments annually and to achieve an annual growth rate of 15 per cent in the number of companies operating in the ICT sector.

MCIT aims to foster technological upgrading in the areas of regional and international connectivity, broadband technologies, convergence of media and cybersecurity through expansion of the Smart Village and the establishment of other technology parks in Damietta and Maadi.

The "PC 2010-Nation Online" initiative provides low-cost PCs, payable in instalments starting from USD 7 per month, to households and educational institutions. The initiative's main target is to raise the proportion of households with computers to 25 per cent. The government is also promoting information technology clubs in partnership with local NGOs to serve as training and ICT access centres in outlying areas, particularly for women. There were 1 747 such clubs around the country as of June 2008.

A.T. Kearney's 2007 Global Service Index rated Egypt 13th out of 40 countries in terms of offshore business service provision. In 2008, Egypt won the annual award of the British National Outsourcing Association as offshoring destination of the year. A 2008 Global Services-Tholons study ranked Cairo seventh among the top 50 emerging global outsourcing cities.

In July 2008, the fees for installing a new landline were cut by 50 per cent for residential and commercial users. The tariff for calls between landlines and mobile phones was reduced by 33 per cent. Inter-province fixed-line rates (i.e. for long-distance calls between governorates) during peak time were decreased by 20 per cent. Fixed-line rates are set by TE and are gradually becoming cost-based due to competition from mobile providers. Mobile tariffs are set by the operators and approved by NTRA.

In 2007, MCIT fully implemented its commitments under the World Trade Organization to abolish customs tariffs on ICT products. As a result, the capital costs of rolling out new wireless infrastructure were reduced by almost 30 per cent compared to 2004.

A number of innovative ICT applications have been launched in education, health and other government services.

The Egyptian Education Initiative (EEI) comprises four tracks: pre-university, higher education, lifelong learning and ICT industry development. A key objective of the EEI is to ensure that all preparatory schools are connected to broadband by 2012 and that teachers are trained in integrating ICT into education. EEI has assisted 2 000 schools, notably those in the Smart Schools network, and upgraded the Egyptian university network, providing high-speed connectivity to many of these institutions. The programmes benefit more than 80 000 learners at different levels. The ICT for Illiteracy Eradication programme introduced electronic content for teaching basic Arabic and elementary mathematics. The National Telecom Institute, the Information Technology Institute and the e-Learning Competence Centre are developing specialised training programmes in ICT. MCIT championed the establishment of Nile University, a not-for-profit R&D institution providing general management training for middle to senior managers. The Egyptian Information, Telecommunications, Electronics and Software Alliance focuses on collaboration between academia and the ICT industry, helping young talents to develop practical and industrial skills within educational programmes. The ICT Trust Fund, a partnership between MCIT and the United Nations Development Programme, aims to raise awareness of the developmental potential of ICT while helping to make it more accessible to Egyptian citizens. ICT Trust Fund programmes include the Mobile IT Club, the KenanaOnline development portal and the utilisation of ICT in eradicating illiteracy.

The government has launched a series of successful e-health initiatives for reaching under-served areas, including the Telemedicine Network, the Health Informatics Programme and medical emergency call centres.

The Arabic e-Content Initiative launched by MCIT is creating a portal that will put 2 000 books and 300 software programs online in its first phase and is involved in several other projects such as the egynews.net portal, in an alliance with the Egyptian Radio and Television Union. The Centre for Documentation of Cultural and Natural Heritage is documenting Egypt's heritage using the latest technologies.

In the area of e-government, a number of projects are under way to digitise all land maps in Egypt, with the objective of simplifying land registration procedures. MCIT will be facilitating co-operation among the government agencies responsible for transport and trade (aviation, transport, finance and investment), the Customs Authority, Egypt Post, private operators and other stakeholders to create the first postal free zone in the region.

Virtual R&D centres of excellence have also been established. A business incubation facility was set up at the Smart Village technology park, clustering start-up companies, multinationals and Egyptian expatriates. Research centres have been created in key niche areas such as data mining and wireless technologies, and a private venture capital fund has been established to encourage the transfer of knowledge and technology from universities and research centres to companies. In addition, there are programmes aiming to increase small and medium-sized enterprises' use of ICT.

Political Context

President Hosni Mubarak, currently serving his fifth term, is the leader of the National Democratic Party (NDP), which dominates the parliament. The NDP remains the most powerful party, while opposition parties are weak. No major political reforms were undertaken in 2008. In 2007, however, 34 constitutional changes were approved by parliament, some of which outlined a new process by which opposition parties can nominate candidates for president. Candidates must now be endorsed by 250 elected officials from parliament or local councils. However, there is still no limit on the number of terms a president may serve. The new reforms also barred the creation of any political parties based on religious divisions. The next multi-candidate presidential elections are planned for 2011.

Social Context and Human Resources Development

Egypt has already achieved the Millennium Development Goal (MDG) of halving the proportion of the population living in extreme poverty, but regional disparities remain a key challenge. The overall percentage of Egyptians living below the national poverty line increased from 16.7 per cent in 2000 to 19.6 per cent in 2005. The highest concentrations of poor are found in rural Upper Egypt (39.1 per cent) and urban Upper Egypt (18.6 per cent), and the lowest in metropolitan Lower Egypt (5.7 per cent). The poorest 100 villages are all located in Upper Egypt. According to the 2004/05 Household Income, Expenditure and Consumption Survey, 3.4 per cent of Egyptians were living on less than USD 1 per day in 2005, compared to 8.2 per cent in 1990. If the USD 2 per day poverty measure is used, however, poverty increased from 39.4 per cent in 1990 to 42.8 per cent in 2005.

The government's five-year plan (2007-12) aims to reduce poverty to 15 per cent by 2011/12 and to narrow the disparities between Lower and Upper Egypt and between rural and urban areas. To this end, a "poverty map" has recently been drawn up to determine the most vulnerable areas and groups. Based on this map, the government has adopted two innovative programmes to direct resources to the villages and people in greatest need: "geographic targeting" and "supporting the most vulnerable families". The economic growth recorded in 2007/08 has probably had little positive impact on poverty owing to the increases in food and energy prices.

The net enrolment ratio in primary education increased from 91 per cent in 2000/01 to 94 per cent in 2005/06. The literacy rate for 15-24 year olds increased from 73 per cent in 1996 to 87 per cent in 2005. The 2007-12 five-year plan aims to increase enrolment rates, increase the number of schools, reduce class density and support early childhood development.

Egypt has succeeded in eliminating gender disparities in general secondary education and is set to do so for primary education, but this MDG target may not be met in technical education. Women's share in wage employment in the non-agricultural sector is quite low (17.7 per cent in 2005). Women are also under-represented in the political arena: only 1.8 per cent in the People's Assembly in 2005 and 7 per cent in the Shura Council in 2008. Thus, despite the inclusion of gender targets in the current socio-economic plan (for the first time in Egypt) and the establishment of the National Council for Women in 2000, there is clearly a need to promote greater female participation in the formal economy and in politics.

Infant and under-five child mortality declined by almost 50 per cent between 1990 and 2006, and noticeable progress was made in measles immunisation. However, disparities in infant and child mortality by region, social class and gender remain a key challenge. Maternal mortality declined from 174 maternal deaths per 100 000 live births in 1992 to 84 in 2000, which means that this MDG has already been achieved.

HIV prevalence in Egypt is low, at less than 1 per cent of the population in 2007. Egypt has succeeded in controlling malaria, and both tuberculosis and schistosomiasis are regressing. Hepatitis B and C, however, constitute major health threats. They are the leading causes of severe liver damage, hepatocellular carcinoma and death in Egypt. The Ministry of Health and Population plans to reform the health insurance system as part of a nationwide health-care reform strategy, with the objective of achieving universal coverage by 2012. At present, only 52 per cent of the population has health insurance coverage via the local health insurance authority.

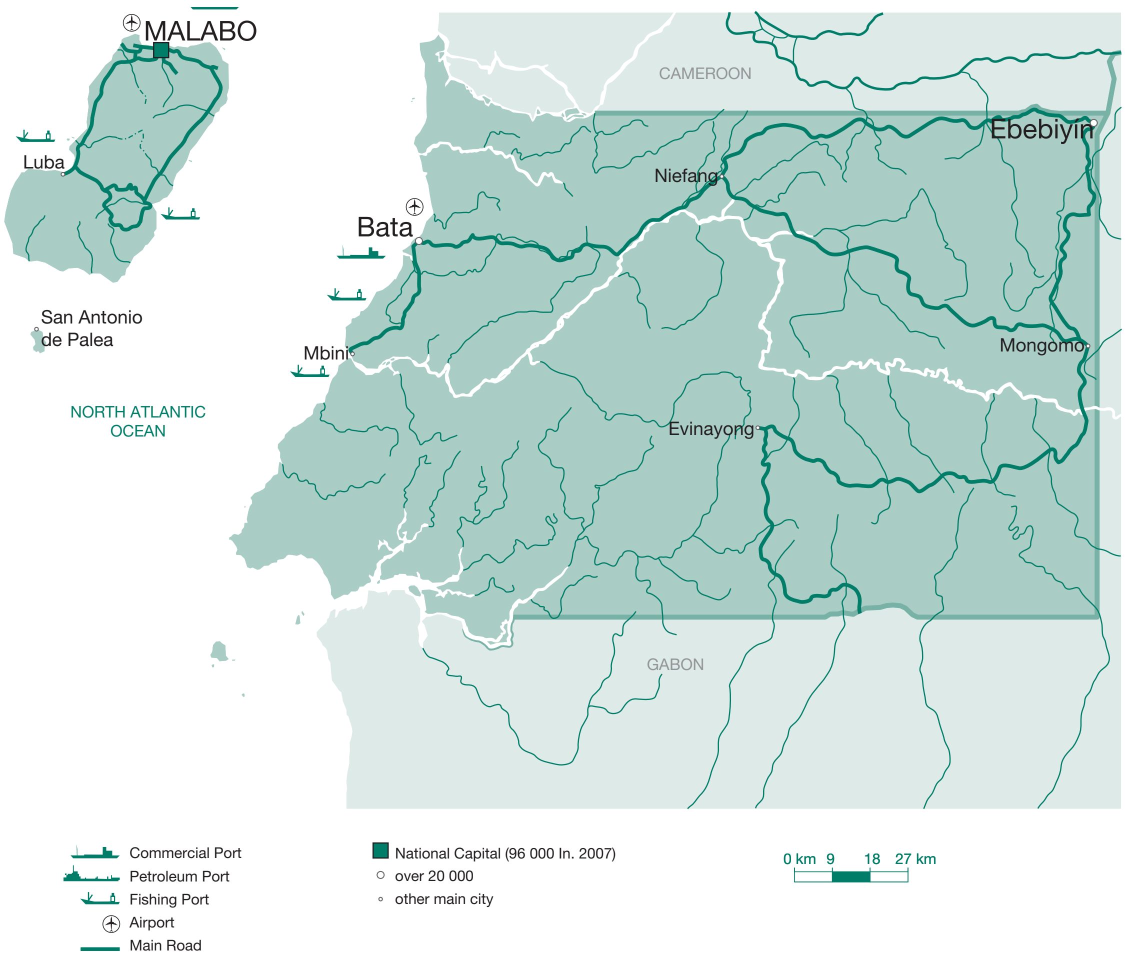
In 2006/07 and 2007/08, employment grew by 3.1 per cent to 22 million, exceeding the growth rate of the labour force (2.3 per cent). As a result, the unemployment rate declined from 9.5 per cent in 2005/06 to 8.4 per cent in 2007/08. Unemployment remains highest among women and new entrants to the labour force. The failure of the educational system to provide skills that are in demand on the labour market remains a key concern.

Equatorial Guinea

key figures

- Land area, thousands of km^2: 28
- Population, thousands (2008): 659
- GDP per capita, PPP valuation, USD (2008): 30 637
- Life expectancy (2008): 50.3
- Illiteracy rate (2008): n.a.

Equatorial Guinea



EQUATORIAL GUINEA'S ECONOMY maintained a high level of activity in 2008, with a rate of real gross domestic product (GDP) growth estimated at 9.9 per cent. Growth was driven by increased crude oil and gas production in a favourable global environment. The oil sector dominates the country's economy and attracts a large share of foreign direct investment by major oil companies. The growth rate is projected to be moderate in 2009 (3.7 per cent) and 2010 (2.9 per cent).

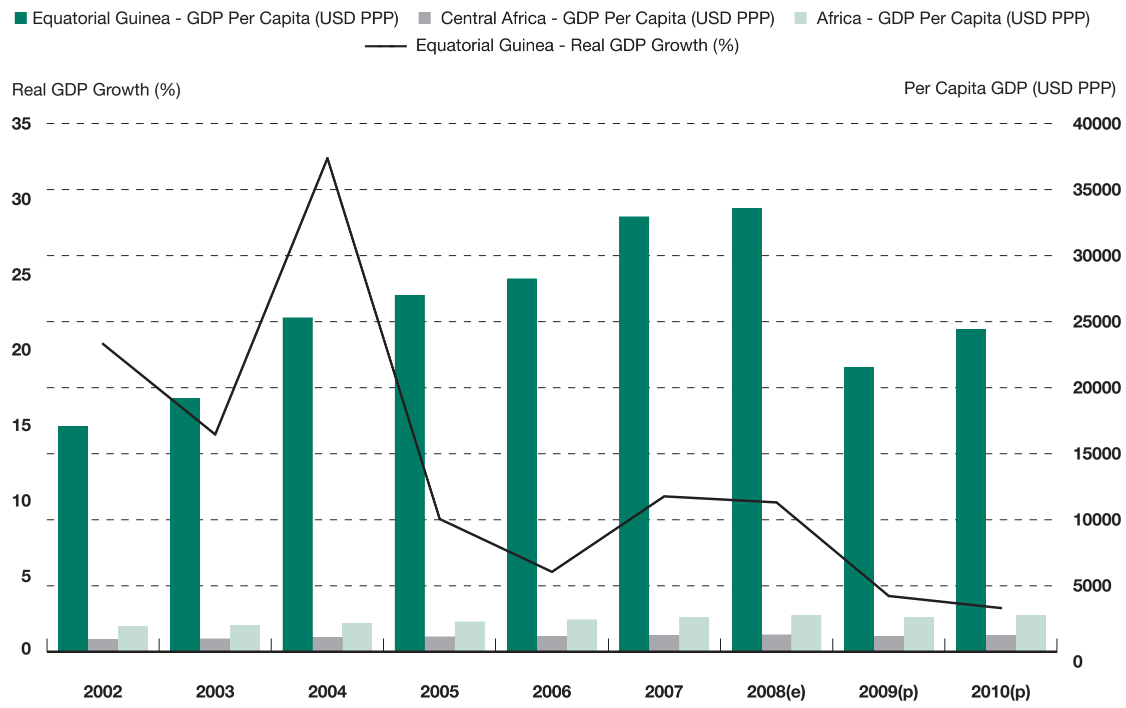
The inflation rate should fall slightly from 5.5 per cent in 2008 to 4.7 per cent in 2009. Its rise in 2008 was due to the surge in international food prices, as Equatorial Guinea is utterly dependent on food imports to feed its population.

The main challenge facing the country is to limit its vulnerability to external shocks. This vulnerability stems from its export structure, which is highly dependent on oil and gas. Owing to the financial crisis and the collapse of oil prices, it is imperative for Equatorial Guinea to diversify its economy more quickly and to use its oil revenue to develop other sectors, such as services and agriculture.

The country needs to step up the diversification of its economy, which is highly vulnerable to external shocks.

Per capita income is at a record high, but human development indicators remain below the levels observed elsewhere in the region. The poverty rate is over 70 per

Figure 1 - **Real GDP Growth and Per Capita GDP**
(USD/PPP at current prices)



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

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cent, medical coverage is poor, power distribution unreliable, and water supply and sanitation systems dilapidated. However, there are many projects in progress – such as drinking water supply, extension of the power grid and road construction – aimed at improving living conditions.

Legislative elections were held in May 2008, with 99 of 100 seats won by the presidential party. A government headed by a new prime minister took office on 14 July 2008. Presidential elections are scheduled for December 2009.

Recent Economic Developments

Economic growth accelerated from 9.8 per cent in 2007 to an estimated 9.9 per cent in 2008, but is projected to slow to 3.7 per cent in 2009 and 2.9 per cent in 2010. Oil, gas and construction were among the drivers of the economy.

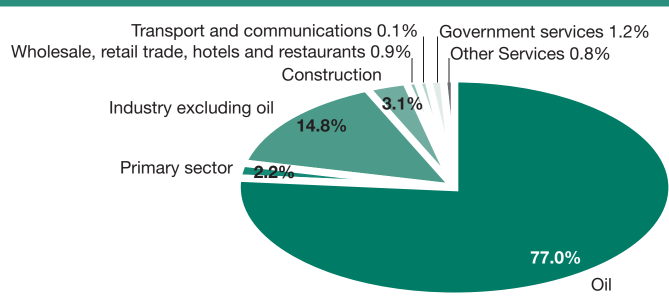
The surge in oil prices in the first half of 2008, combined with increased oil and gas production, brought in considerable additional revenue. In the coming period, however, Equatorial Guinea's economy could suffer from the collapse of oil prices in late 2008 and the fallout from the global food and financial crisis. For example, the drop in world demand for hydrocarbons and continued maintenance work on oil installations should lower oil and gas output by some 15 per cent in 2009 and 2010.

The oil sector dominates the economy, contributing nearly 82 per cent of GDP in 2007. Its good performance in 2008 can be attributed to the 63.7 per cent jump in production from the Okume and Ceiba fields, worked by the US firm Amerada Hess. These two fields yielded 19.8 million barrels in the first half of 2008, outstripping by far the Zafiro, Jade and Serpentina fields operated by ExxonMobil. Production has fallen in the latter because there is water in the reservoirs, which means that further investment is required to work the fields properly.

The state is heavily involved in the oil sector. In May 2008, it paid 1.7 billion US dollars (USD) to buy out Devon Energy's 23.7 per cent stake in the national oil company GEPetrol.

According to the Ministry of Mines and Hydrocarbons, at end-June 2008 gas production (methanol, liquefied natural gas [LNG], butane and propane) was down 13.5 per cent at 7.5 million barrels (8.6 million barrels at end-June 2007). Oil production in 2008 is estimated at 120 million barrels. The EG-LNG gas liquefaction plant is being extended, which will increase production capacity for methanol and other gases. The developers and shareholders of this project are the national gas company Sonagas, Marathon (United States), Mitsui and Marubeni (Japan), Union Fenosa (Spain) and E.ON (Germany). The liquefaction plant is to be supplied from Equatorial Guinea's offshore fields, as well as from Nigeria and Cameroon, both of which have signed gas supply agreements with Equatorial Guinea.

Figure 2 - **GDP by Sector in 2007** (percentage)



Source: Authors' estimates based on local authorities' data.

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The government is making great efforts to revive agriculture. Before the discovery of oil in the mid-1990s, agriculture was the locomotive of the economy, but it now contributes less than 2 per cent of GDP. Farming equipment, inputs and financial aid have been allotted to all officially recognised cooperatives in the country.

The trend in cash crops observed in previous years was confirmed in 2008. Cocoa output in the 2007/08 growing season amounted to only 1 400 tonnes instead of the projected 3 000, a difference of 47 per cent. In the early 1970s, annual output exceeded 35 000 tonnes. Timber output grew by only 0.2 per cent owing to a change in the application of the September 2007 forestry law. The law requires lumber firms that currently export logs to process them locally instead, in order to reduce harvesting areas, slow deforestation and create jobs for the local population.

The country's fish stocks are far from being exploited to the fullest. Although traditional fishing is the main activity of coastal dwellers in the mainland region, statistics on their catch are not available, as points of sale are disorganised and fishing villages not easily accessible. To address this situation, the Fisheries Department mounted a project to develop a national statistical system on fish stocks (SENAPE), with the objective of publishing daily statistics. In the industrial fishing sector, the total catch fell by 21 per cent in 2008 to under 270 tonnes, owing to firms' difficulties in obtaining renewal of their fishing licences.

The manufacturing sector contributed 10.8 per cent to GDP in 2007. Manufacturing output expanded in 2008 due to good performances by the Bata cement plant, the mineral water company Eco Aguas and the Bata brewery, owned by Soeguibe. The latter's sales increased by 13 per cent with respect to 2007. Activity in the energy sector was strong, buoyed by increased power generation and the rise in the number of solvent consumers. According to the national power company SEGESA, power generation rose by more than 20 per cent in 2008 owing to expansion of production capacity (installation of new gas turbines).

These investments will not suffice to meet the needs of the population, which experiences regular blackouts due to low generation capacity and ageing installations. The sector also faces structural difficulties arising from the dilapidated state of distribution networks, fraudulent connections, false billing by some SEGESA technicians and the lack of a policy to control consumption. To address these problems, the government has taken steps to increase the generation capacity of existing power plants and modernise the system. In June 2008, it began construction of a power grid in the city of Malabo, in addition to a new transmission line from the gas-turbine power plant. The USD 2 billion contract for the project was awarded to the company China CMS.

Despite a shortage of building materials, the construction sector expanded in 2008. Its share of GDP rose from 3 per cent in 2007 to an estimated 4 per cent in 2008, with continued construction work in the new capital Malabo 2, the construction of low-income public housing financed by the state, the comprehensive education centre built by the company China Dalian, construction of the Central African Economic and Monetary Community (CEMAC) parliament building, civil engineering works for private firms and continued investment in road infrastructure.

Services – notably trade, restaurants and business tourism – contributed to the growth of the non-oil sector, which contributed an estimated 12 per cent of GDP in 2008 (up from 10.8 per cent in 2007). Despite a low level of supply arising from a shortage of accommodations, this sector has very high potential owing to rising incomes and Equatorial Guinea's appeal to foreign investors. Transport and telecommunications expanded in line with the increase in domestic demand, particularly the explosion in the number of mobile telephone users and a pickup in air transport (up 34 per cent for passengers and 250 per cent for goods in 2008). The growth in air traffic was due to the start-up of new, more reliable airlines, including the national airline CEIBA, and expansion of operating capacity at the Malabo, Bata and Annobon airports.

The structure of total demand reflects the economy's dependence on hydrocarbons since the discovery of

Table 1 – Demand Composition

	Percentage of GDP (current prices)		Percentage changes, volume			Contribution to real GDP growth		
	2000	2007	2008(e)	2009(p)	2010(p)	2008(e)	2009(p)	2010(p)
Gross capital formation	**61.9**	**31.1**	**7.1**	**5.0**	**5.6**	**3.9**	**2.7**	**3.1**
Public	5.4	19.9	5.0	5.0	6.0	1.8	1.7	2.0
Private	56.5	11.3	10.9	5.0	5.0	2.2	1.0	1.0
Consumption	**23.9**	**9.6**	**1.7**	**4.7**	**3.0**	**0.4**	**1.0**	**0.6**
Public	4.9	2.7	5.9	5.9	6.0	0.3	0.3	0.3
Private	19.0	6.9	0.8	4.3	2.2	0.1	0.7	0.4
External demand	**14.2**	**59.3**				**3.6**	**0.0**	**-0.8**
Exports	105.2	95.8	6.3	0.2	1.6	9.5	0.2	2.3
Imports	-90.9	-36.5	3.0	0.2	2.7	-3.9	-0.2	-3.1
Real GDP growth						**9.9**	**3.7**	**2.9**

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

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oil. Investment grew by an estimated 7 per cent in 2008, contributing an estimated 4 percentage points of GDP growth in 2008; projections for 2009 and 2010 are 2.7 and 3.1 percentage points respectively. Public investment is estimated to have grown by 5 per cent in 2008, the same rate as in 2007. Central government investment spending focused on projects that improve the standard of living of the population (roads, schools, hospitals, housing etc.). According to estimates, private investment rose by more than 10 per cent in 2008, with much but not all of this growth coming from the oil sector. Investments in the oil sector related to increased spending on exploration, research, development and production by oil and gas companies, and those in the non-oil sector to further modernisation of timber-processing plants and strengthening of food-processing plants.

Consumption rose only slightly in 2008 (1.7 per cent). Its contribution to GDP growth was low (0.4 percentage point) and should increase only slightly in 2009 and 2010 (1 and 0.6 percentage points respectively). Public consumption will rise owing to staffing increases in the health and education sectors. Private consumption is increasing on the strength of growing household demand for appliances and supplies, which in turn is due to the gradual rise in living standards; its GDP growth contribution is estimated at 0.1 percentage point in 2008 and 0.7 in 2009. The contribution of external demand to GDP growth will stagnate in 2009 and become negative in 2010 (-0.8 point), after the strong positive contribution in 2008 (3.6 points). Exports increased by over 6.3 per cent, while imports rose only 3 per cent. This trend should be reversed in 2009 and 2010, explaining the negative growth contribution of external demand in those years.

Macroeconomic Policies

Fiscal Policy

The government that took office in July 2008 has designated consolidation of economic growth and poverty reduction as its priority objectives, and has therefore allocated resources to projects designed to improve the population's standard of living and modernise economic and social infrastructure.

The overall budget surplus remained high at 23 per cent of GDP in 2008, but is projected to shrink in 2009 and 2010 to 7.8 and 8.2 per cent of GDP respectively. Total fiscal revenue amounted to XAF 3 100 billion

(CFA Franc BEAC) at year-end 2008, up 45 per cent on 2007. This increase was mainly due to the 35 per cent rise in oil revenue, from XAF 2 000 billion in 2007 to over XAF 2 700 billion in 2008, which in turn stemmed from higher world oil prices and increased production.

The tax reforms initiated in 2006, including the introduction of value added tax, are starting to bear fruit, as non-oil tax revenue increased significantly (20.1 per cent) to XAF 108.4 billion in 2008. Despite this seemingly good result, the tax administration faces serious difficulties in collecting taxes, owing to the computerisation of many trading businesses and the processing of offsetting transactions with entities such as SEGESA, the state-owned telecommunications operator GETESA and other large domestic and foreign enterprises.

Total central government expenditure rose sharply in 2008 to XAF 1 937 billion (1 200.8 billion in 2007). This increase is attributable to growth in current expenditure, particularly for wages and salaries, goods and services, transfers and subsidies. Wages and salaries rose to XAF 22 billion from XAF 21 billion in 2007, up 3 per cent, due to civil service hiring to bolster supervisory staff and lower the average age of government employees. The increased expenditure on goods and services resulted from fuel price increases, project studies and maintenance of buildings and representations abroad. In 2008, this spending category increased by 93 per cent, from XAF 35.2 billion in 2007 to XAF 68.1 billion.

Government policy calls for development of basic infrastructure (roads, bridges, schools, health centres, etc.). Public investment spending rose to XAF 1 802 billion in 2008, as against XAF 700 billion in 2007. This increase was mainly due to public investment in the oil sector, particularly the spending incurred for upgrading and maintenance of oil installations and the acquisition of stakes in foreign companies operating in the country.

Monetary Policy

The Bank of Central African States (BEAC) is in charge of the monetary policy of the six CEMAC member states, including Equatorial Guinea. The BEAC's main convergence criteria are an inflation rate below 3 per cent, a basic fiscal balance that is positive or null as a ratio of nominal GDP, and outstanding domestic and external debt less than 70 per cent of GDP.

The inflation rate in 2008 is estimated at 6 per cent in Malabo and an average of 5.5 per cent across the country. Inflationary pressures resulted from the significant rise in the prices of consumer goods such

Table 2 - **Public Finances** (percentage of GDP at current prices)

	2000	2005	2006	2007	2008(e)	2009(p)	2010(p)
Total revenue and grants[a]	**20.7**	**37.5**	**47.6**	**41.4**	**41.6**	**38.3**	**38.0**
Tax revenue	3.0	1.5	1.7	1.7	1.4	2.1	1.9
Oil revenue	16.1	34.8	44.4	38.4	39.1	34.9	34.8
Total expenditure and net lending[a]	**12.1**	**16.4**	**21.4**	**23.2**	**18.5**	**30.6**	**29.8**
Current expenditure	6.7	4.5	4.4	4.1	3.3	5.4	5.4
Excluding interest	*6.1*	*4.3*	*4.3*	*3.9*	*3.3*	*5.4*	*5.3*
Wages and salaries	1.5	1.0	0.9	0.9	0.7	1.2	1.2
Interest	0.6	0.2	0.1	0.1	0.0	0.0	0.0
Capital expenditure	5.4	11.9	17.0	19.1	15.3	25.2	24.4
Primary balance	**9.2**	**21.4**	**26.3**	**18.4**	**23.0**	**7.8**	**8.2**
Overall balance	**8.6**	**21.2**	**26.2**	**18.2**	**23.0**	**7.8**	**8.2**

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

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as food products and alcoholic beverages (up 5.5 per cent), cereals (6 per cent), edible oil, clothing and shoes (5.5 per cent), potatoes, bananas, manioc and other tubers (6.5 per cent), health (7.5 per cent), household appliances, transport and other services (3.5 per cent).

The overliquidity of Equatorial Guinea's banking system increased in 2008, with divergent trends for different types of loans. The total cash surplus was over XAF 500 billion, compared to 360 billion in 2007. The deposit-loan ratio rose to 391.6 per cent in 2008, from 224.7 per cent in 2007. Thus, transactions with banking system customers generated a surplus of more than XAF 680 billion as of July 2008, as against XAF 243 billion in July 2007.

Credit to the economy rose by 21 per cent overall in 2008, but long- and short-term loans followed highly divergent paths. The former recorded a steep decline (more than 50 per cent) and now account for only 10.4 per cent of total outstanding loans, while the latter rose by more than 40 per cent due to loans extended to big companies that had been awarded public contracts. The non-financial private sector contracted the bulk of these loans, taking advantage of the surge in activity in the construction, services and oil services sectors.

Net assets of the monetary system rose by over 20 per cent in 2008 due to the increase in the central bank's gross external assets (up 18 per cent) and the dramatic fall in its liabilities (-70 per cent).

External Position

Equatorial Guinea's main trade partners are the United States, China, Spain, France and the United Kingdom. Its leading customer for oil and gas is the United States, which absorbed over 30 per cent of its oil exports in 2008. The European Union (EU) is the main destination of Equatorial Guinea's exports, ahead of the United States and China, as well as its largest supplier of goods and services. The country's external position depends on a narrow base of exported goods – oil, gas and, to a lesser extent, timber – that are very sensitive to terms-of-trade shocks, making the country highly vulnerable to their prices on the world market.

The trade surplus in 2008 amounted to over 75 per cent of GDP, exceeding the level attained in 2007. This increase was due to the rise in oil prices, which soared beyond USD 120 per barrel for Equatorial Guinean oil before settling to an average level of USD 70 per barrel. The price of methanol also rose strongly, from USD 485 per tonne in 2007 to an average of USD 662. The average price per tonne of tropical timber rose more moderately, from XAF 268 000 in 2007 to XAF 272 000 in 2008.

High oil and gas prices pushed up exports by more than 15 per cent in 2008. The commissioning of the new LNG plant partly offset the fall in crude oil prices in the second half of 2008, but the expected drop in global demand and the fallout from the financial crisis will significantly reduce oil revenue in 2009 and 2010.

Table 3 - **Current Account** (percentage of GDP at current prices)

	2000	2005	2006	2007	2008(e)	2009(p)	2010(p)
Trade balance	60.9	68.4	65.6	69.6	75.0	57.5	58.5
Exports of goods (f.o.b.)	103.7	98.1	96.3	95.4	95.1	88.8	87.5
Imports of goods (f.o.b.)	42.8	29.8	30.7	25.8	20.1	31.3	29.0
Services	-46.7	-19.5	-18.7	-10.2	-7.6	-11.0	-10.0
Factor income	-31.4	-58.3	-47.9	-57.9	-43.1	-46.0	-47.1
Current transfers	0.7	-0.9	-1.1	-0.4	-0.3	-0.5	-0.4
Current account balance	**-16.5**	**-10.4**	**-2.1**	**1.0**	**24.0**	**0.0**	**1.1**

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

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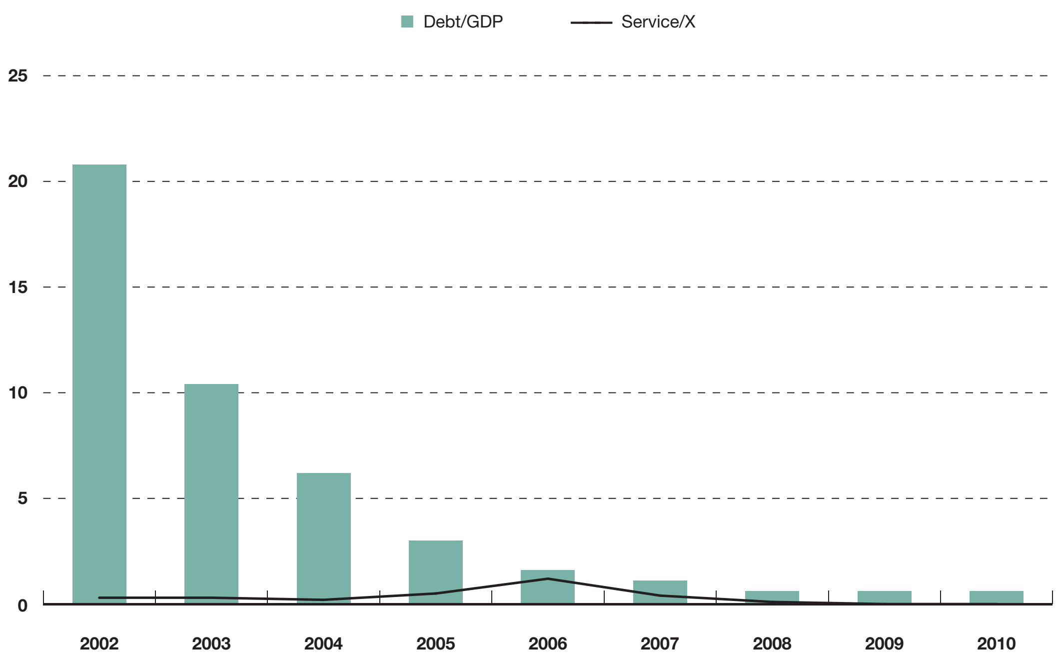
Goods and services imports rose by about 10 per cent in 2008, as the oil sector and public sector increased their imports in order to meet the equipment and modernisation needs of oil and gas installations, such as increasing transport of gas for the EG-LNG liquefaction plant, construction of a gas-turbine power plant for the city of Malabo and modernisation of the Zafiro and Jade oilfields. Where the public sector is concerned, these imports are also being used to complete infrastructure projects for the new capital Malabo 2, construction of low-income public housing in Malabo and Bata, the CEMAC parliament and completion of the Niefang-Egong, Anisok-Oyala and Bindung-Rio Campo road corridors and the motorway from the Malabo airport to Ela Nguema. In addition, the increase in household purchasing power and the economy's good performance stimulated the demand for mainstream consumer items and oil products.

The services balance showed a deficit (-7.6 per cent of GDP) in 2008, which is projected to increase in 2009 (-11 per cent) and 2010 (-10 per cent). This was due to increased spending on sub-contracting services for the oil sector and on transport, freight and insurance.

The factor income account is structurally in deficit. In 2007, the deficit exceeded 57 per cent of GDP, and it is estimated at 43 per cent in 2008. This resulted from increased returns to private investment in the oil sector as a consequence of the rise in world oil prices. The overall current account balance showed a surplus of over XAF 530 billion in 2008 (XAF 182.3 billion in 2007), or 24 per cent of GDP, thanks to the combined effect of high oil prices and reductions in external debt. However, it should shrink dramatically in 2009 and 2010, accounting for only 0 and 1.1 per cent of GDP respectively. According to the BEAC, the 2008 surplus will be used entirely to increase official reserves by XAF 532.9 billion.

Equatorial Guinea's external public debt to multilateral institutions reached its lowest level ever in

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



Source: IMF.

StatLink http://dx.doi.org/10.1787/573312100736

2008. This result reflects the continued improvement in the country's external accounts and the increased budget resources generated by the rise in crude oil prices. As from 2005, the country began early repayment of its external debt to Spain and subsequently to Italy. The debt sustainability analysis conducted by the International Monetary Fund (IMF) as part of the consultations provided for in Article IV of the IMF Articles of Agreement confirmed that the country's external debt is sustainable in both the long and short terms. According to the IMF, external debt should amount to less than 1 per cent of GDP by 2012, if no further loans are contracted. Equatorial Guinea's high level of per capita wealth and low stock of debt make it ineligible for the Heavily Indebted Poor Countries Initiative.

The buoyancy of the oil sector and soaring world oil prices ensured the continued attractiveness of Equatorial Guinea's economy to foreign direct investment (FDI). The country attracted at least one-third of all inward FDI to the region, or a bit more than USD 1.5 billion. These FDI flows stem primarily from the United States, the EU and China, and are mainly directed to the oil and gas sector and other energy-related industries.

Structural Issues

Private Sector Development

Equatorial Guinea was ranked 167th out of 181 countries in the World Bank's 2009 *Doing Business* report on the business climate, losing two places with respect to 2008. Poor economic infrastructure and a weak regulatory and judicial framework hamper the process of creating value added from the country's huge mining, hydraulic, fish and forest resources.

The business climate should improve, however, thanks to higher taxes and the enactment of regional regulations such as those of CEMAC and the Organisation for the Harmonisation of Business Law in Africa. Equatorial Guinea's government has joined the fight against corruption and money laundering. President Teodoro Obiang Nguema created by executive order a national agency for financial investigations (ANIF) to receive, process and pass on to the competent judicial authorities any information liable to establish the origin of funds or the nature of transactions suspected of being linked to "money laundering or terrorist financing". The ANIF is a public entity placed under the finance and budget ministry, but according to the executive order it has financial autonomy and "autonomous decision-making power". Its four members are appointed by the finance, national security and justice ministries. The new agency is supposed to prepare reports on "money laundering techniques observed within the national territory" and to make "proposals on how to step up the fight against money laundering and terrorist financing".

Equatorial Guinea's banking system consisted of four active commercial banks in 2008: Banco National de Guinea Ecuatorial, BGFI Bank, CCEI Bank and Société Générale de Banque en Guinée équatoriale. In July 2008, the balance sheet totals of these four institutions added up to XAF 950 billion, up more than 95 per cent over the same period in 2007. Use of bank cards (particularly in cash dispensers) and the range of products and services offered by each bank are expanding. Equatorial Guinea has received a favourable opinion from the BEAC on allowing payment of certain purchases with the Visa International card. In addition, the number of bank accounts opened by private individuals has increased considerably since the government's decision in December 2004 to pay civil servants (of whom there are over 9 000) by electronic transfer.

Other Recent Developments

The recommendations of the second national economic conference, held in Bata in November 2007, on the theme "Equatorial Guinea in 2020", set forth an "agenda for diversifying the sources of growth". This initiative is one of the tasks assigned to the new government by the president. In this context, analysis of the competitive profile of the economy helped to identify large-scale projects to spur the country's economic growth in the period to 2020, with support from development partners. Four high-potential sectors were identified: energy and mining, fisheries and aquaculture, agriculture, and services. Together, they could generate 25 per cent of GDP in 2020. The government is also charged with implementing the national economic and social development plan, the institutional framework for which was adopted in February 2008.

The benefits from oil operations have considerably improved basic infrastructure, but more is needed to meet the needs of the population. The capital city Malabo experiences blackouts almost daily, which obliges people to acquire individual electric generators. The government has launched a project to run a power transmission line from the gas-turbine power plant to the city and decided to install 215 new power distribution centres in Malabo. Water supply is also insufficient to meet demand, owing to the dilapidated state of the network and fraudulent connections in new districts of the major cities. An XAF 3 billion contract has thus been signed with the Egyptian firm Arab Contractors to modernise the drinking water pumping stations in Malabo and to extend the sanitation system to cover all parts of the city. Arab Contractors is also to build 54 km of water mains to serve the city and surrounding area. Construction work began in late 2007 and is scheduled for completion in 2010.

Several projects are under way to build up the road network and open up rural areas: an access road to Pico de Basilé; the Niefang-Egong, Anisok-Oyala and Bindung-Rio Campo corridors; the motorway from the airport to Ela Nguema; and the Mongomeyeng airport. The national airline CEIBA International, founded in 2007, bolstered its fleet with four new propeller aircraft manufactured by ATR to handle traffic between Bioko Island and the mainland. Air traffic increased by 33.6 per cent in 2008, with the number of passengers rising from 270 604 in June 2007 to over 376 434 in June 2008.

Equatorial Guinea joined the Extractive Industries Transparency Initiative in May 2005, but it needs to take more determined action, particularly in regard to publication of oil revenue figures, harmonising the oil companies' figures with those published by the state and by an independent body, and publication of oil contracts. The government invests funds with commercial banks, but has no serious system for anticipating any risks entailed by such transactions. It also provisions a fund for future generations and other types of deposits domiciled at the BEAC.

Government suffers from serious capacity problems, among other issues because ministries have no experience of public administration and are poorly equipped to carry out their assigned tasks. For example, they have neither information systems nor personnel management systems. Deficiencies are also observed in relation to public accounting rules, the budget process and expenditure authorisations, auditing bodies and public procurement procedures. Moreover, the lack of management procedures and tools makes it impossible to control expenditure.

Reform of the agricultural sector, which has been neglected by the population in favour of the oil sector, is a priority of Equatorial Guinea's government for the coming years. A revival of cocoa farming is under way, thanks to the sector development plan funded by the EU following the recommendations of the Bata conference. The incentive measures taken by the authorities include provision of farming equipment and setting a producer price higher than the world market price. For the 2008/09 growing season, the state has decided to set the purchase price at XAF 850 per kilogram. This price favours the planters, but weakens the cocoa processing industry and export firms.

Innovation and ICT

The information and communication technology (ICT) market in Equatorial Guinea has grown strongly in recent years, despite the geographical handicaps of the country, divided as it is between a mainland area covered by tropical forest and an island containing the capital Malabo. The increase in household purchasing power is fuelling the growth in mobile telephony and Internet use. Where ICT equipment is concerned, however, the country lags behind its Central African neighbours such as Gabon and Cameroon.

The state controls the fixed-line telephone market. It owns 60 per cent of GETESA, the remaining 40 per cent belonging to Orange, a subsidiary of France Télécom. Thanks to substantial investment over the last ten years to modernise and extend emitting and receiving infrastructure, the fixed-line network, which used to cover only the two biggest cities in the country, Malabo and Bata, is expanding considerably. The number of subscribers rose from 3 000 to more than 12 000 in a decade. A dozen towns and villages are now linked to landline telephone networks. There are over 70 pay telephone centres around the country.

The time required to obtain a fixed-line connection varies from two days to over a month, depending on the customer's location. Although connection requests are quickly satisfied in Malabo and Bata, this is not true elsewhere in the country. Installation costs in 2008 amounted to XAF 20 000 for a prepaid handset and XAF 23 450 for a postpaid line.

Outside Malabo, six sites on Bioko Island are served by radio and 12 towns on the mainland by satellite. In a country facing major geographical constraints, code division multiple access (CDMA) technology, promoted primarily by Chinese firms, appears to be a viable alternative to a landline network.

The national carrier GETESA is responsible for technical and financial management of telecommunications equipment and infrastructure. In June 1995, it signed a programme contract in which the government undertakes to curb the consumption of government departments and public institutions and to apply a pricing policy that ensures GETESA's financial equilibrium. The government also undertakes to strengthen the carrier, and the telecommunications sector in general, through specific initiatives: *i)* renovation and extension of the Malabo and Bata local networks, performed by the firm Spie Enertrans; *ii)* replacement of the Malabo and Bata telephone exchanges by modern digital automatic switches, carried out by the French company Alcatel CIT; *iii)* replacement of the Bata broadcasting station (connected to Europe and Africa via Intelcam in Douala, Cameroon) by a modern facility with an 11-metre aerial and modern digital equipment, performed by Alcatel Telspace; and *iv)* extension of trunk networks in sparsely settled areas, particularly rural areas. About 15 villages now have satellite links, with full national coverage planned.

Mobile telephony is expanding strongly in Equatorial Guinea. The French carrier Orange has been the leading supplier of mobile services since 2006. In 2008, there were over 220 000 subscribers, or more than 40 per cent of the population. Orange provides a wide range of services to its customers. The prepayment plan has been introduced, and recharges are available through cards, e-balance, credit transfer and cash deposits. Recharge cards range from XAF 1 000 to XAF 20 000, and the period of validity can exceed 120 days. Orange's rates depend on the call destination. At national level, the rate for calls to a cell phone is XAF 170 per minute, as compared to XAF 250 for calls to a fixed-line telephone. For international calls, the rates per minute are XAF 820 to call Cameroon and Gabon; XAF 920 to call France, Spain and the United States; and XAF 1 320 to call other destinations in continental Africa. The postpaid plan offers better rates for domestic calls: XAF 153 per minute to cell phones and XAF 225 to fixed-line phones. For international calls, the rates are the same as those for the prepaid option.

GETESA-Orange also operates on the Internet market, where its growth strategy is meeting with considerable success. In record time, the country was equipped with the most advanced technologies in the sub-region. The number of subscribers rose from under 140 in 2000 to more than 1 600 in 2008. The arrival of high-speed Internet service using asymmetric digital subscriber line (ADSL) technology in 2005 made it possible to expand the range of service offerings to include services in French and Spanish. The ADSL Home plan provides an unlimited connection up to 20 times faster than a dialup connection, with e-mail service and 50 megabytes (MB) of disk storage space. This service is provided in two variants: *i)* 128 kilobyte ADSL, which costs XAF 10 000 for purchase of the modem, XAF 25 000 for the connection and a subscription of XAF 60 000 a month; *ii)* 256 kilobyte ADSL, for which the subscription is about XAF 120 000 per month. Business offerings are varied: the carrier offers subscriptions costing XAF 260 000 to XAF 450 000 per month for throughput of 512 to 1 024 kilobytes and 100 MB of disk space to store e-mails. It also offers wireless services. The WiFi modem costs XAF 120 000, with the same monthly rates. In early 2008, the operator launched GPRS/Edge (general packet radio service/enhanced data rates for GSM evolution) service, allowing subscribers, via a compatible terminal, to connect to the Internet or a voice mailbox or to download data content to a mobile phone.

The supervisory authority for the sector is the Ministry of Transport, Technology, Post and Telecommunications. The most important entities within this ministry are the Post and Telecommunications Department and the New Technology Department. The telecoms regulator ORTEL that ensures that carriers comply with the pricing rules and monitors complaints from business and individual consumers. Although Equatorial Guinea's local market is small, the introduction of a new operator is apparently imminent, as an agreement has been reached to grant a second global system for mobile communication (GSM) licence to HITS Telecom, which should become operational in early 2009.

Equatorial Guinea has no clear policy on other ICT applications. For example, a survey conducted by the World Bank's Infodev programme in 2007 found that it is one of the few countries to have no policy of using ICT in education. This finding also applies to the other sectors of the economy, such as trade, health and e-government. The country has fallen considerably behind its Central African neighbours in this respect.

Political Context

The president dissolved parliament on 3 March 2008 and called early legislative elections on 4 May, a year earlier than scheduled. He also decided to hold municipal elections on the same date. The presidential party won 99 of 100 seats in the national assembly. Equatorial Guinea has 12 political parties, including the ruling party. The opposition, which won only a single seat, contested the results of the election, as did much of the international community.

The new government took office on 14 July 2008, headed by Ignacio Milan Tang, former ambassador to Spain and member of parliament for the Partido democrático de Guinea Ecuatorial (PDGE) of President Teodoro Obiang Nguema. The prime minister is assisted by three deputy prime ministers, and the cabinet is made up of 42 members, five of whom are women.

The year 2009 will mark the end of the president's second term of office since the beginning of the multi-party system. President Obiang, who came to power by overthrowing his uncle Francisco Macias Nguema in a 1979 coup d'état, has already been nominated as the PDGE's candidate in the presidential election.

In July 2008, a mission from the Office of the United Nations High Commissioner for Human Rights expressed its "deep concern" over the "general situation relating to deprivation of liberty" in the country. Many international human rights organisations describe the country's political regime as authoritarian and brutal. The right to free speech is guaranteed by law but denied in practice. The written press, radio and television are all denied freedom of expression.

Social Context and Human Resources Development

Despite huge inflows of oil revenue, the country's level of human development remains low and fragile. Economic growth has not yet led to any real improvement in living standards. Equatorial Guinea's ranking in the 2008 Human Development Index improved to 115th out of 179 countries, mainly as a result of the increase in per capita GDP. However, there is a striking discrepancy between per capita income, the highest in Africa, and the country's lack of progress towards the Millennium Development Goals. Virtually all social indicators are below the average levels for the African continent. For example, life expectancy at birth was 50.3 years in 2008, compared to the African average of 54.3 years; the infant mortality rate is 92.3 per thousand, as against the African average of 85.3; the secondary school enrolment rate is 31.9 per cent, and only 23 per cent for girls, compared to the average continental levels of 44.5 and 41.8 per cent respectively.

Access to safe water and health services is limited (42 and 45 per cent for rural and urban areas respectively), as is access to basic education (60 per cent). The rate of HIV/AIDS prevalence is high, at 3.2 per cent of the adult population in 2007. The fact that the needs of the population are so poorly met despite the country's high income indicates how far Equatorial Guinea is from transforming economic growth into development.

The 2008 education and health budgets amounted respectively to 0.6 and 1.5 per cent of GDP, whereas the African averages are 4.7 and 5.7 per cent respectively. The state has taken several measures to facilitate access to primary and secondary education for the school-age population: *i)* expansion of pre-school education; *ii)* reform of the education system; *iii)* development of family living education in schools; *iv)* improvement of living conditions in schools; *v)* encouragement of comprehensive schooling for girls.

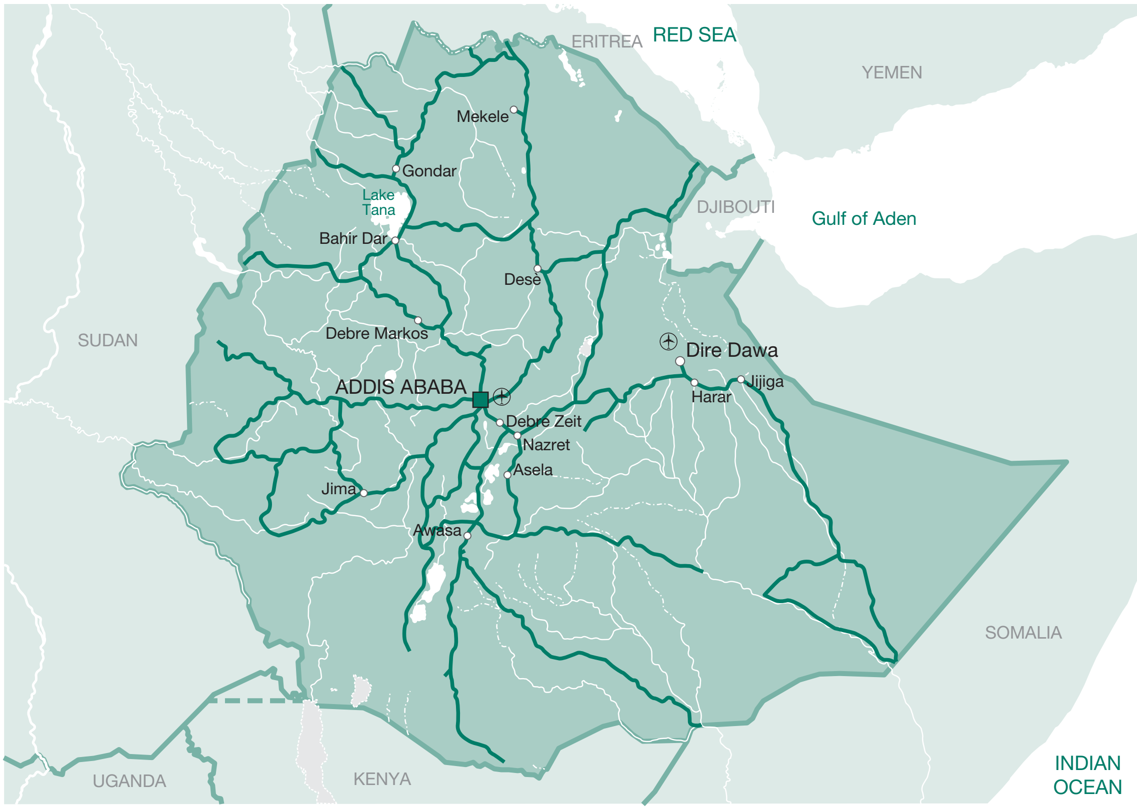
The household poverty assessment survey conducted in 2006 painted a very bleak picture of the country. Over 76.8 per cent of the population lives below the national poverty line. This alarming situation led the state to take a number of initiatives through the national economic and social development plan adopted at the Bata conference in 2007. The programme, implemented in close cooperation with Equatorial Guinea's development partners, is based on establishing a national system for collection and processing of accurate socio-demographic and economic data, and on assessment and quantification of the costs of sectoral programmes included in the poverty reduction strategy. The programme will be translated into action through a development plan targeting the most vulnerable groups (the poor, women, etc.) and by implementation of a plan to promote the empowerment of women in the workplace.

Ethiopia

key figures

- Land area, thousands of km²: 1 000
- Population, thousands (2008): 80 713
- GDP per capita, PPP valuation, USD (2008): 779
- Life expectancy (2008): 55.2
- Illiteracy rate (2008): n.a.

Ethiopia



Commercial Port
Petroleum Port
Fishing Port
Airport
Main Road

National Capital (3 100 000 In. 2007)
over 300 000
over 100 000

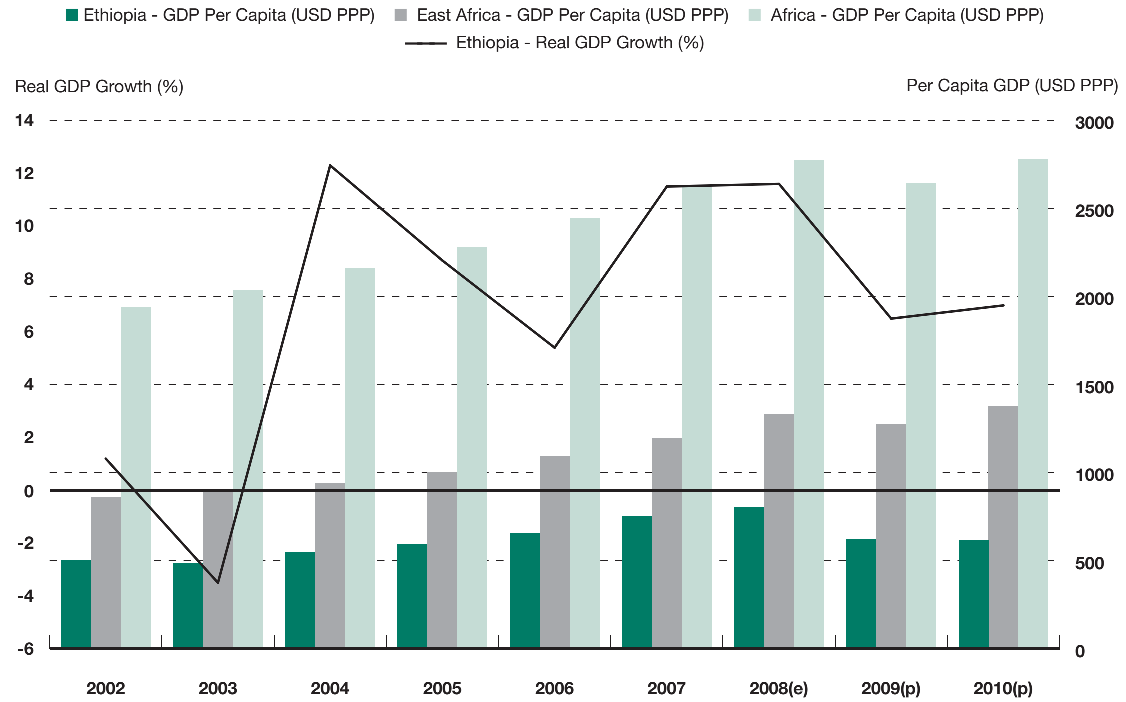
0 km 65 135 195 km

ETHIOPIA'S REAL GDP GROWTH REMAINED strong in 2007/08 at 11.6 per cent, marginally up from 11.5 per cent in 2006/07. This rapid growth was driven mainly by the agriculture and services sectors supported by strong growth of exports and sustained inflows of official development assistance and foreign direct investment. Growth is expected to slow down but remain strong in 2008/09, at 6.5 per cent, owing to a good harvest and sustained high public investment in infrastructure. The expected slowdown in 2008/09 is due to the impact of the global recession on non-traditional exports and slower growth in domestic demand as a result of tighter fiscal and monetary policies.

Despite strong growth overall in 2007/2008, drought, rising food prices and localised crop failures have exacerbated the food security crisis in Ethiopia. In addition to food security problems, the impact of the global economic crisis is expected to lower the demand for its exports and reduce remittances. Foreign direct investment and receipts from tourism are also expected to decline. The government faces the challenge of inflation – it has surged to double digit levels – and difficulty in financing widening fiscal and current account deficits,

The business climate remains uninviting to private investors, despite debt relief and a very high growth rate.

Figure 1 - **Real GDP Growth and Per Capita GDP**
(USD/PPP at current prices)



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

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Recent Economic Developments

Agriculture remains the dominant sector of the economy accounting for 51.2 per cent of GDP in 2007/08. It grew by 7.5 per cent in real terms in 2007/08, down from 9.4 per cent in 2006/07. In 2007/08, growth in crop production, which accounts for 68.3 per cent of agriculture and related activities, was about 8 per cent compared to 11 per cent in 2006/07. Farming and animal husbandry also grew at 7.3 per cent in 2007/08, down from 7.9 per cent in the preceding fiscal year. The much smaller forestry and fishing sub-sectors also experienced buoyant growth.

Drought, rising food prices and crop failures have exacerbated the food security crisis in Ethiopia. Livelihoods were disrupted and the rate of malnutrition increased in a few parts of the country. The poor *belg* (March to May) rains, on top of the lack of rainfall in the two preceding years, resulted in a poor harvest and diminished pasture. There was a food security crisis in Afar, Amhara, Somali, parts of Oromiya and Southern Nations, Nationalities and Peoples (SNNP), and Tigray regions. An estimated 7.2 million people received food or cash assistance through the Productive Safety Net Programme (PSNP) of Ethiopia, which is funded by multiple donors.

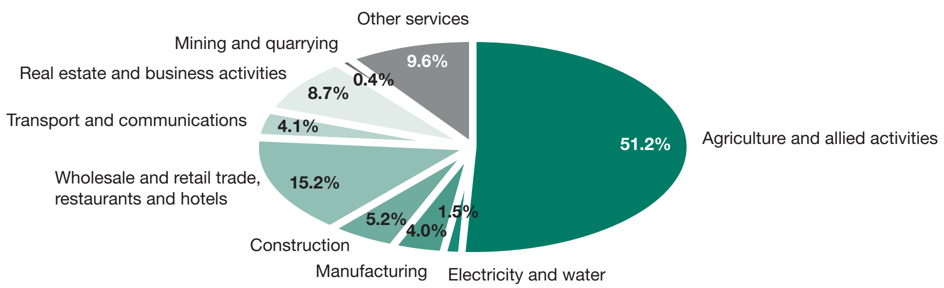
Humanitarian agencies continue to support Ethiopia in its struggle with the food crisis but the World Health Organization (WHO) recently warned that the response is inadequate.

With the involvement of all sectors and agencies from November 2008 onwards, the government of Ethiopia planned a seasonal food security assessment in all regions to evaluate needs for 2009. The assessment, conducted in November and December 2008, estimates that 4.9 million people in different parts of the country will require emergency assistance in 2009. This is in addition to food assistance required for the targeted supplementary feeding of 1.2 million children under five and pregnant and lactating women. The Office for the Co-ordination of Humanitarian Affairs (OCHA) also noted that the World Food Programme (WFP) requires an estimated USD 509 million to cover 2009 shortfalls for relief, targeted supplementary food, and its contribution to the PSNP[1].

Non-agricultural output grew more than twice as fast as the agricultural sector in 2007/08. The industrial sector registered real growth of 10.4 per cent in 2007/08, slightly up from 10.2 per cent in the previous fiscal year. The expansion in the industrial sector was driven mainly by the growth in electricity and water supply as well as construction. Manufacturing grew by 7.1 per cent in 2007/08, down from 8.3 per cent in 2006/07. The water and electricity sub-sector expanded at about 16 per cent in 2007/08, up from 13.6 per cent in the previous year. Construction grew at 11.3 per cent in 2007/08, up from 10.9 per cent in 2006/07.

The services sector (38 per cent of GDP in 2007/08), which has been the fastest growing since 2005/06, registered real growth of 17 per cent in

Figure 2 - **GDP by Sector in 2007** (percentage)



Source: Authors' estimates based on Ministry of Finance and Economic Development Data.

StatLink http://dx.doi.org/10.1787/571555505147

1. UNOCHA, Situation Report: Humanitarian Crisis in Ethiopia, 15 December 2008

Table 1 – **Demand Composition**

	Percentage of GDP (current prices)		Percentage changes, volume			Contribution to real GDP growth		
	1999/2000	2006/07	2007/08	2008/09(e)	2009/10(p)	2007/08	2008/09(e)	2009/10(p)
Gross capital formation	**19.2**	**24.9**	**7.0**	**3.9**	**7.2**	**2.5**	**1.1**	**1.9**
Public	15.1	15.7	20.4	6.0	8.0	4.5	1.2	1.6
Private	4.0	9.3	-15.6	-1.0	5.0	-2.1	-0.1	0.4
Consumption	**93.2**	**94.5**	**13.9**	**7.5**	**7.7**	**16.3**	**7.3**	**7.5**
Public	18.5	10.5	17.7	5.6	5.0	2.6	0.7	0.6
Private	74.7	84.0	13.3	7.8	8.1	13.7	6.6	6.9
External demand	**-12.3**	**-19.4**				**-7.2**	**-1.9**	**-2.4**
Exports	12.5	12.8	17.2	3.9	8.6	3.1	0.6	1.3
Imports	-24.8	-32.2	23.1	6.3	9.4	-10.2	-2.5	-3.7
Real GDP growth						**11.6**	**6.5**	**7.0**

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

StatLink http://dx.doi.org/10.1787/575768247818

2007/08, up from 14.3 per cent in 2006/07. It was mainly due to the rapid expansion in financial intermediation, public administration and defence, hotels and restaurants, and health and social services – each sector grew by more than 20 per cent in 2007/08. Real estate, rental and business activities, education, wholesale and retail trade, and transport and communications recorded real growth rates of 17.3 per cent, 16.4 per cent, 14.4 per cent and 13.9 per cent in 2007/08, respectively.

Domestic demand, mainly private consumption, has increased strongly since 2002/03. Private consumption – accounting for 88 per cent of GDP in 2007/08 – is driven mainly by food production. It grew in real terms by 13.3 per cent in 2007/08 (up from 10.6 per cent in 2006/07). Government consumption expanded in 2007/08 by 17.7 per cent but private investment contracted by 15.6 per cent. Public investment has been expanding for the last five fiscal years, with 20.4 per cent growth in 2007/08 compared to 21.3 per cent in the preceding fiscal year. Gross domestic investment increased by 7 per cent in real terms in 2007/08, down from 14 per cent in 2006/07. Private investment is expected to contract further in 2008/09 while public investment is projected to expand at a slower pace than in 2007/08. Both private and public consumption are expected to grow further in 2008/09, with the rate of expansion in private consumption considerably lower than in 2007/08. Gross domestic savings fell sharply from 6.3 per cent of GDP to a historical low of 3.2 per cent in 2007/08, with an expected recovery to 4.4 per cent in 2008/09.

Macroeconomic Policies

Fiscal Policy

The overall fiscal deficit including grants fell to 3.1 per cent of GDP in 2007/08 compared to 3.7 per cent in 2006/07. With grants amounting to between 4 and 5.0 per cent of GDP, donor support continues to be critical in keeping the budget deficit manageable. The slight improvement in the fiscal position has entailed an increase in domestic revenue mobilisation as well as a fall in public expenditure.

Total revenue (including grants) as a proportion of GDP fell from as high as 21.4 per cent of GDP in 2002/03 to 17.7 per cent in 2006/07 and 17.2 per cent in 2007/08. Tax revenue as a share of GDP increased in 2007/08 fiscal year, but was offset by a fall in grants.

Table 2 - **Public Finances** (percentage of GDP at current prices)

	1999/2000	2004/05	2005/06	2006/07	2007/08	2008/09(e)	2009/10(p)
Total revenue and grants[a]	**17.4**	**19.0**	**18.9**	**17.7**	**17.2**	**18.0**	**16.8**
Tax revenue	10.1	11.7	11.0	10.1	10.3	10.4	10.0
Grants		4.3	4.2	5.0	4.3	5.0	4.2
Total expenditure and net lending[a]	**26.7**	**23.3**	**22.8**	**21.4**	**20.3**	**19.8**	**18.1**
Current expenditure	21.3	12.5	11.8	10.0	9.7	9.2	9.0
Excluding interest	*19.4*	*11.5*	*11.0*	*9.3*	*9.3*	*8.4*	*8.1*
Wages and salaries	5.1	5.6	6.2	5.5	5.4	4.9	4.6
Interest	1.9	1.0	0.8	0.7	0.5	0.8	1.0
Capital expenditure	5.3	10.7	10.9	10.7	10.4	10.4	9.1
Primary balance	**-7.4**	**-3.4**	**-3.1**	**-3.0**	**-2.6**	**-1.0**	**-0.3**
Overall balance	**-9.3**	**-4.4**	**-3.9**	**-3.7**	**-3.1**	**-1.8**	**-1.3**

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

StatLink http://dx.doi.org/10.1787/576885218860

There has been a considerable shift in the composition of domestic revenue. The proportion of taxes in total revenue increased from 76 per cent in 2001/02 to 80 percent in 2007/08. Within tax revenues, direct taxes declined from nearly 40 per cent of total tax revenues in 2001/02 to about 30 per cent in 2007/08; indirect taxes rose from 61 per cent to 71 per cent over the same period. Import duties accounted for 70 percent of indirect taxes and nearly 40 percent of the domestic revenue in 2007/08.

Public expenditure increased by about 5.6 per cent in real terms in 2007/08 although its share in GDP fell to 20.3 per cent. The focus of government spending has shifted from current expenditure to capital expenditure since 2005/06. Poverty-targeted government spending (i.e., expenditure on education, health, agriculture and roads) has been more than 13 per cent of GDP since 2004/05, up from only 6.1 per cent in 2001/02 fiscal year, with poverty-targeted capital expenditure almost twice as large as poverty-targeted current expenditure in 2007/08. However, the budget execution rate for capital expenditures in 2007/08 was only 51.9 per cent compared to 96.5 per cent for recurrent expenditures.

The dependence on external borrowing to finance the fiscal deficit has been falling. As high as 7.4 per cent of GDP in 2001/02, it was 1 per cent in 2007/08. Domestic borrowing, on the other hand, increased dramatically from only 0.5 per cent of GDP in 2001/02 to nearly 4 per cent in 2006/07 before falling back to just under 3 per cent in 2007/08. The formation of a unified revenue agency, the Revenue and Customs Authority, in July 2008, together with on-going tax reforms are expected to boost domestic revenue in absolute terms and to keep its share of GDP stable at about 13 per cent. Combined with a programme of expenditure restraint, this is expected to result in a decline in the fiscal deficit from 3.1 per cent of GDP in 2007/08 to 1.8 per cent in 2008/09 and to 1.3 per cent in 2009/10.

Monetary Policy

The National Bank of Ethiopia (NBE) is the central bank and is responsible for regulating all financial institutions. The monetary policy of NBE is geared towards achieving low inflation and maintaining a stable exchange rate. The growth rate of broad money increased from an average of around 11 per cent during the period 2001-04 to almost 19 per cent during the period 2004-07, after which it accelerated to 23 per cent in 2007/08. In order to contain inflationary pressure, the National Bank of Ethiopia intends to restrain monetary growth to below 20 per cent in 2008/09 and 2009/10 by raising liquidity and reserve requirements of commercial banks, and reducing credit to the government. The growth in broad money supply has been driven by the demand for domestic credit. Bank lending to private sector grew by nearly 27 per cent in 2007/08, up from 15.4 per cent in the preceding fiscal year. However, the growth in net lending to the government slowed from 9 per cent in 2006/07 to 6.8 per cent in 2007/08.

Inflation has been running at double-digit figures since 2005/06 hitting 25 per cent in 2007/08, up from 17.8 per cent in 2006/2007 and 10.8 per cent a year earlier. The dramatic rise in food prices was the major factor behind the unprecedented high inflation in Ethiopia in 2007/08; with food inflation and non-food (core) inflation at 34.9 per cent and 12.5 per cent, respectively. After spiking to 64.1 per cent year on year in July 2008, headline inflation had fallen back somewhat to 55.4 per cent year on year in October 2008. The decline is in tandem with the trend in food inflation – almost 92 per cent year on year in July 2008 before declining to 72.3 per cent year on year in October. Rising world commodity prices also contributed to high inflation in 2007/2008, particularly fuel. Other factors were an accommodating monetary policy, the increase in domestic demand as a result of improved economic performance, as well as the shift by donors from food donations to cash assistance.

The rate of inflation is expected to decline considerably – to around 15 per cent in 2008/09 – due to lower food prices since August 2008 and plunging international oil prices. The NBE maintained the minimum interest rate on savings deposits at 4 per cent in 2007/08. By discouraging savings and encouraging borrowing, the negative real interest rate might have created upward pressure on domestic prices because it encouraged spending on goods to avoid the erosion of the value of savings. The increase in the international prices of fuel, fertiliser and construction materials created pressure on foreign exchange reserves which in turn forced the nominal exchange rate to depreciate by 4.5 per cent in 2007/08 with the premium on the parallel market for foreign exchange increasing from 1.9 in 2006/07 to 3.4 in 2007/08. As a result, international reserves fell from 3.8 months of imports by the end of 2003/04 to 2.2 months of imports by the end of 2006/07 and declined further to only 2 months of imports by the end of 2007/08.

External Position

Ethiopia's merchandise exports exhibited strong growth during the last five years, averaging 25.1 per cent per year due to increases in both volumes and international prices of most export items. Coffee and non-coffee exports grew at about the same rate of 24 per cent in 2007/08. But the heavy dependency on coffee has been gradually falling. Coffee's share in export earnings fell from 39.6 per cent in 2004/05 to 35.8 per cent in 2007/08 because of relatively faster growth in earnings from non-coffee exports.

Earnings from oilseeds, Ethiopia's second largest export since 2004/05, grew by an average of 40.8 per cent for the past five years. Higher demand from Asian countries, particularly China, pushed up prices. The share of export earnings from oilseeds jumped from only 7.2 per cent in 2001/02 to 21.1 per cent in 2005/06

Table 3 - **Current Account** (percentage of GDP at current prices)

	1999/2000	2004/05	2005/06	2006/07	2007/08	2008/09(e)	2009/10(p)
Trade balance	-14.1	-22.7	-24.3	-20.2	-21.3	-19.8	-18.3
Exports of goods (f.o.b.)	6.1	6.9	6.8	6.1	5.8	5.3	5.6
Imports of goods (f.o.b.)	20.2	29.6	31.0	26.3	27.1	25.1	23.8
Services	1.9	2.3	1.0	0.8	0.5	-0.3	-0.9
Factor income	-0.8	-2.9	-0.1	1.5	1.4	-0.1	-0.3
Current transfers	8.8	14.4	14.1	14.9	14.7	15.2	15.7
Current account balance	**-4.2**	**-8.9**	**-9.2**	**-3.0**	**-4.7**	**-5.0**	**-3.7**

Source: National Bank of Ethiopia data; estimates (e) and projections (e) based on authors' calculations.

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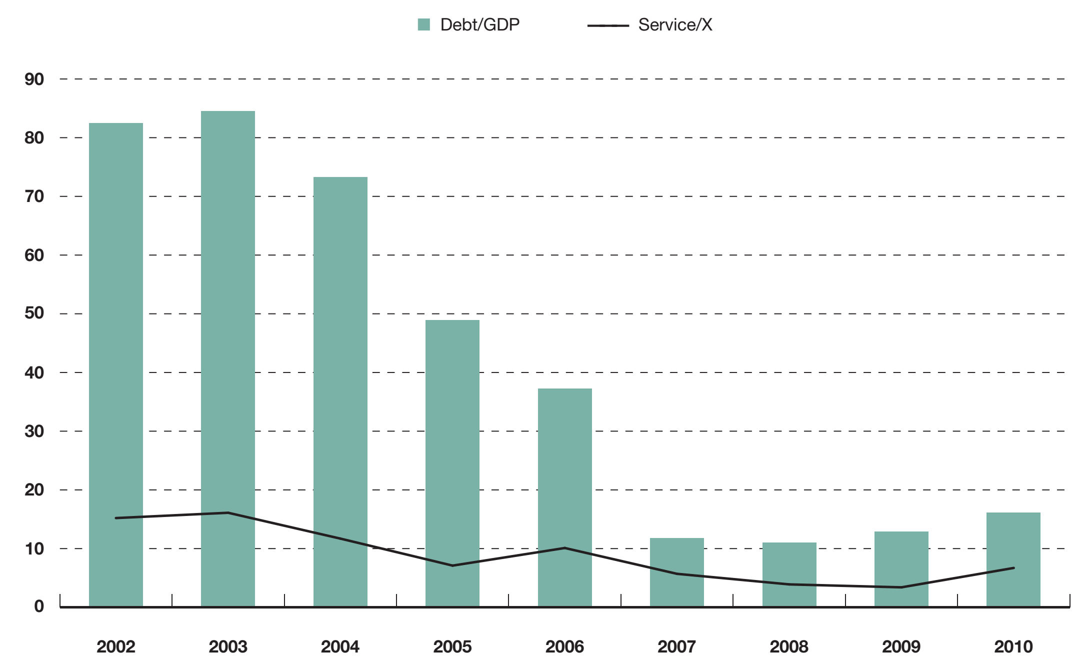
before declining to nearly 15 per cent in 2007/08. Foreign exchange earnings from exports of leather and leather products increased at an annual average rate of 12.1 per cent between 2001 and 2008. Exports of pulses, another traditional export, grew on average by 53 per cent per annum from 2003/04 to 2007/08. Meat and meat product exports continued to surge as well, exhibiting an annual average growth rate of 79 per cent over the same period.

Non-traditional exports such as flowers and gold have also witnessed substantial growth in the last three years. Flowers became the fourth largest export after coffee, oilseeds, and pulses in 2007/08, accounting for 7.6 per cent in the total merchandise exports. The value of gold exports also grew at an average annual rate of 13.4 per cent over the period 2005/06 – 2007/08 due purely to the increase in the international prices of gold since the volume of gold exports has been generally falling from 6 200 tonnes in 2003/04 to 3 800 tonnes in 2007/08.

Ethiopian imports grew at an average annual rate of 30 per cent during the past five fiscal years due mainly to the rising price of oil imports. Fuel imports overtook consumer goods to become the second largest import, next to capital goods, in 2007/08, accounting for 23.8 per cent of total imports. The substantial growth in imports in 2007/08 was also due to rapid growth in imported raw materials and semi-finished goods – they surged by 73.5 per cent and 64.5 per cent, respectively. Following a 5 per cent contraction in total value in 2007/08, the share of capital goods in total imports dropped considerably from 36.5 per cent in 2006/07 to 26.1 per cent in 2007/08.

The merchandise trade deficit was 21.3 per cent of GDP in 2007/08, only slightly higher than in the previous year and is expected to decline gradually in 2009 and 2010 with easing of international oil prices. After registering growth of 7.8 per cent in 2006/07, net services exports plunged in 2007/08 by 22 per cent due mainly to a considerable increase in the imports

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



Source: IMF.

StatLink http://dx.doi.org/10.1787/573213173636

of construction services. Thus, the current account deficit widened from 3 per cent of GDP in 2006/07, to 4.7 per cent in 2007/08.

The surplus on capital account declined from 4 per cent of GDP in 2006/07, to 3.6 per cent in 2007/08 although foreign direct investment increased from USD 482 million to USD 814.6 million over the same period. The deterioration in the current account balance and the decline in the capital account surplus resulted in a decline in international reserves of USD 263.3 million in 2007/08, compared to an increase of USD 85.2 million in 2006/07.

As a result of debt relief – through the Highly Indebted Poor Country (HIPC) programme and Multilateral Debt Relief Initiative (MDRI) – Ethiopia's external debt as a percentage of GDP dropped to 11.8 per cent in 2006/07 from 46.6 per cent in 2005/06. However, it picked up slightly to 12.3 per cent in 2007/08 as the effect of debt relief tapered off, from ETB 4.1 billion (Ethiopian birr) in 2006/07 to merely ETB 43.9 million in 2007/08. Similarly, debt service as a percentage of exports of goods and non-factor services declined from 9.9 per cent in 2005/06 to merely 1.2 per cent in 2006/07, after which it picked up to 2.5 per cent in 2007/08. Domestic public debt also fell from 30.7 per cent of GDP in 2005/06 to 21.6 per cent in 2007/08

Structural Issues

Private Sector Development

Privatisation has been underway for more than a decade but gained new momentum with the establishment of the Privatization and Public Enterprises Supervising Agency (PPESA) in 2004. The autonomous body is in charge of assisting state-owned enterprises to achieve commercial viability before selling or leasing them to private investors. Under its auspices, 16 enterprises were transferred to the private sector in the 2007/08 fiscal year in industry and agro-industry (12 enterprises) as well as services (4 enterprises). Most of the privatised enterprises (13 of 16) were based on equity sale to private owners. Two of them, which had been nationalised during the Dergue regime, were returned to their previous owners, and one enterprise was leased to a private operator.

Despite this recent progress, private investment as a percentage of GDP remains low even by African standards. The country performs poorly according to a number of the World Bank's Doing Business indicators. The lowest scores for Ethiopia in 2008 were registering property (154th out of 181 economies), trading across borders (152nd), getting credit (123rd), and starting a business (118th). Ethiopia's highest scores were in paying taxes (37th out of 181) and dealing with construction permits (59th). The country's overall ranking worsened in 2008 (116th out of 181 economies) relative to 2007 (102nd out of 178 countries). The deterioration is explained by lower scores in the following indicators: starting a business (118th out of 181 countries in 2008 as against 109th out of 178 countries in 2007); getting credit (123rd against 116th) and paying taxes (37th against 31st). No major reforms affecting the Doing Business indicators were recorded in 2008.

The major financial institutions of Ethiopia constitute the banking sector, insurance companies and micro-finance institutions. The banking system, which is not yet open to foreign competition, dominates the financial sector of the country. The state-owned Commercial Bank of Ethiopia (CBE) accounts for 66.2 per cent of paid-in capital in 2007/08, down slightly from 70.3 per cent in 2006/07. The growth of private banks has been much faster than state-owned banks. Private banks accounted for about 34 per cent of the banking system's capital in 2007/08, up from almost 30 per cent in the previous fiscal year.

However, Ethiopia has been experiencing a reversal in financial deepening in recent years as reflected by the decline in the ratio of domestic credit to GDP from 44.7 per cent in 2001/02 to 35.3 per cent in 2007/08. Although high levels of non-performing loans (NPLs) and the structural constraints on lending also declined, they remain a significant problem for the banking system in Ethiopia. High inflation may increase the level of NPLs as borrowers struggle to make repayments in the face of rising costs.

Other Recent Developments

The third successive Rural Sector Development Programme (RSDP III) started in July 2007 and is to be implemented over three years. The programme focuses on *i)* rehabilitation of the main roads, *ii)* upgrading of the main roads, *iii)* construction of new roads, and *iv)* regular maintenance. The programme also involves major policy and institutional reforms. The goal is to construct almost 20 000 kilometers of new roads by 2010 (90 per cent of them in rural areas) and ensuring that 84 per cent of the network is in good condition.

During the first year (July 2007 to June 2008), 915 kilometres of roads were rehabilitated and upgraded, 431 kilometres were constructed as new gravel road, and 1 910 kilometres of asphalt and gravel roads were maintained at Federal level. The targets for rehabilitation/upgrading and new construction were met at rates of 78 per cent and 93.7 per cent, respectively. The Regional Road Authorities planned to construct and/or maintain 3910 kilometres of rural road. In fact, they managed to construct and/or maintain about 7 997 kilometres, more than twice the original target.

With hydroelectricity providing 98 per cent of total its energy resources, Ethiopia is vulnerable to power cuts in years of drought or insufficient rains. The Ethiopia Electric Power Corporation (EEPCo), which is a state-run monopoly, plans to electrify over 6 000 rural town and villages to provide 24 million people with access to electric power by 2010. The project is called the Universal Electrification Access Program (UEAP). The four main hydroelectric power generation stations under construction, *Beles* (460 mega-watts), *Gilgel Gibe II* (420 mega-watts), *Tekeze* (300 mega-watts), and *Fincha Amerti Neshe* (97 mega-watts) as well as windmill power generation (150 mega-watts), will increase the country's total power generation capacity to 2 241 mega-watts in 2008/09 from 814 mega-watts in 2007/08. EEPCo plans to export electricity to Djibouti, Kenya and Sudan. The electricity transmission cables to Djibouti and Sudan are expected to be completed by December 2009 and the plan to extend the grid to Kenya is advancing.

The Plan for Accelerated and Sustainable Development to End Poverty (PASDEP), adopted in 2005/06, is an agriculture-led industrialisation strategy: a process of transforming subsistence farmers into commercial farmers accompanied by institutional reforms and massive investments in infrastructure such as road and markets.

Most recently, the country introduced the Ethiopian Commodity Exchange (ECX) in January 2008 to help improve the marketing of agricultural products. The commodity exchange is the first of its kind in Africa.

ECX has already started trading in coffee, sesame seeds, haricot beans, wheat and maize. It is intended to trade in teff as well. The exchange includes a trading floor in Addis Ababa, six warehouse delivery locations, and 20 electronic price tickers in major market towns.

The World Bank launched a new five-year Country Assistance Strategy (CAS) for Ethiopia covering the period of July 2008 to June 2011. The new CAS is intended to support Ethiopia in achieving four main strategic objectives, consistent with PASDEP: *i)* fostering economic growth, *ii)* improving the quality and access of basic service delivery, *iii)* reducing Ethiopia's vulnerability to drought to help improve prospects for sustainability; and *iv)* fostering improved governance.

ICT and Innovation

Despite the introduction of telecommunications to Ethiopia in 1894, the ICT infrastructure of the country is extremely low. Household mobile penetration and access to the Internet in Ethiopia is the lowest in the world.

The Ethiopian Telecommunication Corporation (ETC), a public telecom operator, has a monopoly over all telecom services: basic telephony, mobile telephone, and Internet and multimedia services. ETC uses satellites, digital radio multi access system (DRMAS), Very Small Aperture Terminal (VSAT), Ultra High Frequency (UHF), Very High Frequency (VHF), long line and high frequency (HF) radio networks.

There were 966 public service stations and exchanges across the country. The number of rural *kebeles* - the lowest administrative unit - with telephone access increased from only 60 in 2004/05 to 8 676 in 2007/08, and the target is to provide access to telecom services to all 15 000 rural *kebeles* by 2010. By the end of 2007/08, the number of cellular telephone (mobile) subscribers increased nearly five times from the 2004/05 level, reaching 1 954 527; the number of broadband customers reached 1 496, up from only 65 in 2002/03; and the dial-up Internet subscribers were 34 110, almost twice the number in 2004/05. Teledensity, excluding mobile phones, has tripled since 2000/01 to reach 1.23 per 100 households in 2007/08. Including mobile phones, teledensity reached 3.88 in 2007/08 from only 0.48 in 2000/01.

In 2005, ETC installed a national fibre optic backbone comprising 4 000 kilometers radiating out in six major directions from the capital (to Dire Dawa, Djibouti, Dessie-Mekele, Bahir Dar-Nekemte, Jimma and Awassa), laying a foundation for delivering current and future services including digital radio, TV, Internet, data and other multimedia services. In order to increase the service capacity, reliability, quality, speed and size of data transfer, ETC transferred from narrowband to broadband service in January 2005. The introduction and installation of broadband Internet, broadband VSAT and broadband multimedia infrastructure are among the major achievements of the past 12 years. Currently there are 1 318 submarine gateway circuits that connect Ethiopia with the rest of the world.

ETC provides different types of Internet services including dial up, leased line and shared DSL Internet services to government organisations, private and commercial companies, international institutions and individuals. The broadband Internet services uses asymmetric digital subscriber line (ADLS) and fixed wireless access (FWA) technologies. Some of the uses of VSAT in Ethiopia includes (a) *School Net* services (providing high schools with standard educational programmes through television); (b) *Woreda Net* services (connecting the woreda centres of the country - the administrative unit higher than kebele - with the federal government and with each other using Internet, data, video conferencing and voice services; (c) *Agri Net* services (for connection of agricultural institutions with the federal government and with each other) and (d) *Health Net* (for the provision of a wide range of information services that are crucial to health care by connecting healthcare professionals throughout the country.

Ethiopia has signed dual international roaming agreements with 144 countries in order to increase its international roaming service. ETC has also started providing roaming services to foreigners coming from countries where the Corporation has made an international roaming agreement.

The ETC finances the expansion of its telecommunication services through vendor financing schemes. In addition, mobile phone handsets are subject to taxation when they are imported but not taxed when sold in the domestic market. The tax rate levied on the value of mobile handsets is 36.82 per cent, including custom duty (5 per cent), value added tax (15 per cent), withholding tax (3 per cent) and surtax (10 per cent). The black market for mobile phone handsets is a serious concern to ETC as the government loses the revenue that ought to be generated from the taxation of handsets. ETC charges for fixed line and mobile phone usage in addition to the 15 per cent value-added tax.

The ETC singled out the lack of external finance as the main obstacle for network expansion. But there are a number of factors behind the low level of ICT development in Ethiopia: limited numbers of fixed and mobile telephones and of telecommunication networks; a lack of skilled human resources and low ICT literacy; a low level Internet service and poor connectivity; underdeveloped physical and telecommunications infrastructure; underdeveloped markets for computer hardware and software aggravated by the high cost of acquisition; lack of organised data and information resources and poor accessibility to those that exist; undeveloped private sector including ICT; and legal and regulatory constraints. Last but not least, there is almost no public awareness of the role and potential of ICT.

Although different groups of the population (especially businessmen) and banks have benefited from e-applications, the number of users is not known. Both private and state owned banks can transfer money between countries/within countries. However, money transfers from Ethiopia to other countries are limited for specific purposes.

Political Context

The federal government of Ethiopia continues to be dominated by the Ethiopian People's Revolutionary Democratic Front (EPRDF). There was little political tension in 2008. This may be due in part to the release in 2007 of a number of senior political opposition leaders, who had been accused of provoking civil unrest in 2005. A general election is due in 2010.

Foreign policy will continue to be dominated by relations with Eritrea as the long-standing border dispute has not yet been settled despite strenuous international efforts to resolve it. The independent Eritrea-Ethiopia Boundary commission (EEBC) closed its operation in November 2007, and in July 2008, the UN Security Council decided to withdraw its peacekeeping force (UNMEE - UN Mission in Ethiopia and Eritrea). These developments have increased the risk of conflict between the two countries. On the other hand, by the end of 2008, Ethiopia had completed the withdrawal of its forces from Somalia where they had been operating for two years in support of the government in Mogadishu.

Ethiopia's House of People's Representatives also passed the Mass Media and Freedom of Information Proclamation in July 2008. This law, which is an update of the first ever Ethiopian press law of 1992, bans censorship of private media and detention of journalists. It also grants journalists the right to set up an independent press council.

Corruption is still perceived as widespread in Ethiopia, although there has been a slight improvement recently. The country's ranking in the Transparency International's corruption perception index improved from 138th out of 179 countries in 2007 to 126th out of 180 countries in 2008.

Social Context and Human Resources Development

Ethiopia has made significant progress towards achieving the Millennium Development Goals (MDGs). According to national sources, headcount poverty, which stood at 48 per cent in 1990 and 44.2 per cent in 2000/01, fell to 38.7 per cent 2004/05, with a trend estimate of 34.6 per cent in 2006/07. Primary school enrolments have almost tripled, i.e. from 32 per cent in 1990 to 91.6 per cent in 2006/07 with a primary completion rate of 43 per cent in 2006/07, up from 34 in 2004/05. The ratio of girls to boys in primary education reached 0.93 in 2006/07 up from 0.61 in 1995/96. This ratio also increased in secondary and higher education from 0.57 and 0.24 in 2004/05 to 0.78 and 0.30 in 2006/07, respectively. The number of women in parliament almost tripled: 116 in 2007/08, from only 42 in 2000/01.

The under-five child mortality rate declined from 190 per 1 000 children in 1990 to 129 in 2008 while infant mortality fell from 123 per 1 000 infants in 1992/93 to 78.1 in 2008. Maternal mortality also dropped from 871 per 100 000 in 1990 to 673 in 2006/07. The figures for births attended by skilled personnel and contraceptive prevalence rate went from 9 per cent and 15 per cent in 2004/05 to 16 per cent and 33 per cent in 2006/07, respectively. Ethiopia saw a substantial drop in the prevalence of HIV/AIDS within a short period: falling to only 2.1 per cent in 2006/07 from 7.3 per cent in 2000/01. But it sharply increased among 15-24 year old pregnant women, from only 0.9 per cent in 1990 to 8.6 per cent in 2004/05 after which it fell back to 5.6 per cent in 2005/06. The proportion of people living with HIV/AIDS that receive antiretroviral treatment almost quadrupled within just three years: from only 10 per cent in 2004/05 to 37.1 per cent in 2006/07. The percentage of population without access to safe water dropped considerably from 81 per cent in 1990 to 58 per cent in 2006/07.

These achievements reflect the priority given by the government to education, health, agriculture and roads. Poverty-targeted expenditure (i.e. expenditure geared towards education, healthcare, agriculture and roads) increased to 64.1 per cent of total government spending in 2007/08 (as compared to 42.8 per cent in 2001/02). Indeed, 47 per cent of current expenditure and 81 per cent of capital expenditure targeted these poverty-oriented sectors in 2007/08 compared to 29 per cent and 73 per cent in 2001/02, respectively.

Most of the improvements in health conditions can be attributed to the provision of essential health services to mothers and young children at the community level. Rural outreach programmes have expanded coverage. The target of ultimately deploying 30 000 female health extension workers is well underway, with 60 per cent in place by the end of 2006/07. The strategy for reducing child mortality is to deliver an essential package of care; fight diseases that affect children and the poor; improve coverage and delivery of health services in rural areas; and undertake a major vaccination effort.

Gabon

key figures

- Land area, thousands of km^2: 258
- Population, thousands (2008): 1 448
- GDP per capita, PPP valuation, USD (2008): 15 175
- Life expectancy (2008): 60.5
- Illiteracy rate (2008): 14

Gabon

Yaoundé
Malabo
CAMEROON
EQUAT.
GUINEA
NORTH
ATLANTIC
OCEAN
EQUAT. GUINEA
Oyem
Baie de Corisco
LIBREVILLE
EQUATOR
Port-Gentil
Lambaréné
Moanda
Franceville
Mouila
Tchibanga
SOUTH
ATLANTIC
OCEAN
CONGO
ANGOLA
D. R. OF THE CONGO
Commercial Port
Petroleum Port
Fishing Port
Airport
Main Road
National Capital (576 000 In. 2007)
over 150 000
over 20 000
other main city
0 km
35
70
105 km

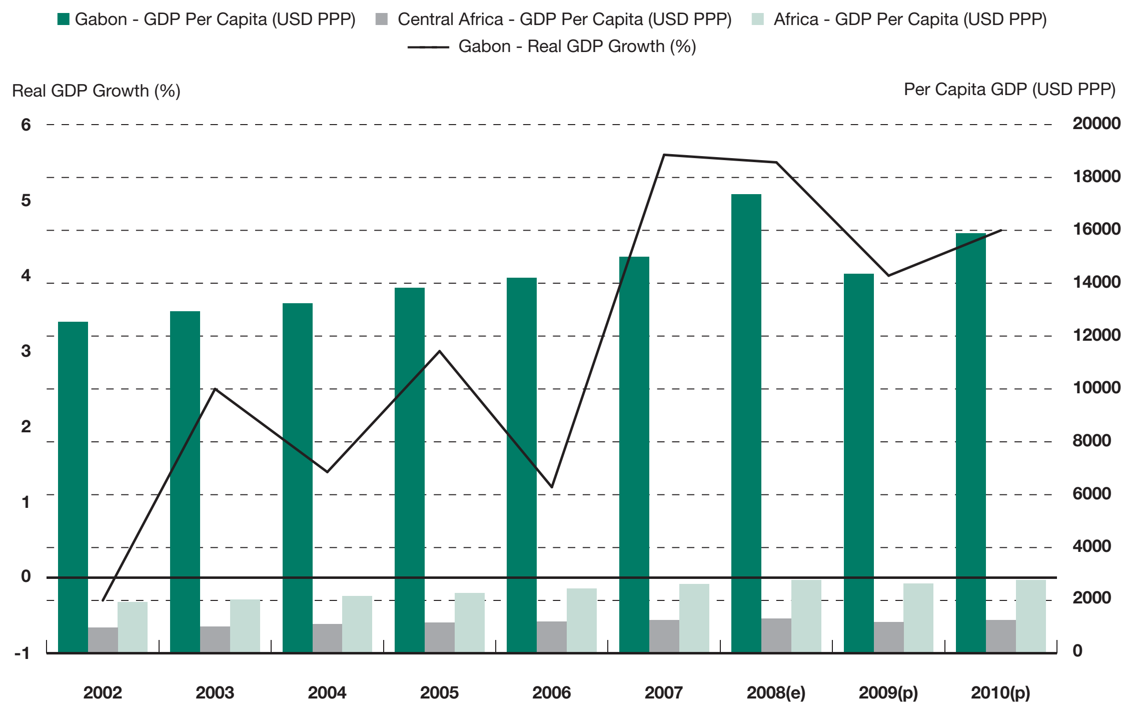
ECONOMIC INDICATORS REMAINED positive in 2008 despite the global recession but social indicators still contrast sharply with the country's wealth and potential. In the medium term, Gabon is exposed to deteriorating world markets as the economy is over-dependent on oil and gas and is based on mineral exports. The forestry sector is already suffering from a strong contraction in demand.

The economy grew 5.6 per cent in 2007, the fastest annual expansion of the decade, partly due to structural reforms begun in 2002. The government maintained budgetary discipline in 2008 as part of a three-year programme. Real growth was 5.5 per cent because of a buoyant non-oil sector, a recovery in oil production and especially a strong (8.4 per cent) growth of the secondary sector and a healthy tertiary sector (up 4.3 per cent).

The low level of social indicators stands in sharp contrast to the country's vast wealth.

The outlook is not so rosy and growth is not expected to be more than 4 per cent in 2009 and 4.6 per cent in 2010.

Figure 1 - **Real GDP Growth and Per Capita GDP**
(USD/PPP at current prices)



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

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Recent Economic Developments

Gabon is still a very narrowly-based rentier economy despite its huge potential. The oil sector accounted for 50.3 per cent of GDP in 2008, despite its small (1.7 per cent) contribution to growth. Other sectors provide more jobs and are more important for reducing poverty but their share of GDP is still only minor: 4.8 per cent for industry, 3.2 per cent for agriculture and 1.2 per cent for forestry.

The effect of the global recession on exports has already been felt, especially in the forestry sector. Exports of processed logs rose 17 per cent in 2007 but only 3.8 per cent in 2008. The government took short and medium-term steps to help crisis sectors and protect those not yet affected. These included speeding up treasury payments from January 2009, from 60 to 30 days, and VAT refunds from 90 to 40 days. The government also allocated 10 billion CFA francs (XAF) to the national development bank (BGD) to fund projects in forestry, tourism, agriculture and public housing. The investment budget was maintained at XAF 315 billion for 2009 to support internal demand and growth.

These measures are justified but they also reflect the government's financial problems and may not have much effect in view of the impact of the crisis.

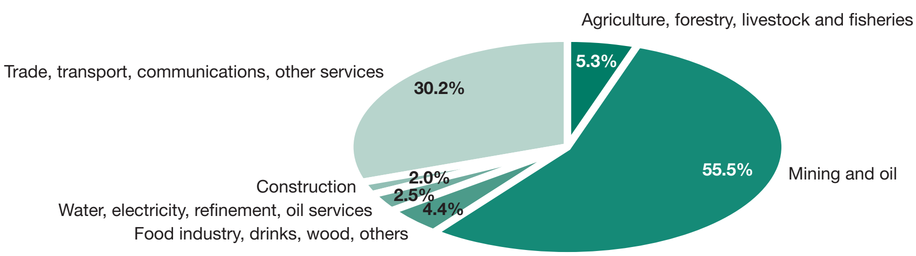
The primary sector provided 60.6 per cent of GDP in 2008 and the oil sub-sector 87.9 per cent of this contribution. Mining came next with 9.7 per cent, then agriculture, livestock and fisheries (5.3 per cent), other mining products (4 per cent) and forestry (1.9 per cent). The economy is still heavily dependent on oil, which supplies 65.5 per cent of government revenue and 82 per cent of export earnings.

Soaring crude oil prices in 2007 and 2008 led to major investment to improve production technology at mature oilfields: some XAF 452.1 billion in 2007 and XAF 464.4 billion in 2008 (a 12.3 per cent increase over the year). But output fell, despite new technology used at old wells and extraction from marginal wells made profitable by higher oil prices, from 12.13 million tonnes in 2007 to 12.06 million in 2008. The decline may continue in 2009 if no major new deposits are found.

The mining sector is expanding very fast and its GDP contribution rose 84 per cent between 2007 and 2008. Known reserves (manganese, iron, niobium) could earn XAF 384.1 billion a year. Mining's real added value increased 5 per cent in 2008 and this growth should continue in 2009 with the announced return of the French uranium firm Areva, which was drawn by the rise in the metal's price in the first half of 2008.

Agriculture's share of GDP is declining and was only 3.2 per cent in 2008 (down from 4.1 per cent in 2001) but volume production is rising thanks to a revival of horticulture, cacao and coffee. The sector grew 4.2 per

Figure 2 - **GDP by Sector in 2007** (percentage)



Source: Authors' estimates based on national data.

StatLink http://dx.doi.org/10.1787/571614137561

cent in 2008 (4 per cent in 2007). This trend should hold up in 2009 and 2010 if government restructuration plans are implemented.

Forestry slumped sharply in 2008. It only accounts for 1.2 per cent of GDP but is the country's second biggest employer after the government. Gabon is 85 per cent forested, 40 per cent of it virgin, and 0.1 per cent is lost each year. The sector perked up in 2007 but flagged in 2008 due to lower Asian demand, higher freight costs and problems supplying small sawmills. But good results in secondary and tertiary processing should help the sector weather the crisis.

The secondary sector contributes 4.8 per cent of GDP. Chemicals (paint, industrial gas, lubricants) and construction material (including cement) account for the biggest part (2.8 per cent) of this share, followed by construction (1.8 per cent), electricity and water (1.2 per cent), agro-food (1.1 per cent) and wood (0.9 per cent). Construction was strong, growing 13.8 per cent in 2008 (up from 10.6 per cent in 2007) because of major road-building and maintenance.

The tertiary sector supplied 31.6 per cent of GDP in 2008, of which public services accounted for the biggest part (9.8 per cent), followed by trade (5.1 per cent).

Growth held steady at 5.5 per cent in 2008 (5.6 per cent in 2007) but should drop to around 4 per cent in 2009 because of fewer volume exports (1.7 per cent in 2009 versus 3.2 per cent in 2008). Growth may return to 4.6 per cent in 2010 if all projects are carried out.

Imports were boosted by investment in both oil and non-oil sectors in 2007 and early 2008 and are forecast to be 19.3 per cent of GDP in 2009 (up from 16.8 per cent in 2008).

Private sector gross fixed capital formation provided 1 per cent of real growth in 2008 but this should fall in 2009 (to 0.3 per cent) and 2010 (0.8 per cent). The big rise in oil prices and strong demand for Gabonese exports in 2007 and 2008 encouraged firms in these sectors to make additional investments, some to increase productivity, others to expand production capacity. This will fade in 2009 because of lower oil prices and global recession. Growth of private consumption will decline somewhat in 2009 (to 8.3 per cent) but pick up again in 2010 (to 9 per cent) due to Areva's uranium mining, construction for the CAN 2012 Africa Nations Cup football tournament (to be co-hosted by Gabon and Equatorial Guinea), and the expected start of work on the deep-water port of Santa Clara and the new Libreville airport. Private consumption's GDP

Table 1 – **Demand Composition**

	Percentage of GDP (current prices)		Percentage changes, volume			Contribution to real GDP growth		
	2000	2007	2008(e)	2009(p)	2010(p)	2008(e)	2009(p)	2010(p)
Gross capital formation	**22.6**	**23.7**	**4.5**	**1.4**	**3.2**	**1.2**	**0.4**	**0.9**
Public	5.0	6.2	3.0	1.0	1.0	0.2	0.1	0.1
Private	17.6	17.4	5.0	1.5	4.0	1.0	0.3	0.8
Consumption	**46.2**	**44.3**	**7.4**	**6.7**	**7.4**	**4.0**	**3.7**	**4.2**
Public	13.6	12.2	3.8	2.2	2.2	0.5	0.3	0.3
Private	32.6	32.1	8.7	8.3	9.0	3.5	3.4	3.9
External demand	**31.2**	**32.1**				**0.2**	**-0.1**	**-0.4**
Exports	64.3	65.0	3.2	1.7	2.3	2.0	1.0	1.3
Imports	-33.1	-32.9	4.0	2.6	4.2	-1.7	-1.1	-1.7
Real GDP growth						**5.5**	**4.0**	**4.6**

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

StatLink http://dx.doi.org/10.1787/575771315863

contribution is expected to decrease in 2009 to 3.4 per cent and then rise to 3.9 per cent in 2010.

Gabon may have a current account deficit of 3.5 per cent in 2009 as exports fall to 54 per cent of GDP, from 66.9 per cent in 2008.

Macroeconomic Policies

Fiscal Policy

In 2008 fiscal policy focused on maintaining sustainability and breaking with procyclical policies, but with the drop in oil revenue the government will have to further curb its spending.

The oil revenue monitoring commission *(Commission de suivi des recettes pétrolières – Cosurep)* should have ensured in 2008 that all revenue was transparently recorded in the budget, but despite pressure from the International Monetary Fund (IMF) this was delayed. A thorough reform of tax exemptions is under way.

Curbs on public spending have included cutting staff in some embassies abroad and reducing the number of diplomatic missions. Phone and electricity costs in some ministries and rented premises have fallen after the imposition of limits. Water infrastructure has been upgraded to save money.

Increasing the minimum wage and the value of the index point has put great pressure on the wage bill, so the government has decided to restrict civil service hiring, do a survey of employees to find vacant jobs, and to suspend external job advertisements.

The primary balance showed a 14.8 per cent surplus in 2008 (up from 10.8 per cent in 2007) because of substantial oil revenue in the first half of the year. This should fall to about 8.6 per cent in 2009 in step with lower oil revenue. The non-oil sector did not perform as strongly as expected. The non-oil primary balance deficit (9.5 per cent of non-oil GDP) was larger than forecast because of pay rises and much bigger than expected oil product subsidies. The effect of structural reforms is not yet significant, even though current spending was down to 14.1 per cent in 2008 (from 16.6 per cent in 2007). But it may rise again if the government gives in to wage demands in 2009.

Tax revenue was 10.1 per cent of GDP in 2008 and government efforts to raise money from the non-oil sector brought in XAF 735.9 billion, 8.5 per cent more than 2007's XAF 677.8 billion.

Table 2 - **Public Finances** (percentage of GDP at current prices)

	2000	2005	2006	2007	2008(e)	2009(p)	2010(p)
Total revenue and grants[a]	**33.5**	**31.4**	**31.7**	**29.9**	**30.6**	**28.6**	**28.6**
Tax revenue	10.4	10.2	10.3	11.1	10.1	12.2	12.2
Oil revenue	23.0	19.8	20.3	17.5	19.1	15.0	15.1
Total expenditure and net lending[a]	**21.8**	**20.4**	**22.5**	**21.3**	**17.7**	**21.9**	**20.3**
Current expenditure	18.7	16.9	17.7	16.6	14.1	17.1	15.8
Excluding interest	*12.8*		*15.4*	*14.4*	*12.2*	*15.2*	*14.4*
Wages and salaries	6.0	5.0	5.1	5.5	4.5	5.5	5.2
Interest	5.9	2.8	2.3	2.2	1.9	1.9	1.4
Capital expenditure	2.9	3.4	4.8	4.5	3.8	4.8	4.5
Primary balance	**17.6**	**13.8**	**11.6**	**10.8**	**14.8**	**8.6**	**9.8**
Overall balance	**11.7**	**11.0**	**9.2**	**8.6**	**12.9**	**6.7**	**8.4**

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

StatLink http://dx.doi.org/10.1787/577155343533

Expenditure fell in 2008, with current spending only 14.1 per cent of GDP (16.6 per cent in 2007) and capital spending 3.8 per cent (4.5 per cent in 2007). The wage bill also shrank to 4.5 per cent of GDP (5.5 per cent in 2007). Despite the big drop in oil revenue, foreign exchange reserves built up in recent years will allow the government to moderately increase the wage bill in 2009 (to 5.5 per cent) and 2010 (5.2 per cent) and reduce capital spending to 4.8 per cent in 2009 and 4.5 per cent in 2010.

Oil revenue permits the government to continue funding the future generations fund (FGF) it set up in 2004. The Extractive Industries Transparency Initiative (EITI)'s third report in March 2008 said the government's procurement division was slowly opening up contracts for public bidding, instead of granting them by direct agreement as was hitherto common.

But the government will not have enough money to keep employment going in forestry and mining. Unemployment was officially estimated at 21 per cent in 2008 and may rise sharply in the next few years. The big reduction in oil revenue will narrow the government's room for manoeuvre and prevent it spending more for fear of being penalised for non-compliance with the regional convergence criteria of the Central African Economic and Monetary Community (CEMAC).

Monetary Policy

Gabon's monetary policy is set by CEMAC and aims to limit increasing the money supply and curb internal borrowing (mainly by the government). The Bank of Central African States (BEAC) prioritises controlling inflation and keeping the CFA franc pegged to the euro. Its monetary policy has been passive in recent years and has not kept in line with the European Central Bank. The 225-base-point fall in the refinancing rate since October 2008 and lower inflation throughout the region led the BEAC to cut its discount rate by 75 base points, from 5.5 to 4.75 per cent at the end of 2008, to support economic activity in the area affected by the global recession. The crisis also sent down the oil price by nearly 75 per cent in the second half of the year, after peaking in July-August 2008, and cut revenue from oil. Gabon's non-oil sector is backed by capital spending closely tied to oil revenue, so the fall may hit the construction and services sectors.

The BEAC says the regional banking sector is strong despite the financial turmoil and has sufficient liquidity. The lower discount rate will ease access to loans inside the country and help regional growth. Financial intermediation is small in Gabon (loans to the private sector are only 8 per cent of GDP) and banks mostly just rely on deposits to cover their loans. Credit to the private sector grew only 11.8 per cent in 2008 (18 per cent in 2007), a squeeze caused by a selective policy and observance of prudential rules. But this level, still considered high, was the result of a credit policy attractive to business (telecommunications, transport and construction) and households. Banks made more loans for investment and fewer to the treasury.

The last meeting of the BEAC's board said a document was being drafted to coordinate major sub-regional priority development policies (agriculture and livestock). This would involve free movement of animal products between producer countries so as to limit non-CEMAC imports. The BEAC also funds small and medium-sized firms and industries (SME/SMI), ensures access to the financial market and strengthens the financial capacity of the CEMAC institutions. A plan to boost energy production capacity and interconnection between neighbouring countries is also in the works.

Lower prices of food staples and oil, along with smaller world demand, brought inflation down to 5.4 per cent in 2008 and it is not expected to exceed 3.2 per cent in 2009 and 2010.

External Position

The balance of payments current account will show a 3.5 per cent of GDP deficit in 2009 (after a 21.3 per cent surplus in 2008) due to large deficits in services and factor income combined with a slump in goods exports.

Exports are still dominated (83.7 per cent) by oil products, followed by manganese (9.4 per cent) and wood (6.2 per cent). The main customers are still the United States (51.8 per cent), China (13.2 per cent), India (6.4 per cent) and France (6 per cent).

The share of imports in GDP should rise in 2009 (to 19.3 per cent, from 16.8 per cent in 2008), driven mainly by steel products, intermediate consumer goods and equipment for the construction and extractive industries. Gabon's main suppliers are France (35.1 per cent), Belgium (13.6 per cent), the United States (7.5 per cent) and China (3.9 per cent).

The overall balance of payments sharply improved in 2008, to 12.9 per cent of GDP (from 8.6 per cent in 2007), substantially boosting foreign exchange reserves. It should fall in 2009 (to 6.7 per cent) and in 2010 (8.4 per cent) due to its great dependence on goods exports fluctuations.

Table 3 - **Current Account** (percentage of GDP at current prices)

	2000	2005	2006	2007	2008(e)	2009(p)	2010(p)
Trade balance	49.8	47.1	44.4	43.1	50.1	34.7	35.2
Exports of goods (f.o.b.)	65.5	62.9	62.2	62.2	66.9	54.0	53.9
Imports of goods (f.o.b.)	15.7	15.8	17.8	19.1	16.8	19.3	18.7
Services	-13.4	-12.0	-11.5	-13.9	-13.1	-16.3	-15.0
Factor income	-15.4	-18.5	-11.6	-11.7	-13.3	-18.5	-13.7
Current transfers	-1.2	-2.0	-2.5	-2.5	-2.5	-3.5	-3.2
Current account balance	**19.8**	**14.6**	**18.7**	**14.9**	**21.3**	**-3.5**	**3.4**

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

StatLink http://dx.doi.org/10.1787/578433381218

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

Source: IMF.

StatLink http://dx.doi.org/10.1787/573222583132

The country's priority action programme (PAP) and medium-term budgetary framework (MTBF) from 2008, should be guides for drafting and executing the budget, with the aim of linking resources to specific results so as to achieve the Millennium Development Goals (MDG) by 2015 and making public spending more effective. The main purpose of the PAP is to reschedule debt servicing in 2008-12, to substantially ease the debt burden.

Commitments made at the 5th, 6th and 7th Paris Club meetings meant debt service continued to be a burden in the 2008 budget. To improve solvency and liquidity ratios, the government repaid in January 2008 all the debt (XAF 752.3 billion) due at that time. This repayment of 86 per cent of the debt to Paris Club creditors will enable Gabon to become independent of the Club, boost its international credit and reputation and actively manage its debt.

Gabon shares the position of the Africa, Caribbean and Pacific (ACP) countries in renegotiating economic partnership agreements (EPA) with the European Union (EU). Recommendations were made in October 2008 about amending them to help African economies. Sectors with extra commitments and suitable reserves remain to be defined, along with drafting a programme to help trade and services, so as draw up a timetable for completing negotiations about services and investments.

Structural Issues

Private Sector Development

The global crisis highlights the need to diversify the country's heavily oil-dependent economy. Structural reforms should be speeded up to enable expansion of the private sector and to strengthen governance.

Encouraging the private sector is based on developing microfinance and, through better governance, improving the business climate. The World Bank's 2009 *Doing Business* report said that the business environment had not improved, ranking it 151st out of 181 countries in 2009 (down from 143rd in 2008).

The government is focusing on setting up microfinance institutions, incorporating them into the national financial system, monitoring and assessing them and training members of the national microfinance operators association (Association Professionnelle des Etablissements de Microfinance pour le Gabon – APEMG).

Special efforts have been made to improve management of public resources and strengthen the rule of law in Gabon. But lawsuits in January 2009 taken against Non-Governmental Organisations (NGOs) and civil society groups fighting corruption and bad governance show the sensitivity of the government in such matters.

Other Recent Developments

Several state-run firms such as the national energy and water company SEEG and the Transgabon railway company SETRAG were privatised in the mid-1990s, replacing a government monopoly with a private one without quality and value for money necessarily improving. Entire neighbourhoods suffer from incessant water and electricity cuts. Regulation of non-competitive sectors is not properly done. Redundancy schemes have been partly successful.

SEEG planned to reduce its electricity production costs in 2008 by using natural gas to fuel the Owendo power station instead of heavy fuel but the changeover has been delayed.

An overall sanitation plan is also being drafted for the capital, Libreville, where more than 43 per cent of the population live.

Pump petrol prices were reduced on 1 January 2009 from XAF 595 to 540 a litre for super grade and from XAF 470 to 450 for diesel. The price of kerosene and gas was unchanged and the price of asphalt and fuel oil has been liberalised. The new arrangement brings the situation into line with world prices and pump prices can thus rise or fall.

The national medium-term investment programme (NMTIP) for 2009-13 earmarks XAF 90.5 billion for agriculture, with the aim of cutting food imports 5 per cent a year by encouraging private commercial farming, diversifying crops, spreading environmentally-friendly practices, supporting promoters with targeted aid, tax incentives and easier credit. The programme wants to boost agriculture's GNP contribution to 7.5 per cent. Despite its agricultural potential, Gabon spent nearly XAF 250 billion importing food in 2008, mostly cereals, meat and dairy products, and this in a country of less than 1.5 million people that depends on outside sources for 85 per cent of its total consumption.

Despite the drop in oil prices, investment in mature oilfields along with small new deposits, will significantly boost production, from 239 000 barrels per day in 2008 to 255 000 in 2009 and 257 000 in 2010, the Economist Intelligence Unit said in February 2009.

Capital spending rose by one percentage point year-on-year in 2009 (to 4.8 per cent of GDP) to support the construction sector. But postponement of the Belinga iron-mining project until 2010 will probably reduce the key role of construction in overall growth in 2009.

Innovation and ICT

Telecommunications have been transformed since the 1990s and as new information and communication technology (NICT) has developed, fixed-line telecommunications have taken a back seat.

Gabon has several operators in the sector. Gabon Télécom-Libertis Group, privatised in November 2006, is active in radio, TV and providing Internet access. The post office (formerly Gabon-Poste), also privatised since November 2006, launched a new product in October 2007 called Mandat express international (MEI). La Gabonaise de Télécommunications (Gabtel) specialises in selling terminals and managing broadcasting frequencies. Gabcel sells wholesale mobile phone recharge cards. Dalsey, Hillblom and Lynn (DHL), EMS Delta+ and other firms are express mail carriers. Zain (Celtel), Libertis and Moov are in mobile phones. TV SAT installs satellite TV network equipment.

A 2008 survey of local telecommunications firms showed Zain Gabon dominating the market (52 per cent), followed by Libertis (30 per cent), Moov (16 per cent) and Gabon Télécom (2 per cent).

These flourishing mobile phone operators increased the number of subscribers 26.8 per cent from 2007 to 2008 as the network was extended to all parts of the country, upgraded in quality and new products launched. Fixed lines grew 6.8 per cent, from 40 000 to 42 500, after a new product provided coverage of new areas.

Medium and high-speed Internet subscribers increased 15.1 per cent in 2007 to reach 9 388 subscribers and TV SAT subscribers were up more than 11 per cent in 2008. The telecommunications sector turnover was XAF 308.461 billion in 2008, up 18.6 per cent on 2007 and profits rose to XAF 85.7 billion, a 48.9 per cent increase on 2007's XAF 57.5 billion.

The sector's XAF 152 billion investment in 2008 was mainly to buy the latest equipment, expanding networks, modernising call centres and renewing licences.

Those working in the sector rose 22 per cent in 2008 to reach 2 590 full-time employees and the wage bill increased 9 per cent.

Several interconnection agreements signed by Gabon Télécom with Moov and Zain-Gabon have boosted competition with very attractive pricing and a wider range of services from operators.

Libertis products include its classic 06, a set of non-subscription pre-paid options. Favourite numbers gives unlimited calls round-the-clock at the cheap rate of XAF 90 a minute between Libertis subscribers, XAF 176 between Libertis and another network and XAF 345 a minute for international calls.

Libertis users have had the lowest rates for phone and SMS (Short Message Service) messages since 2008, at up to XAF 80 a minute for national calls between

20:00 and 08:00 every day and XAF 25 for SMSs. Apart from pre-paid cards of between XAF 500 and 30 000, Libertis also has recharge bonuses and different rates at various times of the day.

Professional people can choose between pro100, pro1000 and pro+ options. Per minute Libertis-to-Libertis rates are XAF 55.45 or free, Libertis to another mobile operator or a fixed line are XAF 145 or 130 and international calls are XAF 450, 400 or 350 a minute.

Libertis competes against two other operators, has 30 per cent of the market and 250 000 customers and had a mobile penetration rate of 53 per cent in 2008.

Telecommunications grew strongly in 2008 thanks to mobile phones, more connections, new products – such as roaming, Code Division Multiple Access (CDMA) and ADSL (Asymmetric Digital Subscriber Line) – and Internet connection through flash-drives.

The government pushed through a law imposing a 10 per cent tax on mobile phone operator turnover to finance health insurance (called the Roam – *Redevance obligatoire à l'assurance maladie*) from 1 January 2008, which amounts to more than 30 per cent of their profits. Zain Gabon, the mobile phone market leader, increased its rates to compensate.

General telecommunications rates have not been directly increased, but Zain-to-Zain calls have gone up from XAF 190 to 200 a minute between 08:00 and 21:59. The main change is the abolition of the 18:00-22:00 cheap rate that allows people to call for XAF 120 a minute within the network. Now they must wait until 22:00 to make calls for XAF 100 a minute valid until 07:59. This may cause Zain to lose business.

Moov products include MoovInternet, Moovpro, Moovforfait, Moov recharge and Moovopen, each with its own rate. MoovInternet offers multimedia services at preferential prices (with no connection or access charges) for connections via mobile phones or computers, as well as the possibility of replacing the "call rate" by a "communication rate." MoovInternet has several flat rates: XAF 5 900 (2 hours), XAF 17 900 (10 hours), XAF 27 900 (24 hours) and XAF 75 000 for unlimited use. Minute and other non-subscription rates have been under consideration since January 2008, reportedly ranging from XAF 45.30 and XAF 20 a minute. Moov has been billing by 30-second periods since November 2008, with SMS rates of XAF 25 Moov-to-Moov, XAF 50 to non-Moov numbers and XAF 100 for international messages. The firm is the least aggressive of the three operators, however, and its national coverage is much less dense.

The country has three Internet service providers (ISPs): Gabon Télécom, Internet Gabon and Solsi.

Internet Gabon offers multiple connections to broadband services VSAT (Very Small Aperture Terminal), Radio Link, GPS (Global Positioning System) and VoIP (Voice over Internet Protocol). Broadband access in 2008 was by VSAT Ku Band (a kind of ADSL), available anywhere in the country and the sub-region independently of local operators. VSAT (C Band or Ku Band) allows a firm or government office to have its own satellite communication infrastructure (data, voice, telemaintenance, video-conferencing) between any geographical point.

Internet Gabon offers point-to-point and point-to-multipoint digital wireless links based on BreezeACCESS wireless local loop. It uses a licensed 3.5 GHz frequency band, giving superior performance combined with secure and dedicated access. The BreezeACCESS solutions use broadband wireless technology and a new kind of high-speed wireless DSL (Digital Subscriber Line) with a range of value-added services.

Internet Gabon sells firms a system of monitoring and tracking products called Air Track. VoIP transmits voice over an IP (Internet Protocol) network, a data network as opposed to a standard phone network (Public Switched Telephone Network – PSTN). VoIP opens the way to future technology of data and voice convergence and related services.

Solsi, a broadband ISP 50 per cent owned by the Gabonese group Sogafric, also handles communications network engineering and providing interactive platforms, provides Internet connections, website design and hosting, e-commerce and intranet/Internet networks. It has a free online information and message portal (assala.com) with (in 2008) nearly 62 000 e-mail addresses. Solsi uses WiMax (Worldwide Interoperability for Microwave Access), which is a 802.1 standard technology package allowing high-speed access over great distances, using radio signals such as WiFi to send and receive data. Solsi has extended this service nationwide with its WiBox since 2007 and provides Internet access at rates from XAF 50 000 a month for a speed of between 128 Kbps and 2 Mbps.

The great challenge of developing technical skills in Gabon is to bring together all those involved to transform technical education and professional training structures by creating centres of excellence open to all and able to meet the needs of the country's labour market and economic diversification.

The telecommunications regulation body Artel began restructuring the sector in December 2008. All interested parties attended a meeting of Artel's consultation committee at its headquarters in January 2009 to discuss restructuring plans for maximum development in line with market potential, including setting up infrastructure and rates committees, identifying suitable markets, designating major operators and setting up a committee to manage the country's universal service fund. The meeting was presented with new specifications by non-GSM (Global System for Mobile Communications) operators and discussed monitoring frequency management and preparations for CAN 2012.

A committee deals with rates matters, including interconnection tariffs and rate offers for renting transmission lines. It identifies sector markets, those operators who have significant influence and assesses how competitive the market is. A centre to monitor markets and gather information and data has been set up with the aim of identifying and regulating all the major telecommunications operators. Artel has announced a plan to reorganise frequencies as part of a national strategy to be adopted by the government.

Political Context

The ruling Gabonese Democratic Party *(Parti démocratique gabonais – PDG)* won local elections in April 2008, taking 1 154 of the 1 990 seats, a repeat of its performance in 2002, and enabling it to control most of the country's towns and provinces, without having an absolute majority. Despite this, several big towns, such as Port-Gentil, Oyem and Moanda are not ruled by the PDG. Former prime minister (1999-2006) Jean-François Ntoutoume Emane was elected mayor of Libreville after getting the highest PDG vote in one of the city's districts.

The elections attested to a degree of political stability, but there was a high abstention rate (65-70 per cent), some candidates were barred from standing for five years because of disturbances and voting in some places was cancelled. New elections on 23 November 2008 in provinces and towns where the constitutional court had annulled the outcome did not change the earlier results.

Implementation of the decentralisation law did not move forward in 2008 and the financial autonomy and inability of local bodies to handle their new responsibilities continued to be a problem.

Drafting of the budget and allocating resources to priority projects, especially those partly funded by external sources, have markedly improved. Efforts to fight corruption and strengthen the legal system aim to create conditions for private sector growth and respect for human rights. A national good governance programme (NGGP) monitors coordination of government activity and application of the governance aspect of the poverty reduction and growth strategy paper (PRGSP).

Social Context and Human Resources Development

Pressure on the social sector grows stronger each year, from the many needs of a population grappling daily with poverty. Some 33 per cent of Gabonese are deemed to be poor and 43 per cent of households consider themselves to be poor. The government has responded quite hesitantly to the challenge, which had led to frequent strikes of civil servants since early 2008.

Education policy is not very energetic and the closure in 2008 of 103 private schools to reorganise the sector and encourage good-quality ones has not been enough. Many more schools need to be built and enough teachers must be trained. About 1 200 teachers hired in 2002 have still not been given civil servant status.

Education is compulsory between the ages of 6 and 16 and the country had more than 90 per cent enrolment in 2008. But a sizeable 22 per cent of Gabonese still say they are under-educated. Half of the population have only primary education, only 18 per cent have gone beyond junior secondary school and only 6 per cent have entirely completed secondary school.

The educational system is concerned about failure rates that include high repeat-year and dropout rates starting at primary level. The primary-to-secondary transition rate is less than 40 per cent and from junior-to-senior secondary school 45 per cent. Only 19 children out 1 000 entering the system at the age of 6 (CP1) reach the age of 10 (CM2) without repeating a year. Of these, 31 in 1 000 repeat once and 39 repeat twice. At the secondary level, only 5 in 1 000 who enter at the age of 11 graduate without repeating a year, and 12 do so after one repeat, 161 after two and 11 after three.

Professional teaching reform that begun in 2006 in response to the failure rates has not yet been effective. Out of the 94 per cent of children who were enrolled between the age of 5 and 15, 60 per cent of girls and 70 per cent of boys continue their education between the age of 16 and 20. Barely 30 per cent of girls pass their baccalaureate compared with 52 per cent of boys. This is largely because of pregnancy, with 25 per cent of girls between 15 and 19 already having a child or being pregnant.

The changeover in higher education to the French LMD system (degree, master's and doctorate) in 2007-08 should professionalise the sector and help rapid entry into the labour market. But the switch involves funding problems. Admitting a degree student to a master's course costs a university about XAF 3 million, which the government cannot pay but still refuses to charge students for.

Health is the next worse-off sector after education and the government does not seem up to the job of building regional hospitals, upgrading equipment at health centres and clinics and recruiting health specialists directly from abroad.

Incidence of HIV/AIDS was 8.9 per cent of the population in 2008 and a national campaign against it (PNLS) has been set up with the help of international organisations, including the UN Development Programme (UNDP), UNICEF and the UN Population Fund (UNFPA), along with other groups. These partnerships try to make up for the lack of public resources by fighting on several fronts, including prevention and caring for HIV/AIDS victims and orphans. The government contributes USD 1.5 million a year to a special programme that buys antiretroviral drugs.

Malaria is still a problem in Gabon and the World Health Organisation said in 2008 the incidence ranged between 37 and 71 per cent. It particularly affects pregnant women and children under 5. About 40 per cent of fevers diagnosed at Libreville's main hospital (CHL) are malarial and are the main cause of hospitalisation. Treating the disease has become more difficult in Gabon because 90 per cent of infections are resistant to chloroquine. Development partners have changed their strategy and switched to nationally distributing insecticide-treated mosquito nets and expanding awareness campaigns.

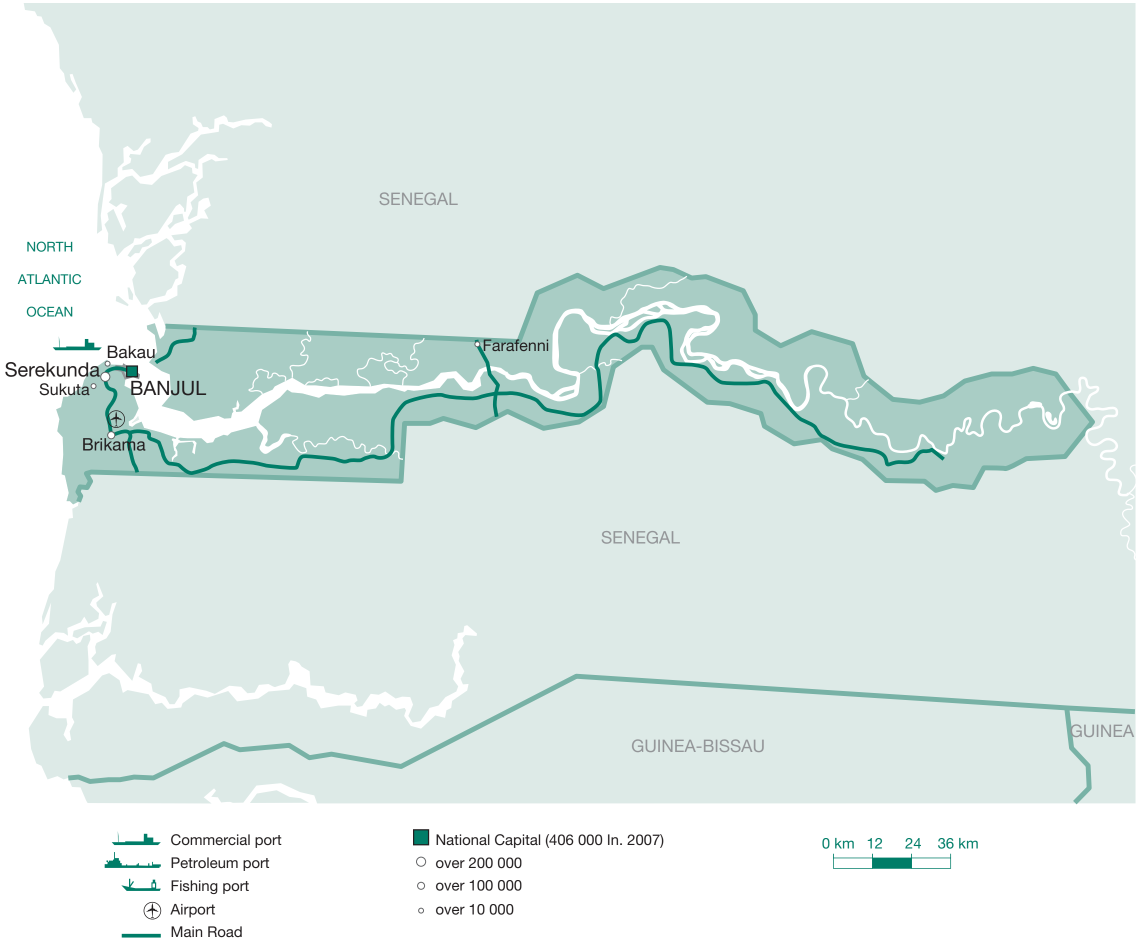
Housing is affected by government inaction. Some 92.6 per cent of Gabonese lived in towns in 2008 and the shortage of adequate housing is chronic, with more than 160 000 units required. Serious measures are needed, such as better excavation to allow developers to work more securely, provision of building land and improvement of areas around big towns. Tax breaks could also lower the price of housing. The country has no housing bank to provide soft loans. Government plans to build 3 000 cheap housing units will thus fall far short of demand.

The Gambia

key figures

- Land area, thousands of km²: 10
- Population, thousands (2008): 1 660
- GDP per capita, PPP valuation, USD (2008): 1 233
- Life expectancy (2008): 55.9
- Illiteracy rate (2008): n.a.

The Gambia

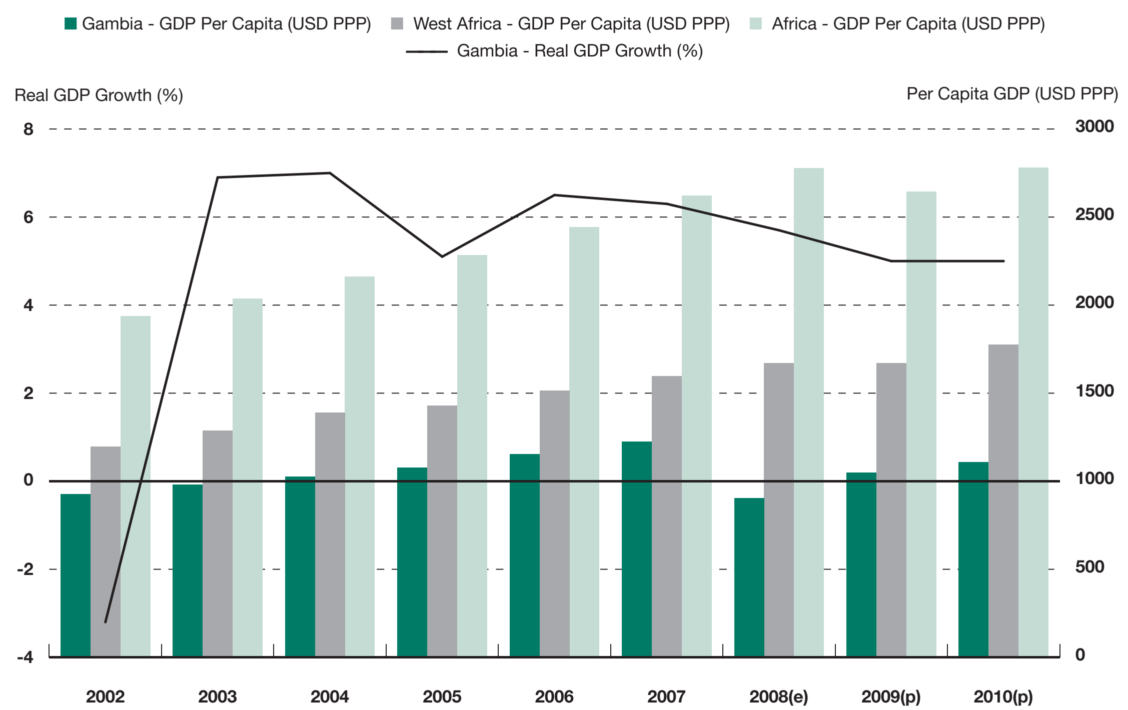

SENEGAL
NORTH
ATLANTIC
OCEAN
Bakau
Serekunda
Sukuta
BANJUL
Brikama
Farafenni
SENEGAL
GUINEA-BISSAU
GUINEA
Commercial port
Petroleum port
Fishing port
Airport
Main Road
National Capital (406 000 In. 2007)
over 200 000
over 100 000
over 10 000
0 km
12
24
36 km

The Gambia has made major progress towards macroeconomic stability in recent years, with growth averaging 6.5 per cent since 2004 on the back of prudent monetary and fiscal policies alongside structural reforms. For 2008, however, GDP growth is estimated to have slowed to 5.7 per cent because of the global financial and economic crises. Unfavourable global developments are likely to lead to reduced exports, tourism receipts, remittances and foreign direct investment flows which will restrain growth over the near term. GDP growth is projected at 5 per cent in both 2009 and 2010.

The Gambia has performed well under the IMF Poverty Reduction and Growth Facility (PRGF) programme approved in February 2007, making it possible for the country to reach the Heavily Indebted Poor Countries (HIPC) Completion Point in December 2007 with substantial debt relief of USD 513.5 million (US dollars).

Growth remains robust despite the crisis thanks to tourism and foreign direct investment.

Figure 1 - **Real GDP Growth and Per Capita GDP**
(USD/PPP at current prices)



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

StatLink http://dx.doi.org/10.1787/568840324746

Recent Economic Developments

Economic growth is estimated at 5.7 per cent in 2008, down from 6.3 per cent in 2007. Agriculture picked up strongly but services and industrial production dropped sharply.

The Gambian economy is dominated by services, reflecting the importance of tourism and transit activities. Tourism is the largest earner of foreign exchange and a major source of employment. The Gambia is a regional transit hub, including large re-export activities to Senegal and other countries of the region. Services accounted for 60.5 per cent of output in 2008, agriculture 27.2 per cent and industry 12.3 per cent. Agriculture and industry are dominated by groundnut cultivation and processing.

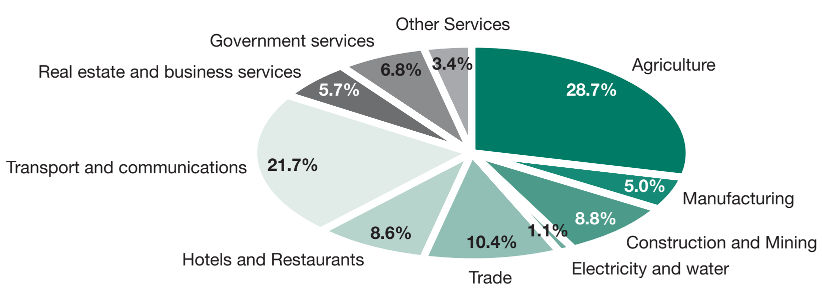
Agricultural output is estimated to have jumped 28.4 per cent in 2008 as groundnut output soared 45.7 per cent after growth of just 3.9 per cent in 2007. Better weather conditions, increased acreage under cultivation and the use of improved farming methods boosted production. Elsewhere in the sector, growth was modest.

Industrial production edged up 0.7 per cent in 2008, well below the 3 per cent growth rate recorded in 2007. Industry was adversely affected by the rising cost of raw materials in addition to the chronic problem of insufficient and costly credit, which was exacerbated by unsettled conditions in the financial markets. Construction has stagnated, largely due to the completion of large road and hotel projects in 2006. Electricity output expanded at an average of 16 per cent over the past two years, partly remedying dire power shortages.

Service sector growth slowed to 6.9 per cent in 2008 from 11.3 per cent in 2007, reflecting weak performances in the crucial trade and tourism sectors. Trade is estimated to have declined 12.9 per cent after growing 7.1 per cent in 2007, while tourism improved from a sluggish 1.7 per cent but only to 3 per cent. The decline in trade reflects the difficulties of the re-export sector which accounts for about 80 per cent of export earnings. Regional integration has also resulted in lower import duties in Senegal while Senegalese port efficiency has improved, eroding The Gambia's competitiveness as a trading entrepot. Other services were mostly weaker – transportation grew 6 per cent after 8.5 per cent in 2007; communications rose 10 per cent, down from 25 per cent, while real estate and business services expanded 3 per cent, little changed from 3.1 per cent.

Public and private consumption each grew more than 17 per cent in 2008 after a 20 per cent increase in public sector salaries implemented as part of ongoing civil service reform. Public investment also rose strongly in 2008. The external sector was a negative contributor to growth as imports soared and exports fell. Government spending is projected to continue to lead growth in 2009 and 2010. Exports are expected to post modest growth in the next two years.

Figure 2 - **GDP by Sector in 2008** (percentage)



Source: Authors' estimates based on quote sources data.

StatLink http://dx.doi.org/10.1787/571678447184

Table 1 – **Demand Composition**

	Percentage of GDP (current prices)		Percentage changes, volume			Contribution to real GDP growth		
	2000	2007	2008(e)	2009(p)	2010(p)	2008(e)	2009(p)	2010(p)
Gross capital formation	**17.3**	**24.9**	**10.3**	**9.5**	**7.2**	**1.9**	**1.9**	**1.5**
Public	4.6	11.9	15.0	13.0	9.0	1.4	1.3	0.9
Private	12.7	13.1	6.0	6.0	5.4	0.6	0.6	0.5
Consumption	**92.4**	**90.9**	**17.5**	**-0.6**	**3.5**	**15.6**	**-0.6**	**3.2**
Public	11.2	10.7	17.4	19.0	13.7	1.9	2.3	1.9
Private	81.2	80.2	17.5	-3.2	1.7	13.7	-2.8	1.4
External demand	**-9.7**	**-15.9**				**-11.8**	**3.7**	**0.3**
Exports	47.7	53.8	-6.1	4.4	3.0	-2.1	1.4	0.9
Imports	-57.4	-69.7	22.4	-4.7	1.4	-9.7	2.3	-0.6
Real GDP growth						**5.7**	**5.0**	**5.0**

Source: Data from IMF; estimates (e) and projections (p) based on authors' calculations.

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Macroeconomic Policies

The Gambia's IMF Poverty Reduction and Growth Facility (PRGF) was suspended in 2002 due to misreporting of foreign exchange data by the central bank and irresponsible monetary and fiscal management. Inflation soared and the currency plummeted. Since 2004, the government has made major progress in macroeconomic stability on the back of prudent macroeconomic and monetary policies, which the IMF recognised with a new PRGF in 2007. While the IMF's recent Article IV review of The Gambia's performance was broadly satisfactory, the Fund waived some of the criteria on structural reforms that the country had failed to achieve. The IMF urged the government to adopt policies to sustain long-term growth. The discussions centred on trade and other policies to enhance the country's international competitiveness. It is expected that fiscal and monetary policy will remain prudent in 2009 and 2010.

Fiscal Policy

In 2008, the government maintained a tight fiscal policy to complement the monetary stance and so maintain low inflation and sustain economic growth. On the revenue side, the main focus was to strengthen tax administration. The Gambia Revenue Authority (GRA) was established to co-ordinate the government's revenue collection efforts, broaden the tax base and reduce tax evasion. On expenditure, the emphasis was put on monitoring, accounting and control, while giving priority to social and other sectors such as health, education and agriculture for poverty reduction purposes. The Integrated Financial Management Information System (IFMIS) was launched in 2007 to improve all aspects of the budget process (formulation, execution, monitoring and reporting).

Total revenues rose to an estimated 23.9 per cent of GDP in 2008 from 22.9 per cent in 2007 as both the tax take and grants increased. Direct tax revenue increased 23.3 per cent due to gains in corporate and personal taxes attributable to the creation of the GRA and related efforts. Non-tax revenue fell 26.5 per cent due to a drop in receipts from government services and charges, and proceeds from telecommunication licences.

Total expenditure and net lending increased to an estimated 24.9 per cent of GDP in 2008 from 22.7 per cent in 2007, with current expenditure rising to 18.3 per cent from 16.2 per cent. Interest payments fell 15.5 per cent, reflecting the impact of debt relief.

Table 2 - **Public Finances** (percentage of GDP at current prices)

	2000	2005	2006	2007	2008(e)	2009(p)	2010(p)
Total revenue and grants[a]	**21.4**	**21.5**	**22.5**	**22.9**	**23.9**	**22.4**	**22.9**
Tax revenue	16.2	17.2	18.8	19.0	19.5	17.8	17.9
Oil revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants	2.3	1.7	1.3	1.2	1.6	1.6	2.0
Total expenditure and net lending[a]	**22.1**	**30.1**	**29.6**	**22.7**	**24.9**	**24.8**	**26.7**
Current expenditure	18.3	19.3	18.1	16.2	18.3	18.1	19.5
Excluding interest	*13.7*	*10.7*	*11.7*	*11.1*	*14.6*	*15.2*	*17.1*
Wages and salaries	6.3	4.2	4.6	4.3	4.2	3.9	3.6
Interest	4.6	8.6	6.5	5.1	3.7	2.9	2.4
Capital expenditure	4.6	11.0	11.0	6.1	6.0	6.1	6.5
Primary balance	**3.9**	**-0.1**	**-0.6**	**5.3**	**2.6**	**0.5**	**-1.4**
Overall balance	**-0.7**	**-8.6**	**-7.1**	**0.2**	**-1.1**	**-2.4**	**-3.8**

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

StatLink http://dx.doi.org/10.1787/577158364088

The overall budget balance moved from a surplus of 0.2 per cent of GDP in 2007 into an estimated deficit of 1.1 per cent of GDP in 2008. The deficit is projected to widen further to 2.4 and 3.8 per cent of GDP in 2009 and 2010. The deficit will be financed mostly through external borrowing.

Monetary Policy

Monetary policy aims to ensure low inflation and exchange rate stability while supporting fiscal policy. The Central Bank of The Gambia (CBG) follows a monetary targeting regime with broad money the intermediate target and reserve money the operating target. In implementing this policy, the CBG monitors on a weekly basis net domestic assets, which must be kept below a specified ceiling, and its net foreign assets, which must be maintained above a designated floor. Monetary policy is conducted primarily through open market purchases and sales of Treasury bills. In addition, the CBG occasionally sterilises inflows to moderate exchange rate volatility.

Broad money is estimated to have grown 2.2 per cent in the 12 months to end-November 2008 compared to 7.9 per cent a year earlier. The CBG forecasts money supply growth at 8.7 per cent in 2009 and 10.7 per cent in 2010.

Reflecting the rise in global food and energy prices, inflation rose sharply from less than 1 per cent at the start of 2007 to 6 per cent by the end of that year. Relatively tight monetary conditions and currency appreciation, coupled with the elimination of the sales tax on basic commodities, helped contain inflation in early 2008 but by November it was higher again, at 6.5 per cent. Inflation is expected to fall to 6 per cent in 2009 and 5 per cent in 2010.

The average bank capital adequacy ratio is 23 per cent, well above the minimum 8 per cent requirement. The average non-performing loan ratio stood at 7 per cent at end-September 2008 while the loan to deposit ratio was 39 per cent. Interest rate spreads are high compared to other developing countries, contributing to the low level of financial intermediation. The CBG has taken several measures to broaden and deepen the financial sector, including encouraging new entrants, extending banking hours and setting up a credit reference bureau.

Microfinance is one of the cornerstones of poverty reduction. The CBG oversees microfinance institutions and has licensed 63 Village Savings and Credit Associations (VISACAs) and five finance companies. These organisations currently serve 78 660 depositors and borrowers.

External Position

The Gambia's open economy, heavy reliance on groundnuts, re-exports and tourism make it inherently vulnerable to developments in other countries, so requiring an adequate level of reserves which were equivalent to 4.9 months of imports in 2008.

The current account deficit is estimated to have widened to 18.3 per cent of GDP in 2008 from 12.5 per cent in 2007, reflecting a widening of the trade deficit to 30.5 per cent of GDP. The services balance and current transfers deteriorated from surpluses of 10.3 per cent and 11.2 per cent of GDP in 2007 to 8 per cent and 9.7 per cent in 2008, respectively. These figures

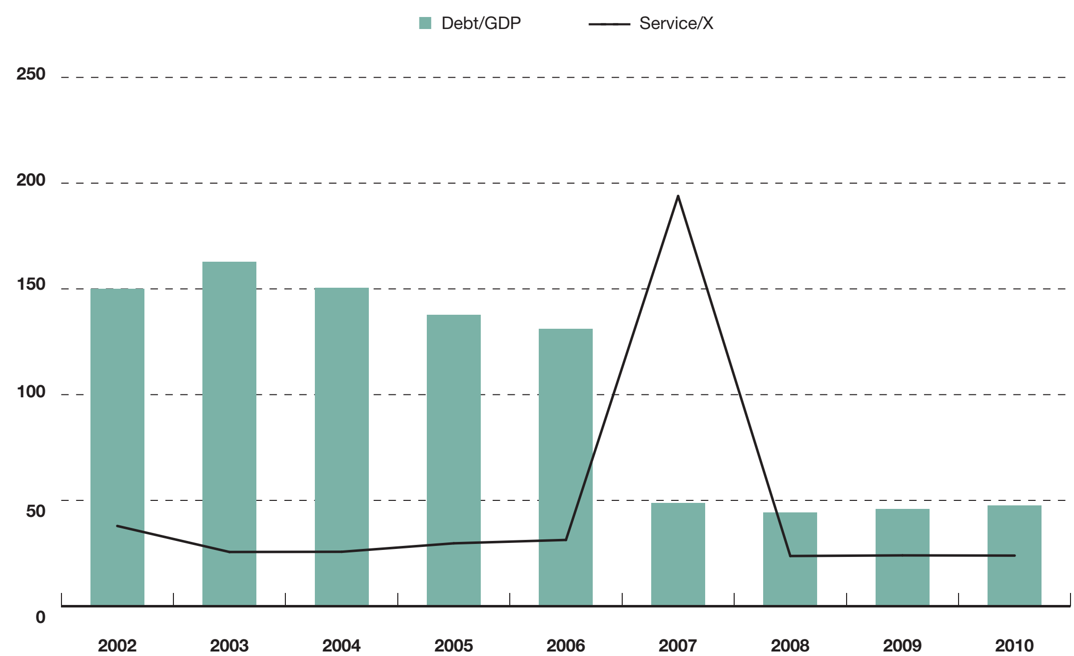
Table 3 - **Current Account** (percentage of GDP at current prices)

	2000	2005	2006	2007	2008(e)	2009(p)	2010(p)
Trade balance	-15.0	-30.9	-27.2	-26.7	-30.5	-22.8	-23.4
Exports of goods (f.o.b.)	30.1	17.6	16.5	14.2	11.2	10.6	10.9
Imports of goods (f.o.b.)	45.1	48.5	43.8	40.9	41.7	33.3	34.3
Services	6.8	8.2	10.0	10.3	8.0	7.9	8.3
Factor income	-4.9	-9.4	-9.5	-7.3	-5.4	-4.9	-4.6
Current transfers	10.0	17.1	15.2	11.2	9.7	10.9	9.8
Current account balance	**-3.1**	**-15.1**	**-11.5**	**-12.5**	**-18.3**	**-8.8**	**-10.0**

Source: Data from IMF; estimates (e) and projections (p) based on authors' calculations.

StatLink http://dx.doi.org/10.1787/578443827688

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



Source: IMF.

StatLink http://dx.doi.org/10.1787/573244771315

reflect the impact of a deepening global downturn which has cut exports, tourism receipts, remittances and foreign direct investment flows.

The capital and financial account surplus is projected to fall to USD 85.7 million in 2008 from USD 113.8 million in 2007. The overall balance of payments is estimated at a deficit of USD 54.6 million in 2008 following a surplus of USD 32 million in 2007.

Foreign direct investment flows, which amounted to 10 per cent of GDP in 2007, are projected to decline in 2009 and 2010. Remittances will likely fall as employment opportunities become scarcer abroad and exports may suffer due to weaker global demand.

Structural Issues

Private Sector Development

The government's privatisation programme aims to reduce demands on the national budget and improve the use of scarce resources.

The Gambia is in the middle rankings of widely-used indicators for business climate and economic competitiveness when compared to other sub-Saharan African countries.

In the 2008 World Bank's *Doing Business* survey, The Gambia was ranked 113 out of 175 countries, better than its neighbours, including Senegal on 146, but below others in the region such as Ghana.

For ease of international trade transactions, The Gambia ranks third in sub-Saharan Africa. Customs administration and international trade procedures in general are among the least onerous in West Africa. Inflows of FDI in recent years, mostly in construction and tourism, reflect these findings. The Gambia is ranked favourably on labour regulation but poorly on investor protection, tax rates and procedures.

The private sector complains about inadequate government support. The Gambia Investment Promotion and Free Zone Authority (GIPFZA) and some representatives of the private sector claim that the exemptions and privileges in The Investment Promotion Act (2001) are not uniformly applied and held up by red tape. Other problems include weak infrastructure, especially energy and transport; lack of credibility in monetary and fiscal policies; high interest rates and slow progress on privatisation. The government, however, sold 50 per cent of telecom CAMTEL-GAMCEL Co. Ltd. in 2007 and identified 14 public enterprises for divestiture. One of these, the Management Services Agency (MSA), was sold in 2008.

An Alternative Dispute Resolution (ADR) Act was passed in 2005 to ease pressure on the commercial court and the ADR secretariat is currently in operation. There are plans to review the Companies Act in order to improve reporting and auditing standards.

The Gambia's investment promotion strategy, known as the Gateway Project, started in 2002 and aims to make the country the entry point for West Africa. Setting up GIPFZA as a one-stop shop for investors brought some improvement in the business climate but it has not been effective in revitalising the private sector and export activity.

Commercial banks in The Gambia do not seem to have any significant direct exposure to the "toxic" securities at the heart of the current global financial crisis. Limited external borrowing by the banks and the composition of existing credit lines suggest the banking industry is sound.

Other Recent Developments

Since 1996, The Gambia's score has deteriorated on three out of the World Bank's six measures of governance – "government effectiveness," "rule of law" and "control of corruption." Progress has been made in "voice and accountability," "political stability" and "regulatory quality."

In 2000, the government, with assistance from the World Bank, commissioned a study on the institutions of the legal system, leading to a framework for reform.

Judicial sector reform was a major theme at the Poverty Reduction Strategy Papers roundtable conference held in London in February 2008.

In 2007/08 the government, in collaboration with the World Bank, AFDB and the UK's Department for International Development (DFID), prepared a study entitled *Improving Civil Service in The Gambia*, which has been the foundation for the Civil Service Reform Strategy (Medium Term Plan 2008–2011). The average civil service salary in The Gambia is three times per capita income but lower grade levels are still minimal. Private sector salaries can be up to 20 times those of civil servants, depending on the grade, and this has been taken to justify wage hikes to retain government staff. Two pay reform proposals were suggested in the civil service reform study. One proposes salary increases of 68 per cent to 83 per cent, with a bias toward the lower grades. The other focuses more on higher grades, seeking to stop losses among professional and managerial staff in government.

The government is aware that it has to improve transport infrastructure to bolster the country's status as a regional trading centre. A National Transport Plan (NTP) focuses on port development and transport links, both domestic and international. The government set up the Gambia Roads and Technical Authority in 2004 for this purpose. Banjul Port is relatively efficient in terms of speed and cost of clearance of goods but improvements could still be made. The River Gambia was the original foundation of The Gambia's role as a regional hub, as well as the main way to transport groundnuts. However, river transport has been in decline and is underutilised. Roads account for more than 90 per cent of freight and passenger movement.

The National Water and Electricity Company (NAWEC) generates power in oil-fired facilities and supplies it to the Greater Banjul Area and to other towns and villages. Electricity consumption per capita is very low at 65 kWh compared to the African average of 512 kWh. NAWEC cannot meet demand and there are numerous power outages. Government policy encourages private sector involvement and in 2005, NAWEC signed a Power Purchasing Agreement (PPA) with Global Electrical Group (GEG) as an Independent Power Producer (IPP). In September 2006, GEG inaugurated a first set of generators producing 22 MW in Brikama, Western Region. The first phase of the Rural Electrification Project financed by donors has commissioned six stand-alone systems at various locations, with a total generating capacity of 4 MW.

Reliability of supply improved in early 2007 but at the cost of a 30 per cent increase in tariffs. The system overall is inefficient with power losses of up to 45 per cent

Alternative energy resources include wind, solar and biomass, with the latter having the geatest potential. The government lifted import taxes on all forms of renewable energy and energy efficiency equipment in March 2008.

The Gambia Renewable Energy Center (GREC) was set up to promote renewable energy technologies and advise the government. The non-profit Renewable Energy Association of The Gambia (REGAM) was established in 2008, bringing together companies, institutions, other organisations and individuals. The main domestic energy sources are firewood and charcoal – at 95 per cent usage – with kerosene and Liquefied Petroleum Gas (LPG) only marginal.

Innovation and ICT

The telecommunications industry comprises one fixed-line company – GAMTEL – and three GSM providers – GAMCEL, AFRICELL and COMIUM. A fourth mobile operator Q-cell recently secured a licence and a frequency. The government holds 50 per cent of both GAMTEL and GAMCEL while the other mobile operators are privately owned. AFRICELL is the leading operator with about 500 000 subscribers, followed by GAMCEL with 250 000, COMIUM 100 000 and then GAMTEL with 47 000. The telecoms penetration rate is above 50 per cent.

The Public Utilities Regulatory Authority (PURA) oversees the telecommunications sector as well as water and electricity supply. PURA guidelines ensure that tariff changes are made transparently and on the basis of the principle of cost recovery. In collaboration with the International Telecommunication Union (ITU), PURA commissioned a study in 2008 to improve interconnection charges and then cut them by more than half.

The government introduced the National Information and Communications Infrastructure Policy to foster information and communications technology (ICT)-based development. The Department of State for Communication Information and Technology (DoSCIT) is responsible for promoting ICT in public service delivery. Work is ongoing on the Pan-African e-Network to provide Tele-Medicine and Tele-Education services. The authorities plan to establish ICT centres around the country so as to help bridge the digital divide between urban and rural areas, and to enhance ICT use in general.

An e-government project is in progress to network all government departments. Government officials have been assigned email addresses under a dot.gov sub-domain. Funds have been secured to develop a government-wide web portal but implementation has been delayed due to slow disbursements from donors. The Gambia Radio and Television Services agency has been reorganised and is upgrading its equipment, infrastructure and programming.

Political Context

The country benefits from a relatively stable political system. For three decades following independence from the United Kingdom in 1965, The Gambia was led by President Dawda Jawara and evolved as a multi-party democracy led by the People's Progressive Party (PPP). President Yahya Jammeh has been in power since a military coup in 1994. In September 2006, he was re-elected as the candidate of the ruling Alliance for Patriotic Reorientation and Construction (APRC) with 67 per cent of the vote. International observers described the elections as generally fair. Legislative elections in January 2007, which were marked by splits in the opposition, returned the APRC to power with 60 per cent of the vote. The President and the APRC are expected to retain a firm grip on power. The next presidential elections are scheduled for 2011, with parliamentary polls to follow in 2012.

The Gambia has been accused of human rights abuses and critics have expressed concern over press freedom and the place of the opposition.

The Gambia Independent Electoral Commission consists of a chairperson and four other members. Under the Constitution, the President, in consultation with the Judicial Service Commission and the Public Service Commission, appoints and has the right to dismiss the Commission members, including its head.

Social Context and Human Resource Development

A government priority is to expand access to education, particularly for girls, under its National Education Policy for 2006-2015. Education is the largest single budget item. The gross enrolment rate (GER) in primary and basic secondary education rose to 77 per cent and 45 per cent respectively in 2007 from 70 per cent in 2005. Gender parity was also attained at these levels. At the senior secondary level, the overall GER was low at 31 per cent in 2005 and the gender gap still significant but this GER is expected to reach 39 per cent in 2011. The government has programmes to recruit and retain qualified staff, including hardship allowances and improved working conditions for teachers assigned to rural areas. Nevertheless, education quality remains a major challenge.

Health care is important for poverty reduction. The health sector faces numerous problems – shortage of skilled staff; high attrition rates of personnel to the United Kingdom and other places; uneven use of existing human resources; limited funding for essential drugs and equipment, and weak managerial skills. Health is the third largest budget item.

Life expectancy, estimated at 55.9 years in 2008, is better than the sub-Saharan Africa average. Among other indicators, the infant mortality rate, recorded at 76.1 per 1 000 live births as of 2008, remains considerably higher than in Senegal and Ghana, the best performers in West Africa. The Maternal Mortality Ratio (MMR) is high but has improved over recent years.

The prevalence of malaria and diarrhoea are estimated to be 15 per cent and 22 per cent, respectively. Anti-malarial drugs are being provided for effective case management for the entire country. The annual incidence of tuberculosis is estimated at 118 per 100 000 persons but more reliable data are needed. The latest surveillance data available, from 2005, showed that HIV/AIDS prevalence had fallen, suggesting that education and prevention programmes may have had some impact. The fight against HIV/AIDS requires a national and effective institution that can muster support from the highest level of leadership.

Ghana

key figures

- Land area, thousands of km^2: 228
- Population, thousands (2008): 23 351
- GDP per capita, PPP valuation, USD (2008): 1 335
- Life expectancy (2008): 56.6
- Illiteracy rate (2008): 35

Ghana


MALI
Ougadougou
BURKINA
BENIN
COTE D'IVOIRE
TOGO
Tamale
Lake Volta
Kumasi
Obuasi
Koforidua
ACCRA
Tema
Teshi
Lomé
Cape St Paul
Abidjan
Cape Coast
Sekondi-
Takoradi
Cape
Three Points
NORTH ATLANTIC
OCEAN
Commercial Port
Petroleum Port
Fishing Port
Airport
Divided Highway
Main Road
National Capital (2 121 000
over 1 000 000
over 300 000
over 100 000
0 km
35
70
105 km

THE GHANAIAN ECONOMY HAS CONTINUED to grow strongly, but must confront deteriorating fiscal and external balances within the context of a darkening global environment. The private sector is responding positively to the government's development programmes and the improved business environment, with rising bank lending and capital inflows suggesting increasing investor confidence.

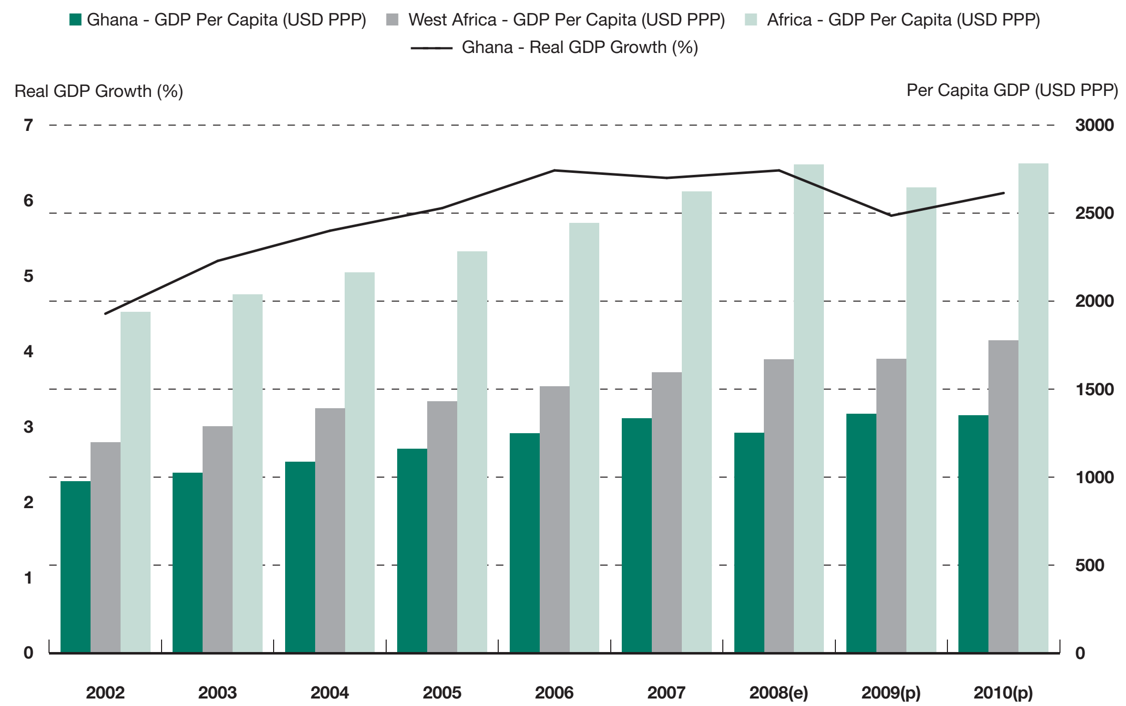
Real GDP growth was around 6.4 per cent in 2008, slightly exceeding the 5.7 per cent average in 2000-07. Growth is projected to dip in 2009 as export performance weakens on account of the global economic crisis, but then to pick up again in 2010 as Ghana begins to export crude oil.

Ghana's social stability and deepening democracy, highlighted by successful elections in December 2008, bodes well for continuing economic expansion. Perceptions of corruption in public life remain a problem, however.

Sound macroeconomic policies and structural reform bode well for growth, but deficits are widening.

Sustainable growth to achieve Ghana's objective of middle-income country status over the next decade requires continued high levels of investment but is also conditional on addressing the widening fiscal and current account deficits and declining foreign exchange reserves.

Figure 1 - **Real GDP Growth and Per Capita GDP**
(USD/PPP at current prices)



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

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Recent Economic Developments

Ghana's medium-term Growth and Poverty Reduction Strategy (GPRS-II), covering 2006-2009, aims to put the country on the path to middle-income status by 2015. The current focus is on human resources development and the promotion of the private sector.

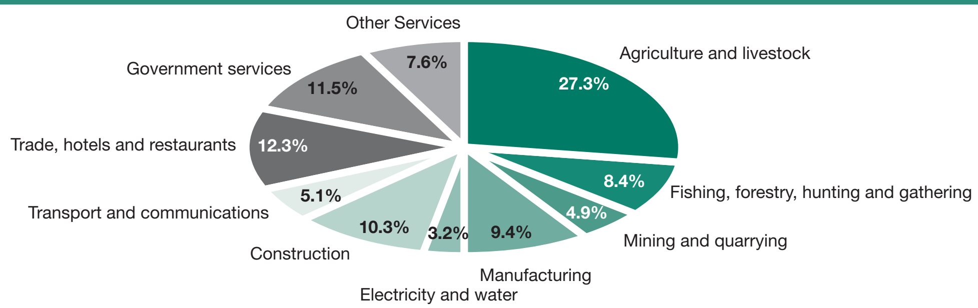
The economy continues to perform well. In 2008, for the third consecutive year, real GDP growth remained around 6 per cent, despite high world prices of oil and food and the global financial crisis. The expansion in 2008 was led by the industrial sector, with a growth rate of 9.2 per cent, followed by services at 7.3 per cent, and agriculture at 5 per cent. Ghana's growth rate is expected to dip below 6 per cent in 2009 as export performance is adversely affected by the global recession, but then to revert to 6 per cent in 2010 as crude oil exports begin.

In 2008, growth in the agricultural sector, which accounts for about 35 per cent of GDP, was broad-based, with gains in the crops, livestock and fishing sub-sectors. Indeed, in 2008 domestic food supplies rose sufficiently as a result of good weather conditions to make Ghana a small net exporter of food. Cocoa production also continued to grow strongly, with output in the 2007/08 crop season growing about 20 per cent to reach 758 908 tonnes, significantly above the forecast of 650 000 tonnes. The continued strong performance of cocoa production reflects higher domestic producer prices, improved disease and pest control programmes, rehabilitation of roads in cocoa-growing regions, and payment of an enhanced bonus package to cocoa farmers. The producer price of cocoa was increased from GHS 915 (Ghanaian cedis) per tonne to GHS 950 at the beginning of the 2007/08 crop season. The 2007/08 producer price of cocoa stood at about 73.2 per cent of the international market price, above the government's target of 70 per cent.

In 2008, industrial production, representing about 26 per cent of GDP, grew strongly by 9.2 per cent, improving on the 7.4 per cent achieved in 2007, when a sharp decline in electricity output (of over 15 per cent) held down an otherwise solid performance. In 2008 the electricity and water sub-sector expanded by about 22 per cent, contributing directly to the growth of industry, and indirectly by alleviating electricity shortages. Manufacturing output grew moderately by 4.0 per cent in 2008, a big improvement over the decline of 2.3 per cent in 2007, when tax increases and intensified import competition dampened prospects. The improving manufacturing performance reflects increasing access to bank credit and continued improvements in the business environment. Mining activity decelerated to a still-robust growth of 7.9 per cent in 2008 from the boom of nearly 30 per cent in 2007.

The service sector, which represents about 30 per cent of GDP, grew by an estimated 7.3 per cent in 2008, down from 8.2 per cent in 2007. The 2008 growth performance was driven largely by tourism,

Figure 2 - **GDP by Sector in 2007** (percentage)



Source: Authors' estimates based on data from the Statistical Service of Ghana.

StatLink http://dx.doi.org/10.1787/571701585862

Table 1 – **Demand Composition**

	Percentage of GDP (current prices)		Percentage changes, volume			Contribution to real GDP growth		
	2000	2007	2008(e)	2009(p)	2010(p)	2008(e)	2009(p)	2010(p)
Gross capital formation	**24.0**	**33.7**	**4.5**	**5.1**	**5.0**	**1.9**	**2.1**	**2.0**
Public	9.2	14.2	5.3	5.3	5.3	0.9	0.9	0.9
Private	14.8	19.5	4.0	5.0	4.8	0.9	1.2	1.1
Consumption	**94.5**	**92.8**	**3.2**	**6.5**	**4.2**	**3.2**	**6.2**	**4.1**
Public	16.9	18.4	4.0	3.0	2.9	0.8	0.6	0.5
Private	77.6	74.4	3.0	7.3	4.5	2.4	5.7	3.5
External demand	**-18.5**	**-26.5**				**1.4**	**-2.5**	**0.1**
Exports	49.0	39.8	5.8	3.2	6.9	2.8	1.5	3.2
Imports	-67.5	-66.3	1.6	4.8	3.8	-1.4	-4.0	-3.1
Real GDP growth						**6.4**	**5.8**	**6.1**

Source: Data from Statistical Service of Ghana; estimates (e) and projections (p) based on authors' calculations.

StatLink http://dx.doi.org/10.1787/575824080083

which saw significant expansion both in terms of visitors' arrivals and spending. Tourism was boosted by several major sporting and cultural events in Ghana: the African Cup of Nations Football tournament in January 2008; the 4th international paragliding festival; and the Joseph Project (Akwaaba Anyemi) aimed at making Ghana the gateway to the "homeland" for over 40 million people of African descent, which attracted over 2 000 foreign participants.

In 2008, both public and private investment remained strong, following the record level of the investment to GDP ratio in 2007, when sharp reductions in the stock of external public debt provided a big stimulus to capital formation. The continuing strong investment in 2008 – an election year when political uncertainty might have dampened enthusiasm – underscored the confidence of investors in the economy. The growth of domestic private and public capital formation is projected to remain robust at about 5 per cent in 2009 and 2010 as this confidence is maintained. Export growth is expected to slow in 2009, reflecting the world recession, but to pick up in 2010, as crude oil exports begin. Private consumption is expected to support growth in 2009 and 2010, particularly in 2009, when it is forecast to expand at a rapid 7.3 per cent rate.

Macroeconomic Policies

Fiscal Policy

Despite Ghana's strong record in macroeconomic management, fiscal stability has recently been strained by rising budget deficits. The government's attempts at fiscal restraint were compromised in 2008 by political considerations related to the December elections and the high world prices of food and fuel, leading to a rise in expenditure to 38 per cent of GDP, from 37 per cent in 2007. The planned down sizing of the civil service was suspended, and expenditure on food and petroleum subsidies rose, particularly due to the temporary suspension of the automatic petroleum pricing regime. Higher interest payments also contributed to the rise in expenditure in 2008.

A fall in grants led to a significant decrease in total revenues in 2008. Tax revenues remained roughly constant as a share of GDP, rising marginally from 20 per cent in 2007 to 20.2 per cent in 2008. Although the government obtained special revenues in 2008 from the sale of its majority stake in Ghana Telecom and the privatisation of the Volta Aluminium Company (VALCO), these were offset by lower petroleum taxes, which account for a large share of total revenues. While

Table 2 - Public Finances (percentage of GDP at current prices)

	2000	2005	2006	2007	2008(e)	2009(p)	2010(p)
Total revenue and grants[a]	**19.8**	**29.1**	**27.4**	**28.6**	**28.0**	**25.9**	**26.0**
Tax revenue	16.3	20.7	20.0	20.0	20.2	19.2	19.6
Grants	2.1	5.2	5.4	6.0	5.2	4.1	3.8
Total expenditure and net lending[a]	**27.7**	**30.7**	**34.4**	**37.0**	**38.0**	**35.1**	**35.2**
Current expenditure	18.5	18.7	22.0	22.8	23.3	21.7	21.1
Excluding interest	*11.0*	*15.1*	*17.3*	*16.4*	*16.1*	*14.1*	*14.2*
Wages and salaries	5.2	8.5	9.7	10.0	9.5	8.4	8.1
Interest	7.5	3.6	4.7	6.4	7.1	7.6	6.9
Capital expenditure	9.2	12.0	12.4	14.2	14.7	13.4	14.1
Primary balance	**-0.4**	**2.0**	**-2.3**	**-2.0**	**-2.9**	**-1.6**	**-2.2**
Overall balance	**-7.9**	**-1.6**	**-7.0**	**-8.4**	**-10.0**	**-9.2**	**-9.1**

a. Only major items are reported.
Source: Data from Statistical Service of Ghana; estimates (e) and projections (p) based on authors' calculations.

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it is expected that crude oil exports starting in 2010 will boost revenues, widening the tax base, in particular by raising taxes on gold mining companies, should be a government priority.

These increased expenditures and stagnating revenues led to a worsening of the budget deficit from 8.4 per cent of GDP in 2007 to an estimated 10 per cent of GDP in 2008. Both revenues and expenditures are projected to drop substantially in 2009 and then remain stable in 2010, as a ratio of GDP. The overall budget deficit is projected to remain around 9 per cent of GDP in 2009 and 2010.

Monetary Policy

The Bank of Ghana's (BoG) main monetary policy objective is to reduce inflation to single digits, within a formal inflation–targeting framework. A secondary objective is to dampen exchange rate fluctuations. In 2008 the broad money supply (M2) increased by about 40.7 per cent following 33.6 per cent growth in 2007, suggesting a very easy monetary policy. But in fact monetary policy was tightened in 2008. The larger monetary growth in 2008 mostly accommodated stronger demand for financial intermediation, with bank credit to the private sector increasing by nearly 60 per cent during the year. To check rising inflation, the BoG tightened monetary policy through three successive increases in its prime interest rate from 13.5 per cent at end-2007 to 17 per cent by end-2008. Other interest rates rose even more, with the rate on the 91-day Treasury bill rising from 10.6 per cent at end-2007 to 24.7 per cent at end-2008.

Inflation rose markedly in 2008 to about 14 per cent from 10 per cent in 2007, as a result of demand pressures arising from fiscal expansion, rising crude oil prices, and to a lesser extent rising food prices. Reduction in the pace of economic activity, more prudent fiscal policy, continued monetary restraint, and declining world oil and food prices are all expected to lead to a fall in inflation in 2009 and 2010. It is projected that the rate of inflation will be brought down to about 8 per cent in 2009 and 2010.

Ghana's managed floating exchange rate regime appears to be working well, with fewer BoG interventions recently to smooth fluctuations in the foreign exchange market. In 2008, the cedi depreciated by nearly 18 per cent against the US dollar, compared with the average annual depreciation of only 2 per cent over 2004-2007. This large nominal depreciation largely offset the inflation differential, however, leaving the real exchange rate little changed. The depreciation of the cedi in 2008 could also be due to the expected deterioration in the external position associated with the global economic slowdown, in particular reductions in exports and donor funding.

External Position

Ghana's trade policy aims to enhance international competitiveness and secure greater market access for its products. Ghana is a member of the Economic Community of West African States (ECOWAS), which has recently made progress in the harmonisation and reduction of tariffs and non-tariff barriers to trade.

In 2008, Ghana continued trade reforms in line with the multilateral, regional and free trade agreements in which it participates. It signed an interim agreement with the European Union, the so-called Stepping Stone Economic Partnership Agreement, at the end of 2007, which established rules to prevent trade disruptions upon the expiration of the Cotonou Agreement and also contained an agreement on measures to help Ghana strengthen its trade competitiveness in 2008.

The failure to diversify exports hinders Ghana's ambitious growth objectives. Exports remain dominated by gold and cocoa with respective shares of total exports of 41 and 24 per cent.

In 2008, the trade deficit widened to 27 per cent of GDP from 25.6 per cent of GDP in 2007. Yet, Ghana's current account deficit narrowed in 2008 to 11.5 per cent of GDP from 12.4 per cent of GDP in 2007, as an increase in current transfers more than offset the widening trade deficit. The rise in transfers reflects increased private remittances rather than official grants, which declined to about 2.8 per cent of GDP in 2008 from 8 per cent of GDP in 2007. Earnings from Ghana's main export commodities – cocoa and gold – increased by 34.4 per cent in 2008 following an increase of 28.4 per cent in 2007, on account of both higher volumes and prices. However, the rise in exports was not sufficient to offset a sharp rise in imports and the trade deficit widened in 2008. The global economic crisis is likely to cause a slowing in Ghana's export growth, especially in 2009. But imports are also expected to slow as domestic economic activity slackens. Moreover, net oil imports should decline as world oil prices fall and domestic production begins. A further sharp reduction in current transfers is anticipated, as remittances are affected negatively by the global crisis. The fall in remittances will more than offset the gains in the trade balance in 2009. The current account deficit is consequently projected to widen to an unprecedented 13 per cent of GDP and 17.9 per cent of GDP in 2010.

In 2008, the capital account surplus declined more than the current account deficit improved, resulting in an overall balance of payment deficit of nearly USD 500 million, in contrast to the surplus of about USD 200 million in 2007. Ghana's international reserves, which stood at USD 2.84 billion at end-2007, declined to USD 2.05 billion, representing only two months imports of goods at end-2008.

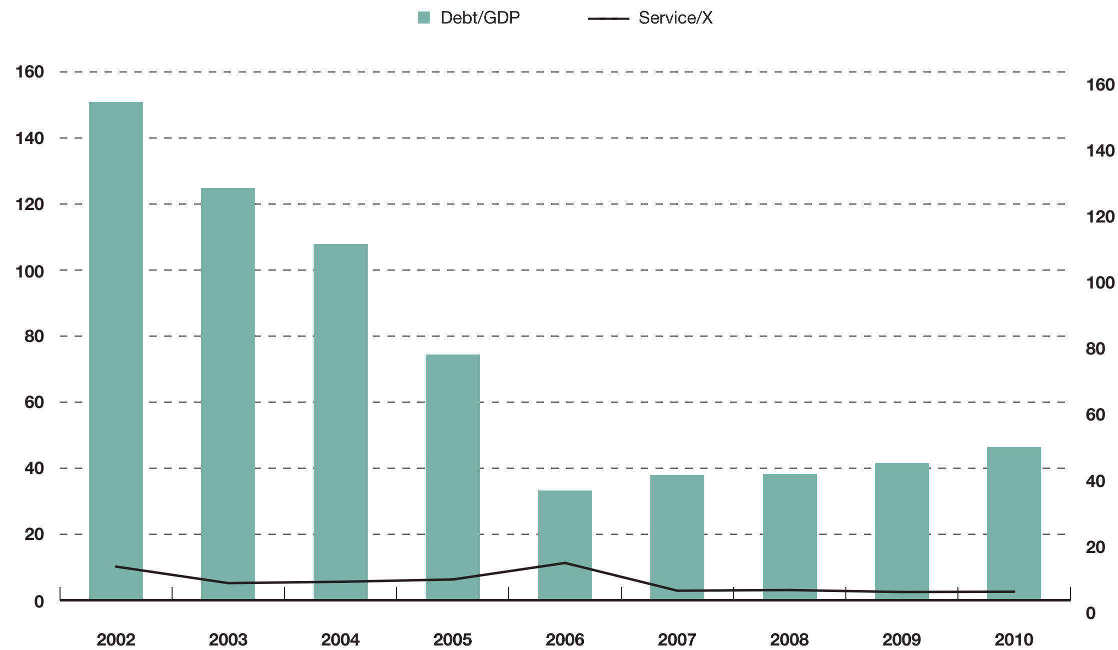
Table 3 - **Current Account** (percentage of GDP at current prices)

	2000	2005	2006	2007	2008(e)	2009(p)	2010(p)
Trade balance	-16.7	-23.7	-23.8	-25.6	-27.1	-17.8	-20.4
Exports of goods (f.o.b.)	38.9	26.1	29.3	27.7	32.3	28.8	29.5
Imports of goods (f.o.b.)	55.6	49.9	53.1	53.3	59.4	46.7	49.9
Services	-1.6	-1.6	-1.1	-1.1	-1.2	-1.1	-1.1
Factor income	-2.1	-1.7	-1.0	-0.7	-0.9	-2.2	-3.6
Current transfers	12.7	19.8	19.5	14.9	17.7	8.0	7.3
Current account balance	**-7.8**	**-7.2**	**-6.4**	**-12.4**	**-11.5**	**-13.1**	**-17.9**

Source: Data from Statistical Service of Ghana; estimates (e) and projections (p) based on authors' calculations.

StatLink http://dx.doi.org/10.1787/578523468832

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



Source: IMF.

StatLink http://dx.doi.org/10.1787/573248640220

Ghana's external debt has declined substantially as a result of debt cancellation under the Multilateral Debt Relief Initiative, from 73.1 per cent of GDP at end-2005 to 21.7 per cent at end-2006, and fell further to 17.8 per cent of GDP as of end-October 2008. The composition of the debt changed significantly in 2008 following the successful issue of Government of Ghana sovereign bonds. The share of commercial creditors grew from 6.8 per cent in 2007 to 25.4 per cent in 2008. Multilateral creditors still accounted for 47.3 per cent and bilateral creditors for 27.2 per cent in 2008.

Structural Issues

Private Sector Development

Ghana's effort at improving its business environment continues to yield positive results. The country's rank in the World Bank *Doing Business* Report improved to 87th out of 181 countries in 2008, from 94th out of 175 countries in 2007. The time required to start a business shortened to 34 days from 42 days in 2007. Also, starting a business required only nine procedures in 2008 compared with 16 in 2007. The cost of starting a business fell to 32.7 per cent of Gross National Income per capita in 2008, from 41.4 per cent in 2007.

In 2008, a number of institutional changes improved the efficiency of Ghanaian financial markets. These included the establishment of a common National Payment System Platform with a biometric smartcard, the full automation of the Ghana Stock Exchange, and the establishment of a commodities exchange regulatory framework for the over-the-counter or unlisted securities market. The national switch and biometric smartcard project, the e-zwich, allows for the establishment of a common platform for all payments transactions with the capability to deal with both online and offline transactions. The e-zwich smartcard is likely to foster greater participation in financial markets as it is easy to use.

Three financial laws were also enacted, namely the Borrowers and Lenders Bill, the Non-Bank Financial Institutions Bill, and the Bills and Cheques Bill. The Borrowers and Lenders Bill is expected to strengthen the regulatory framework of the financial sector by ensuring full disclosure in creditor and debtor relations. It requires lenders to spell out the conditions of loans and specifies the rights and obligations of lenders and borrowers. Together with the Credit Reporting Act passed in 2007, and the establishment of the credit reference bureau in December 2008, the Borrowers and Lenders Bill should serve to improve credit information, reduce problem loans and lower interest-rate spreads. The Non-Bank Financial Institutions Bill provides a framework for prudential regulation and supervision of the wide range of non-bank financial institutions, including microcredit institutions. The Bills and Cheques Bill modernises the Bills of Exchange Act and provides for electronic clearing of cheques.

The Ghana Stock Exchange (GSE) in 2008 was subject neither to contagion from the global financial crisis nor to the sharp declines of major stock exchanges. In 2008 GSE market capitalisation rose by about 46 per cent, after a small increase of 5 per cent in 2007, while the GSE All-Share Index rose 65 per cent in 2008 following a gain of 14 per cent in 2007.

Other Recent Developments

The discovery of additional deposits of crude oil in Ghana in 2008 removed any remaining doubts about the commercial viability of the country's reserves and their enormous potential for promoting growth. Available estimates suggest that crude oil exports will be in the range of USD 2 billion to USD 3.2 billion between 2010 and 2030; fiscal revenues from crude oil exports are forecast at USD 700 million in 2010, rising to USD 3 billion by 2013.

Ghana continues to undertake structural reforms and institution-building, focusing recently on energy, public sector reform and privatisation. In 2008, the government continued to prioritise investment in the energy sector. Interventions undertaken include the start of construction work on the Bui Dam hydro power and city project, investments in renewable energy sources, energy conservation, and the implementation of the Ghana Energy Development and Access Project.

The government's public sector reforms, intended to raise public sector productivity and to rationalise public sector wages and compensation, seemed to stall in 2008 due to political reasons. The Fair Wages and Salaries Commission Act, passed by Parliament in 2007, had been expected to be followed by downsizing of the civil service in 2008, but no actions were taken ahead of the December 2008 elections. Some effort was made, however, to invigorate the stalled privatisation programme. The government completed two major privatisations in 2008: the partial sale of Ghana Telecom, and the conclusion of the sale agreement with an international consortium for 70 per cent of shares in VALCO.

Innovation and ICT

Information and Communication Technology (ITC) is envisaged as an important vehicle for promoting growth and poverty reduction under the GPRS II through several mechanisms: improving governance, accountability and transparency; developing Ghana's human resources potential; and lowering transactions costs.

Under the Ghana ICT policy for Accelerated Development and the allied National Telecommunications Policy, various measures have been put in place in the last three years. These include the setting up of the National Communications Authority (NCA) to oversee the sub-sector's activities and development, and the establishment of a data base of ICT skilled personnel. In addition, the Ghana Investment Fund for Telecommunication was established to provide training for telecom operators under the Universal Access to Telecommunications Project. Community Information Centres are also used to promote the use of ICT in rural areas of Ghana. By end-2006, about 72 such centres had been completed and equipped. This number increased to 92 by end-2007. The installation of Voltacom's fibre optic assets and their use as a national communications infrastructure, as well as the proposed establishment of a technology park, are important additions to ICT infrastructure.

The Kofi Annan Centre of Excellence in ICT and Ghana Telecommunication University College (GTUC) both offer training in ICT skills and telecommunications engineering to various categories of personnel in both the public and private sectors. The government, in collaboration with the GTUC, also trains call centre and data entry clerks. ICT has also been incorporated in the curriculum of senior high schools. A "Computer4All" project has already provided over 10 000 computers to public and private educational institutions to increase the availability and usage of computers in the country. Also, an Internet facility, dubbed the TradeNet, has been established to provide access to international markets for Ghanaian farmers and to enable farmers in the rest of Africa to do business with their Ghanaian counterparts through mobile phone messaging services.

Ghana has seen a tremendous increase in ICT, in particular mobile telephony and the Internet, for business and personal use in the last three years. Currently there are 140 Internet service providers licensed by the NCA. The Internet penetration rate more than doubled between 2006 and 2008. In 2006, about 401 300 people representing 1.8 per cent of the population used the Internet. This number increased to about 880 000, or about 3.8 per cent of the population, in 2008.

Telephone subscriptions, especially mobile phone subscriptions, have also seen a sharp increase. Mobile phone subscriptions rose by 70 per cent between 2005 and 2006 and increased a further 63 per cent in 2007. Radio stations have also seen significant growth in the last few years. At the end of 2007, over 150 stations had been licensed to broadcast.

Employment generation in the ICT industry is also significant. The industry is estimated to directly employ about 2 500 people, with over 100 000 people indirectly earning a living from the sector. Overall, the contribution of the ICT industry to GDP in Ghana is estimated at about USD 750 million a year (about 1 per cent of GDP). Despite this progress, Ghana still has a long way to go in ICT development, including making Internet access to businesses and households easier and cheaper.

Political Context

Ghana went to the polls for the fourth time under the Fourth Republican Constitution to elect a new President and Parliament in December 2008. The election brought the hitherto opposition National Democratic Congress (NDC) to power, with its candidate John Atta Mills elected as President.

The election was adjudged by the international community as free and fair, strengthening Ghana's democracy and adherence to the rule of law. The peaceful transfer of power to the opposition is rare in Africa, and Ghana's successful election has been noted and praised around the world. Ghana's standing has also been supported by the government's unreserved commitment to the African Peer Review Mechanism. Nevertheless, the Atta Mills government will have to confront a perception of worsening corruption in public service, fuelled by repeated widespread misappropriation of public funds that were revealed at Public Accounts Committee Sittings in 2008.

The NDC government campaigned in the 2008 elections on a platform to bring "change" to the lives of Ghanaians. It is difficult to see how the new administration can bring about immediate change in standards of living, given the tough economic circumstances it inherits, but the Atta Mills administration might make a difference through a style of government based on openness, probity and accountability.

In 2008, the government implemented its Comprehensive Decentralisation Policy. That strengthened the capacities of local governments by transferring resources and staff to District Assemblies and Regional Co-ordinating Councils. The government also finalised its draft Inter-governmental Fiscal Framework. This sets the rules on the division of revenues and expenditures between national and sub-national governments. Furthermore, under the government's Municipal Finance and Revenue Initiative, municipal and district assemblies were trained in budget design and implementation.

Social Context and Human Resources Development

In 2007, the government presented new estimates of poverty levels over 1991-2006, utilising data from the fifth round of the Ghana Living Standards Survey. The indicators showed a downward trend in poverty from 39.5 per cent of the population in 1998/99 to 28.5 per cent in 2005/06. Extreme poverty also declined from 26.8 per cent in 1998/99 to 18.2 per cent in 2005/06.

Between school years 2006/07 and 2007/08 pupil enrolment increased at all levels. The Gross Enrolment Ratio increased from 83.6 per cent to 85.7 per cent at kindergarten level, while it is higher than 97 per cent for primary schools. The proportion of girls to boys at primary level increased from 0.95 to 0.96. Incentive packages, including bicycles, radios, accelerated promotion and access to training, designed to attract teachers to the most deprived areas in the country, seem to be working. The pupil/teacher ratio improved marginally from 34:1 in 2006/07 to 33:1 in 2007/08 in the Northern region, from 42:1 to 41:1 in the Upper East region and from 34:1 to 33:1 in the Upper West region. In spite of these significant gains, UNICEF estimates that about 800,000 children of primary school age are still not attending school.

The government has continued its efforts to increase access, improve quality, and raise gender parity in education. Under its Education Strategic Plan, it provides free and compulsory basic education aimed at achieving universal primary education by 2015. In 2008, the government upgraded the Senior Secondary School (SSS) system by increasing the number of years from three to four. Also, a Computerised School Selection and Placement System was implemented for the SSS. The government provides funds to all public schools on a per-pupil basis to cover costs, including sports, school development, and feeding programmes.

The government's health policy objectives under the GPRS II are to increase access to and improve the quality of healthcare and nutrition services, establish fees that cover costs while protecting the poor, improve health infrastructure, and enhance efficiency in service delivery. In 2008, coverage of the National Health Insurance Scheme (NHIS) was expanded: by end-September, nearly 9 million people (about 42 per cent of the population) had registered. The NHIS is designed to offer affordable medical care, especially to the poor and the vulnerable. Under the scheme, adult Ghanaians pay a monthly subscription of about USD 0.66 (US dollars), while the government caters for the health needs of the aged and the poor as well as children of the parents who both subscribe to the scheme.

Available figures point to the major strides being made in expanding access to health care under the NHIS. Outpatient attendance per capita has increased from 0.52 in 2006 to 0.69 in 2007. This also reflects the increasing proportion of the population now covered by the NHIS. HIV prevalence in pregnant women declined from 3.2 per cent in 2006 to 2.6 per cent in 2008, reflecting the provision of free treatment for pregnant women introduced in the same year. The number of HIV-positive individuals receiving anti-retroviral therapy doubled from about 6 000 in 2006 to over 13 000 in 2007, while the rate of successful treatment of TB infections rose to 76.1 per cent in 2007 from 72.7 per cent the year before.

Nevertheless, grave health problems remain, requiring further efforts. Although the government continues to subsidise the provision of safe water in areas where guinea worm is endemic, the number of cases of infestation continues to rise. Progress in controlling malaria has been very slow, especially for the most vulnerable group – the under-fives – for whom the malaria fatality rate has stagnated since 2004. There has also been too little progress in improving prenatal care for pregnant mothers. The proportion of child deliveries attended by trained health workers has actually declined in the last two years.

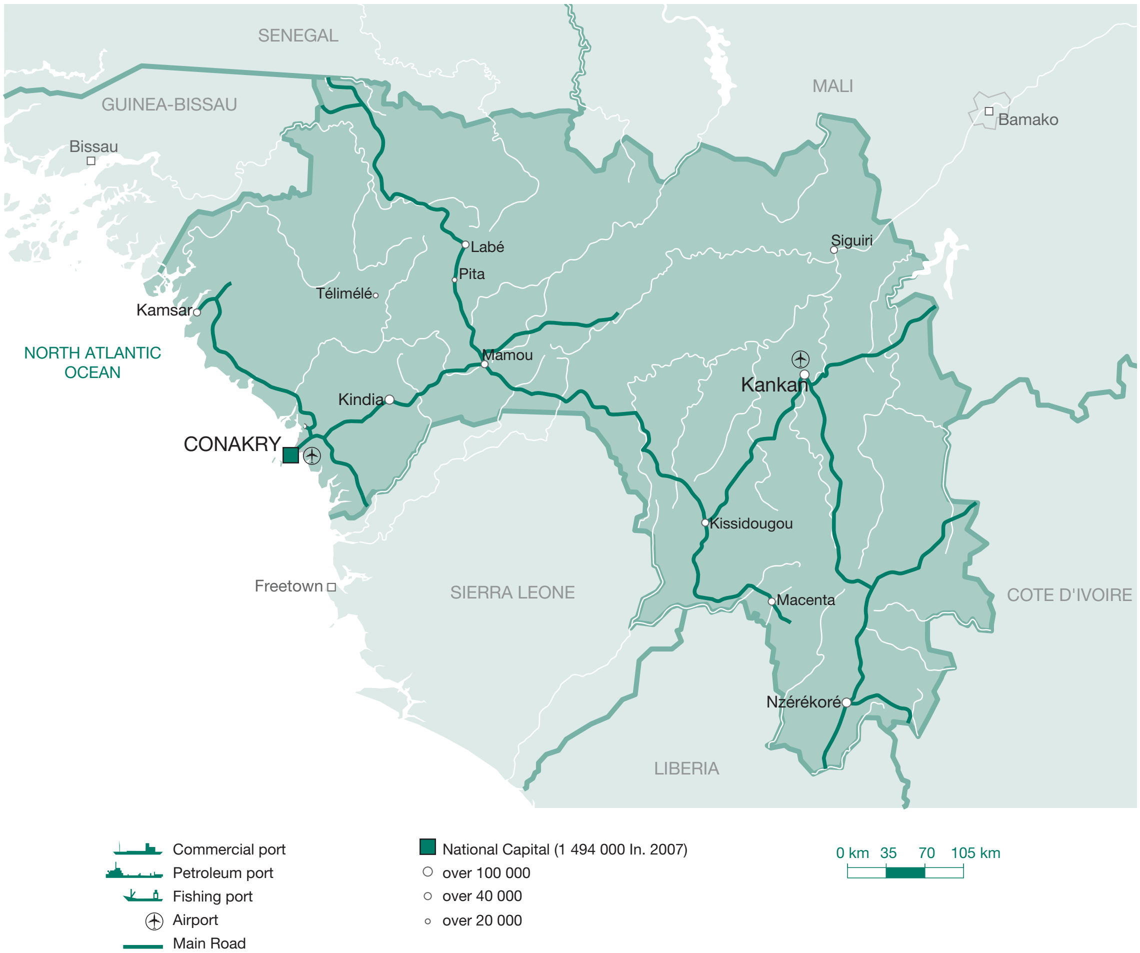
Unemployment and underemployment remain major problems, reflecting the failure of economic growth to generate substantial formal employment in the private sector, and the lack of job-relevant skills of the majority of the workforce. The Atta Mills administration has made employment generation one of its declared priorities through the promotion of entrepreneurship, especially of small and medium enterprises.

Guinea

key figures

• Land area, thousands of km²:	246
• Population, thousands (2008):	9 833
• GDP per capita, PPP valuation, USD (2008):	1 140
• Life expectancy (2008):	57.8
• Illiteracy rate (2008):	n.a.

Guinea



SENEGAL
GUINEA-BISSAU
MALI
Bissau
Bamako
Labé
Siguiri
Pita
Télimélé
Kamsar
NORTH ATLANTIC
OCEAN
Mamou
Kankan
Kindia
CONAKRY
Kissidougou
Freetown
SIERRA LEONE
Macenta
COTE D'IVOIRE
Nzérékoré
LIBERIA
Commercial port
Petroleum port
Fishing port
Airport
Main Road
National Capital (1 494 000 In. 2007)
over 100 000
over 40 000
over 20 000
0 km 35 70 105 km

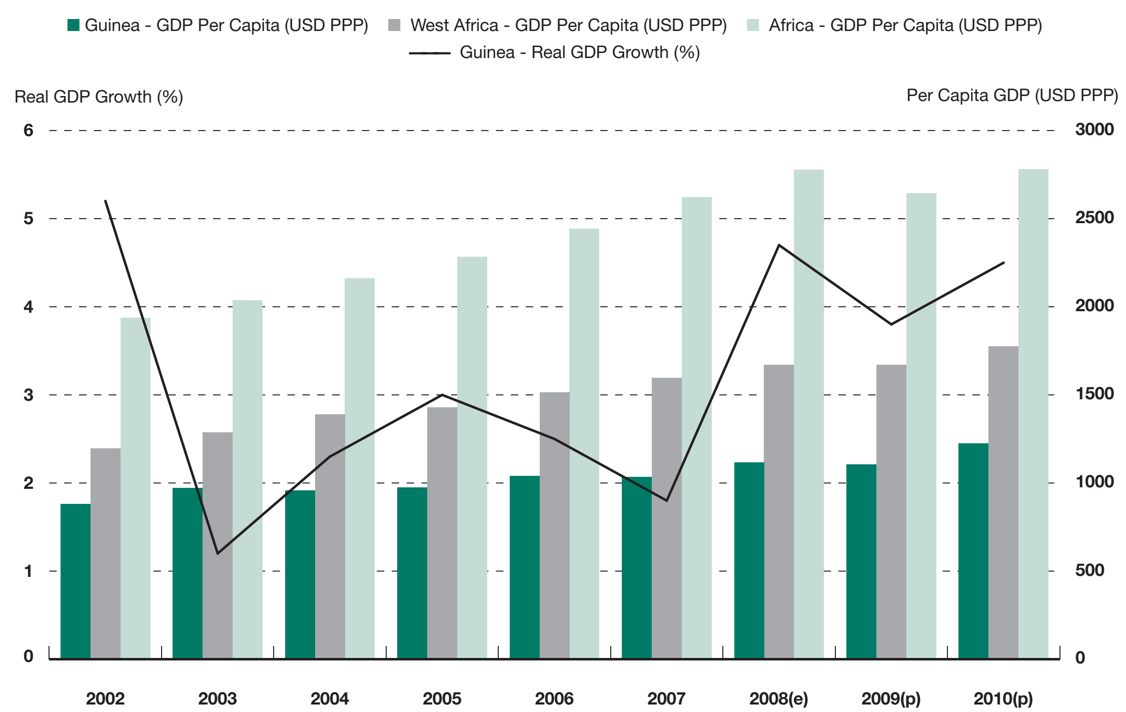
IN 2008, GUINEA'S ECONOMY benefited from an improvement in mining product prices on the international market. The social and economic measures of the Poverty Reduction and Growth Facility (PRGF) negotiated with the International Monetary Fund (IMF) for the 2007 to 2010 period also gave positive results. The first PRGF review in 2008 turned out to be conclusive. Real Gross Domestic Product Growth (GDP) reached 4.7 per cent in 2008, but is not expected to exceed 3.8 and 4.4 per cent in 2009 and 2010, due to the global financial crisis.

Guinea, a country of 8.5 million inhabitants, has many natural resources, although this has hardly benefited it or ensured sustainable growth, which is crucial for poverty reduction. Household living conditions continued to deteriorate in 2008. Poverty affected 53 per cent of the population in 2007, compared with 49 per cent in 2002. There has been growing social unrest due to higher prices for energy, transport and staple foods. This was worsened by the failure of policies to meet needs in the sectors of electricity, health, education and sanitation.

Mining exports are the economy's engine of growth, but they are vulnerable to world price fluctuations.

Lansana Kouyaté, who became prime minister after an uprising at the start of 2007, was ousted in May 2008. The death of President Lansana Conté on 22 December

Figure 1 - Real GDP Growth and Per Capita GDP
(USD/PPP at current prices)



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

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2008 followed by a military coup was set to be the political event of the year. After years of bad governance and worsening living conditions, people were pleased to see a new junta in power. Nevertheless, an uncertain political and economic era has begun.

In theory, 2009 should signal a return to a constitutional form of government with the organisation of parliamentary and presidential elections. However, this process depends on the success of the dialogue between Guinean politicians which began in January 2009, at the same time as talks with the African Union (AU), the Economic Community of West African States (ECOWAS) and the European Union (EU). The government must also convince Guineans that the sacrifices made since 2007 in order to reach the Heavily Indebted Poor Countries (HIPC) Initiative completion point have not been in vain: measures to combat inflation and to improve the fiscal balance were taken at the expense of social sectors. The new government must also convince development partners that the HIPC Initiative completion point, which was set for the end of 2008 and then postponed, remains a priority. Otherwise, several technical and financial commitments are likely to be called into question, leading to a loss in confidence among private investors and a decline in the country's major macroeconomic aggregates.

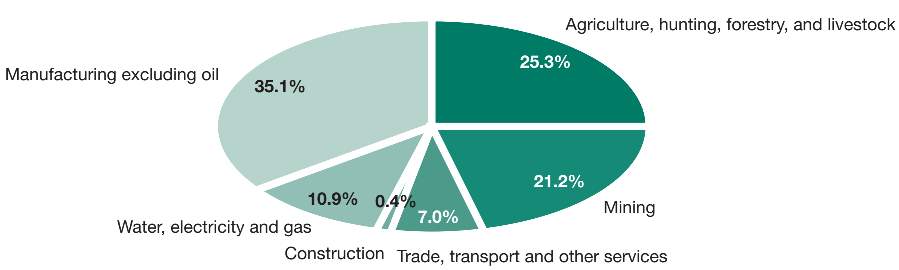
Recent Economic Developments

Real GDP growth rose to 4.7 per cent in 2008, thanks to the mining sector and to world bauxite prices. Inflation remained high at 19.3 per cent in 2008, although it has continued to go down since peaking at 39 per cent in 2006. Having reached 22.9 per cent in 2007, inflation was somewhat contained in 2008, thanks to a combination of four factors: rigorous expenditure management; the suspension of monetary deficit financing; a 21.4 per cent fall in pump prices in November 2008; and efforts of the Food and Agriculture Organization and the World Food Programme to help farmers produce food locally and to import food items. The decrease in raw material prices, especially oil prices, contributed largely to the fall in inflation.

The primary sector, which contributes 20.9 per cent to GDP, grew by 3.6 per cent in 2008. Agriculture, fisheries and forestry saw growth of 3.8, 2.5 and 2.4 per cent respectively (whereas in 2007, fisheries and forestry fell by 1.3 and 0.5 per cent). This was due to better weather conditions and a higher availability of inputs. New installations in Conakry's fishing port and new players in the fisheries industry have stimulated production, while lifting the ban on the exportation of wood has contributed to the revival of forestry. Livestock farming grew by 3.9 per cent in 2008, due to good grazing and the fight against endemic illnesses. Nevertheless, meat production remains insufficient to cover the country's needs.

The secondary sector, which is dominated by the mining industry (33.2 per cent of GDP), grew by 8.4 per cent in 2008, compared to 1.7 per cent in 2007. This result is due to improvements in all activities

Figure 2 - **GDP by Sector in 2007** (percentage)



Source: Authors' estimates based on national authorities' data.

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except for the gas, electricity and water sector. The energy sub-sector only grew by 4 per cent, as against 5.1 per cent in 2007, due to outdated transport and distribution networks, as well as weak trade performance and fraud. Soaring oil prices during the first three months of 2008 also posed a challenge. This has hindered efforts to rehabilitate broken-down electric power stations, to reinforce water production capacity through new well drilling and to improve the distribution of water and electricity.

On the other hand, the mining sector grew by 11.3 per cent in 2008, as against 2.4 per cent in 2007, due to growing investment and higher bauxite prices on the world market. In spite of the soaring costs of construction materials, the construction sector grew by 7 per cent, thanks to private investments in 2008.

Seventy per cent of the tertiary sector (which contributes 46 per cent to GDP), is dominated by informal activity. This sector grew by 3.1 per cent in 2008, as opposed to 0.6 per cent in 2007, due mainly to trade and government entities. Trade, which dominates the tertiary sector, was severely affected by strikes in 2007. It grew by 3 per cent in 2008, compared to only 1 per cent in 2007. The transport sector grew by 3 per cent in 2008, compared to 1.1 per cent in 2007, thanks to buoyant mining and trade sectors. Services such as banking, insurance, hotels and restaurants, and craft industries grew by 1.3 per cent in 2008, signalling a return to normal activity after strikes in 2007.

Real GDP is expected to grow by only 3.8 per cent in 2009. Gradual recovery is expected as from 2010, with a predicted 4.4 per cent growth rate, depending on improvements in the uncertain national political and international economic climates. Despite the state's efforts to support agriculture, the primary sector is expected to face challenges. The mining sector will continue to grow by downgrading its investment expectations, due to declining world demand and the effects of the economic crisis. The manufacturing sector is expected to be affected by tighter borrowing conditions and by an increase in intermediary imported goods. The construction sector, which traditionally relies on remittances received from expatriates or funds allocated to large public commissions, is expected to experience a slower, and even negative, growth rate.

The structure of global demand is changing in favour of investment, which contributed 22.4 per cent to GDP in 2008, as against 19.9 per cent in 2007. The share of consumption in GDP is falling, while the share of external demand is almost stable.

Table 1 – **Demand Composition**

	Percentage of GDP (current prices)		Percentage changes, volume			Contribution to real GDP growth		
	2000	**2007**	**2008(e)**	**2009(p)**	**2010(p)**	**2008(e)**	**2009(p)**	**2010(p)**
Gross capital formation	**13.6**	**19.9**	**13.7**	**-8.6**	**7.6**	**3.4**	**-2.3**	**1.8**
Public	5.0	2.7	12.0	13.5	8.0	0.4	0.5	0.3
Private	8.5	17.2	14.0	-12.0	7.5	3.0	-2.8	1.5
Consumption	**91.4**	**85.3**	**0.8**	**4.9**	**2.5**	**0.6**	**3.6**	**1.7**
Public	6.9	6.7	8.9	17.8	13.6	0.6	1.2	1.0
Private	84.5	78.7	0.1	3.6	1.2	0.1	2.4	0.7
External demand	**-5.0**	**-5.3**				**0.7**	**2.5**	**0.9**
Exports	25.9	27.5	5.6	3.2	5.7	1.3	0.7	1.3
Imports	-30.9	-32.8	2.4	-7.6	2.3	-0.6	1.8	-0.4
Real GDP growth						**4.7**	**3.8**	**4.4**

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

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Consumption grew by only 0.8 per cent after private consumption stagnated following a rise in fuel and food products. Public investment has grown by 12 per cent, thanks to improvements made to infrastructure and communication routes. Private investment, dominated by the mining sector, grew by 14 per cent in 2008. As a result, there was growth in external demand: a 2.4 per cent rise in import volumes in 2008 was more than compensated for by export volumes, which grew by 5.6 per cent, thanks to bauxite, aluminium and artisanal diamonds.

Consumption is expected to pick up again in 2009 by 4.9 per cent and by 2.5 per cent in 2010, thanks to the revival of private consumption, which will benefit from the net downturn in energy prices. Due to domestic instability and the global environment, public investment is projected to grow by 13.5 per cent, while private investment is expected to drop by 12 per cent. The mining industry, which has up to now benefited from growth due to private investment, will no doubt be attentive towards the evolution of the political climate. They will be particularly interested to see whether the new government's pledges to renegotiate contracts will come into effect. The political climate is expected to return to normal in 2010. A less uncertain global economic climate could lead to an upturn in public investment by 8 per cent and in private investment by 7.5 per cent.

Macroeconomic Policies

Fiscal Policy

Efforts to streamline public finances, especially expenditure, were relaxed in 2008. This was due to social tensions and measures aimed at reducing the impact of the food crisis. However, the overall balance is expected to be positive in 2008, at 1 per cent of GDP. It is expected to drop to -0.3 per cent in 2009 and to -2.3 per cent in 2010. Total revenue excluding grants accounted for 14.6 per cent of GDP in 2008. This shows a slight increase due to tax revenue from the mining sector, especially licence fees paid by gold buyer and collector counters. Tax revenues from other sectors have also improved due to the strict application of structural measures applying to tax administration and customs agencies and to a new customs tariff aligned with the common external tariff of the West African Economic and Monetary Union (WAEMU). The EU withdrew part of donor money that was earmarked for Guinea after the country failed to carry out parliamentary elections in time.

Current expenditure went up by 1.1 percentage points, rising to 12.4 per cent of GDP in 2008. Three budgetary elements caused this increase: wages and salaries, other goods and services, and interest owed on domestic debt. The government has hired staff and adjusted salaries in the civil service and constituent bodies, which explains the increase in the total payroll. The increase in other goods and services is due to an increase in the energy bill and in extra-budgetary spending. In order to contain protests against soaring fuel prices (with an average rise of 63 per cent between April and December 2008), the government took support measures amounting to 0.4 per cent of GDP. These measures, which cost roughly GNF 85.5 billion (Guinea francs) , targeted reducing customs duties on rice, transport subsidies for civil servants, and higher grants and lower travel costs for students. In order to maintain these support measures, the World Bank granted aid to Guinea amounting to USD 10 million (US dollars). In addition, the International Monetary Fund has increased resources for the programme supported by the Poverty Reduction and Growth Facility to more than 21 million Special Drawing Rights. The increase in capital spending on external payments is linked to investments in public infrastructure.

The 2009 budget act aims to obtain a continued increase in revenue, particularly in terms of receipts from company and income taxes. Spending is set to increase, with the recruitment of 6 000 new police officers, the application of the special status of the judicial system, the provisions for health personnel and the increase in military personnel's pay. Grants for 2009 are expected to double compared to 2008, provided the HIPC Initiative and the Multilateral Debt Relief Initiative are still available. This will be a key factor in the 2009 budget, which is expected to be revised following

Table 2 - **Public Finances** (percentage of GDP at current prices)

	2000	2005	2006	2007	2008(e)	2009(p)	2010(p)
Total revenue and grants[a]	**13.7**	**15.2**	**17.6**	**15.7**	**17.4**	**14.7**	**14.1**
Tax revenue	10.3	13.4	14.2	13.5	13.8	12.9	12.5
Grants	2.4	0.7	1.6	1.4	2.8	1.1	0.9
Total expenditure and net lending[a]	**17.2**	**16.1**	**18.0**	**15.2**	**16.4**	**15.0**	**16.4**
Current expenditure	9.7	11.4	13.4	11.3	12.4	11.4	12.8
Excluding interest	*7.9*	*8.4*	*9.9*	*8.9*	*9.7*	*10.2*	*11.1*
Wages and salaries	3.9	3.1	2.9	3.5	3.7	4.3	4.3
Interest	1.8	3.1	3.6	2.4	2.7	1.2	1.7
Capital expenditure	7.4	4.7	4.5	3.9	3.9	3.6	3.6
Primary balance	**-1.6**	**2.2**	**3.2**	**2.9**	**3.7**	**1.0**	**-0.6**
Overall balance	**-3.4**	**-0.9**	**-0.3**	**0.5**	**1.0**	**-0.3**	**-2.3**

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

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political events. In this year of elections, household living conditions risk deteriorating further if donor support fails. Forecasts for 2009 and 2010 are in line with current reforms. The expected debt cancellation could enable Guinea to increase spending on priorities such as health and education and to invest in strengthening growth and reducing poverty.

In order to mobilise revenue more efficiently, the government came up with a plan to improve public finance management. With regard to taxes, services to small and medium enterprises and tax control will be reinforced. Customs agency performance will also be improved, thanks to land border controls. The tax system will be streamlined by simplifying taxes on companies, raising and homogenising value added tax (VAT) for companies with a turnover exceeding GNF 500 million and applying customs value. Mining revenue is forecast to improve thanks to tax adjustments and revised mining agreements. A new budgetary lexicon is expected to help create a more operational spending chain. The state Treasury is expected to be fully unified by the end of September 2009. A new system for auditing and monitoring public contracting has been put in place. The government has requested audits of all public contracts of over GNF 100 million signed between 2002 and 2004. Auditing of public contracts will be continued, along with reinforced compliance with the legislation on public contracting and with the restriction on private agreements. Investment will go towards basic infrastructure and the previously mentioned priority sectors; the savings expected from reduced interest charges should make a marked contribution to this.

Monetary Policy

The Banque centrale de la République de Guinée (BCRG) is responsible for Guinea's monetary policies, and has published the results of its financial audits for 2006 and 2007 on its website. The BCRG took steps to monitor the progression of monetary aggregates, in the context of a flexible exchange rate. An increase in the key interest rate from 16.3 per cent in 2007 to 25.3 per cent in 2008 led to a subsequent reduction of the money supply by 5.5 per cent. This explains why inflation fell from 22.9 per cent in 2007 to 19.3 per cent in 2008. Despite the rigour and growing professionalism of monetary management, foreign exchange reserves are still being penalised by weak export diversification and the low taxation of mining companies. On average, foreign exchange rate reserves represented one month of import coverage; this is insufficient to uphold Guinea's currency, which depreciated by 7.4 per cent against the euro in 2008.

Reforms within the financial sector and the BCRG are expected to take place in 2009 and 2010. These are expected to benefit from additional staffing in the department responsible for managing liquidity, with the aim of improving the co-ordination of monetary and foreign exchange policies. The BCRG will also benefit from a computerisation plan and a connection with the banking system in order to facilitate real-time transaction processing. In 2009 the growth of the money supply is expected to be limited to that of nominal GDP, at 15.3 per cent, in a context of active liquidity management, much greater flexibility in money-market interest rates, and two new short-term deposit and refinancing facilities to be offered to banks.

External Position

External trade has clearly improved in terms of value, resulting however in an increased trade deficit, which in 2008 stood at -1.9 per cent of GDP, as against -0.4 per cent in 2007, due to a relative decline in exports and a slight increase in imports. The current account balance for 2008 stood at -14.3 per cent of GDP. It is expected to improve, though remaining in deficit, in 2009 and 2010 due to a higher reduction in imports than in exports.

Exports, 90 per cent of which consist of mining products, grew by 31.7 per cent, reaching USD 1 440.8 billion in 2008. Total bauxite exports continued to preponderate, earning USD 490 billion in 2008, as against USD 424.6 billion in 2007. However, the increase in bauxite exports by volume only amounted to 6.3 per cent. Bauxite exports by value were overtaken by gold – a refuge investment during crises – as its prices soared. Yellow gold exports in fact went up by 42.2 per cent in value and by 7.6 per cent by volume in 2008. Aluminium exports only rose by 5.7 per cent, while growth in diamond exports doubled over the same period (+102 per cent). Agricultural exports are still weak, but coffee benefited from price rises of 144.5 per cent, although export quantities only rose by 3 per cent. Exports of fishery products rose by 30.1 per cent in 2008.

Imports (caf – cost and freight) grew by 28.8 per cent, mainly due to petroleum products, intermediary goods and equipment. Due to public and mining investments, imports of equipment rose by 80 per cent in 2008, as against a decline of 31.6 per cent in 2007. Consequently, as a result of this rise, imports in intermediary goods also increased, by 38.6 per cent. The impact of soaring oil prices on imports of petroleum products was fairly moderate: these rose in value by 27.8 per cent in 2008, but they had already increased by 48.8 per cent in 2007. Food product imports also follow this trend, but they fell to only 13.7 per cent of imports in 2008.

In 2009 and 2010, external trade is expected to slacken due to the international economic climate. There will no doubt be a slowdown or even a decline in demand for aluminium and bauxite, Guinea's two main exports. Imports in equipment and intermediary goods are also expected to decline for the same reasons. On the other hand, food product imports are expected to continue growing until the new government's self-sufficiency policy produces results.

Table 3 - **Current Account** (percentage of GDP at current prices)

	2000	2005	2006	2007	2008(e)	2009(p)	2010(p)
Trade balance	3.3	5.4	2.9	-0.4	-1.9	1.5	2.1
Exports of goods (f.o.b.)	22.9	31.0	26.0	31.1	29.9	25.7	25.6
Imports of goods (f.o.b.)	19.6	25.6	23.1	31.5	31.8	24.3	23.5
Services	-8.2	-6.7	-5.3	-6.4	-7.9	-8.0	-8.1
Factor income	-2.6	-1.6	-1.4	-1.6	-1.4	-0.7	-1.1
Current transfers	2.0	-0.3	-0.5	-3.4	-3.1	-2.5	-2.1
Current account balance	**-5.4**	**-3.3**	**-4.3**	**-11.8**	**-14.3**	**-9.7**	**-9.2**

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

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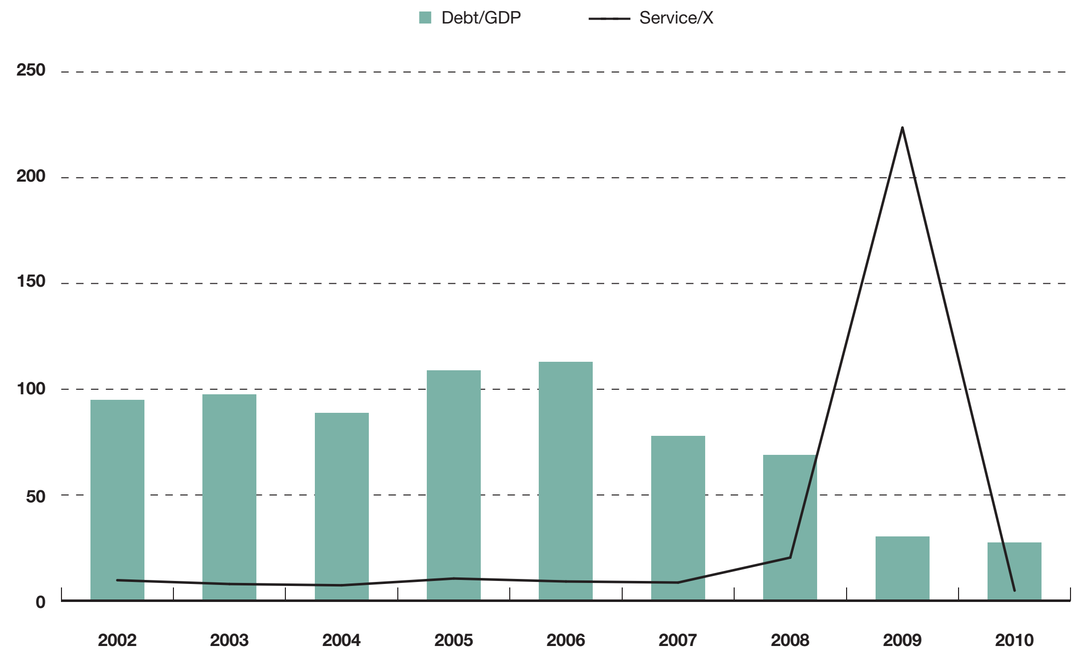
Figure 3 - **Stock of Total External Debt** (percentage of GDP) **and Debt Service** (percentage of exports of goods and services)



Source: IMF.

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The country benefited from debt relief amounting to USD 53.8 million, to help it to reach the HIPC Initiative completion point. Foreign direct investment has been experiencing continued growth for some years: in 2008 it grew by 18.5 per cent, thanks to investments in mining, and this trend is expected to continue in 2009 and 2010, with perhaps some adjustments and slower growth.

Guinea is involved as an ACP (Africa, Caribbean, Pacific) country in the last phase of Economic Partnership Agreement (EPA) talks with the EU. The ECOWAS executive secretariat is spearheading talks on behalf of West Africa. The Organisation internationale de la francophonie and the EU have offered Guinea, as one of 23 beneficiary ACP countries, various kinds of technical assistance. By 2008, Guinea, like most West African ACP countries, had not managed to conclude an EPA by 31 December 2007, as envisaged in Paragraph 1 of Article 37 of the Cotonou Agreement. In February 2008, prior to ratification of this agreement, the Ministerial Follow-up Committee suggested that ECOWAS and WAEMU draw up, as soon as possible, three categories of development programmes required by the EPA. These programmes relate to: improving the competitiveness of production sectors; covering adjustment costs; and setting in place obligations that follow on from the agreement. In the end, discussions have not led to an agreement, particularly on dismantling import tariffs and eliminating customs duties on exports.

Structural Issues

Private Sector Development

The business climate remains hardly encouraging. Guinea, like most African countries, is poorly ranked, at 171 out of 181 countries, in the World Bank's 2008 *Doing Business* report. Nevertheless, since the macroeconomic climate is improving, progress has been made in terms of issuing permits and procedures for closing down a business. However, procedures for starting up a business have not been simplified.

Huge investments in the mining sector are a strong driving force for growth. The government has adhered to the Initiative de Transparence dans les Industries Extractives (ITIE), an initiative aimed at making the extractive industry more transparent, and to the Kimberley Process, by creating ITIE Guinea (ITIEG) and a directorate of mines. Officials have begun reviewing conventions and agreements, streamlining mining land registries and optimising the extraction of mineral resources. The drafts of a standard mining agreement and of revised mining and petroleum legislation should be finalised in 2009.

Approximately ten commercial banks make up the financial sector, but they offer little in the way of lending. Lending to the private sector does not exceed 10 per cent of GDP on average, compared to over 40 per cent in low-income developing countries. Export documentary credit remains very weak, as private companies find it too expensive. It is true to say that, in addition to a 1 per cent commission, bank interest rates are very high, and the BCRG's key interest rate is 25.3 per cent. The bad debt ratio in commercial bank portfolios (30 per cent) hinders the expansion of credit and the lowering of interest rates. The burden of these debts is such that it limits trust between banks and local customers, who prefer to work with subsidiaries of large foreign companies that have the backing of their parent company or that can otherwise provide solid guarantees. To strengthen the banking system, the reinforced application of prudential regulations for bank supervision is set to continue, especially with respect to banks' minimum capital, which is expected to be raised from GNF 10 billion to GNF 25 billion on 31 March 2009, to GNF 35 billion on 31 March 2010, and to GNF 50 billion on 31 March 2011.

Due to a lack of confidence in the banking system, small commercial and agricultural enterprises have turned more to microfinance, which is becoming increasingly important in Guinea. For example, in agriculture, microcredit enables recipients to pay up to 80 per cent of their labour costs, to increase their cultivated land area, to make improvements to seeds and to use fertilisers. In commercial enterprises, it enables recipients to increase their working capital by up to 83 per cent, to substitute supplier credit by 47 per cent and to diversify activities by over 48 per cent.

Other Recent Developments

There has been no progress in terms of privatisations. The work programme for 2008 and 2009 had not been approved by January 2009. It was hampered by political events and the fact that the new government chose to focus on reforming public finance management and the mining sector's institutional framework.

Electricity supplies are a major hindrance to the development of the private sector. Numerous blackouts have led companies to equip themselves with generators, which raises their production costs and makes them uncompetitive on the international market. In 2009, the government expects funds from the World Bank and the African Development Bank (AfDB) to help restructure the sector and to improve how Électricité de Guinée (EDG), Guinea's public electricity company, operates. In 2008 the AfDB granted Guinea approximately EUR 13 million (euros) in aid to renovate Conakry's electricity grid and to fund EDG's restructuring process.

Other infrastructures are run down and, with the help of development partners, will need to be renovated. The 600-kilometre-long railway line is only used for transporting bauxite. The road network consists of 14 000 kilometres of roads (2 000 kilometres of which are asphalted) and 6 000 kilometres of tracks that are concentrated around large towns and mining areas. The energy policy, which includes water and electricity, takes into consideration the strategic orientations of the Poverty Reduction Strategy Paper (PRSP-2) as well as the Millennium Development Goals (MDGs). This policy aims to improve how the sector is managed, to reinforce the reliability of energy supplies and to extend their availability at universally affordable prices. This sector's failings set real restrictions on Guinea's economic and social development. Only 18 per cent of the population – those living in and around large towns – has access to electricity. State funding has made it possible to start renovating three power stations, to carry out the programme for discharging transformers, to replace the Sonfonia power transformer and to prolong the CBK (Compagnie des bauxites de Kindia) line. In March 2008 the AfDB approved a EUR 16 million grant for the renovation of Conakry's electricity grid.

In 2008 the state continued to put in place a decentralised rural electrification network (ERD). Working with intermediary private companies, ERD offers technical assistance in the areas of technical and commercial management, as well as financial support amounting to 80 per cent of installation costs. Available data suggest that, in 2007, eight companies were set up in three towns in Central Guinea, two towns in Lower Guinea, two towns in Upper Guinea and one town in Forest Guinea. At the start of 2008, 13 installations with a 60 to 70 KW capacity per town were able to supply 300 to 400 homes.

Implementation of a government plan to improve urban transport in Conakry has begun. One hundred large buses, 70 of which will operate in and around the capital Conakry, have been delivered. Also, Japan has agreed to fund a USD 4.3 million two-lane 8-kilometre road between Dabompa and Sanoyah/kilometre 36, and work on this began in 2008.

Innovation and ICT

The policy for telecommunications and postal services was set out and its implementation begun in 2004. In order to create a favourable environment for private investments, the government has pledged to put an appropriate legal framework and relevant regulations in place and to reform OPG, Guinea's postal service, and Sotelgui, Guinea's telecommunications company. These reforms will enable continued liberalisation of the sector, as they will limit granting of exclusivity of services to authorised service providers. The reforms are also expected to promote a universal service covering the entire national territory. Updating the master plan for developing telecommunications and preparing a master plan for developing postal services are the two main pillars of the new legal framework.

Ever since the launch of cellular phones, the expansion of telecommunications has been booming. Only 5.3 per thousand inhabitants have access to fixed lines, while 22 per thousand inhabitants have access to mobile networks. There has been a considerable boom in mobile phones: from a mere 2 per cent access rate in 2005, this reached 15 per cent in 2006 and 21 per cent in 2007. Three more phone operators – Areeba, a subsidiary of MTN (Mobile Telephone Networks), Orange Guinée and Cellcom – have been approved alongside Intercel and LAGUI, the public operator. Access rates in the country have increased tremendously, in response to growing demand from the population. These stand at 73 per cent for Conakry, but only 4 per cent for the rest of the country, signalling the potential growth of the mobile phone industry. The poor coverage of transmission equipment in the country often makes mobile telephones quite useless. Rates are charged by the second and costs per minute are cheap, at less than GNF 500, encouraging the use of mobile phones by everyone, including the poorest.

Internet usage, which reached 5.2 users per thousand inhabitants in 2007, developed in the wake of mobile telephony. Internet started in 1997 with an agreement between the Guinean government and the United States under the "Leland Initiative" project. Although computers are still very expensive, as are monthly Internet subscriptions, the network and quality of cyber cafes allow Guineans to obtain Internet access at relatively low prices that are in line with the sub-region – CFA 300 (CFA francs) – per hour. ADSL (Asymmetric Digital Subscriber Line) and standard modems are the technologies used by most Internet users, although some large companies use VSAT (Very Small Aperture Terminals) for better throughput. For these reasons, and because electricity supplies are unpredictable, connections are relatively slow and unstable; nevertheless, the development of the sector is fundamentally linked to this issue.

In February 2008, the United States Agency for International Development (USAID) helped Guinea's government further computerise its administration (using Siag – Système d'informatisation de l'administration guinéenne). This project aims to modernise government administration, to provide easier access to information, and to improve services. Guinean e-government will start off with seven connected governmental sites and will be equipped with a VSAT antenna with a bandwidth of 256/512 KB (kilobits) provided by USAID and a VSAT antenna of 512/1024 KB supplied by the United Nations Development Programme (UNDP), as well as all the equipment required to make them work.

Political Context

The death of President Lansana Conté on 22 December 2008 has led to a period of uncertainty in Guinea. A military coup prevented the president of the National Assembly and the prime minister from finding a successor in accordance with the constitution. The new junta, which was led by Captain Moussa Dadis Camara, carried out a purge of the army by imprisoning or forcing several generals to retire. The government was dissolved, but government administration was operational again by January 2009 under the leadership of a new civilian prime minister and high-level civil servants in charge of day-to-day administration.

The junta said it was planning to carry out parliamentary and presidential elections within two years. Political parties have asked the international community to help restore constitutional order before the end of 2009. The AU and ECOWAS excluded Guinea from their ruling institutions, but political dialogue between Guinea's political figures and with the AU, ECOWAS, the EU and the UNDP continues. Although the idea of appointing a civilian prime minister was generally welcomed, the composition of the new government, in which nine military officials hold key posts, including that of finance minister, raised doubts about the junta's real motives. The coup has sparked both political and economic uncertainty: it has led to a certain wait-and-see attitude among investors and donors, and has delayed reaching the HIPC Initiative completion point, which had originally been forecast for end-2008.

While harshly criticising the orderly chaos of Lansana Conté's regime – he also came to power after a military coup – the new authorities nevertheless organised a national funeral for the late president, with the visible approval of the Guinean population. The junta has set itself the tasks of restoring order to the country's management and above all, of launching a vigorous anti-corruption campaign.

Social Context and Human Resources Development

Despite efforts by the government and development partners, Guinea is unlikely to reach the MDGs by 2015, especially with regard to extreme poverty, hunger and gender equality. A 2007 survey of household living conditions indicated that poverty grew from 49 per cent in 2002 to 53 per cent in 2007. With a Human Development Index of 0.456 in 2005, below the African average, Guinea is lagging behind. Only 50 per cent of Guineans have access to drinking water, compared to the African average of 62.3 per cent in 2004. No more than 18 per cent of the population has access to health services (compared to 37 per cent for Africa in 2004). Infant and maternal mortality rates are 102.5 per thousand and 980 per 100 000 respectively, as against 85 per thousand and 724 per 100 000 for Africa in 2005. There are only six doctors per 10 000 inhabitants, compared with an average of 40 doctors per 10 000 inhabitants for Africa in 2005. Primary Gross Enrolment Ratios (GER) are 122 per cent for primary schools, compared to 99.6 for Africa in 2007.

Efforts made to improve health and education, which are priority sectors for the Poverty Reduction Strategy (PRS), have produced results. The budgetary share of educational spending has remained stable, but it has nevertheless made it possible to increase salaries and to build several hundred classrooms, although this number is still insufficient. However, the primary school enrolment rate only went up by 1 per cent due to a stagnant enrolment rate in rural areas. At the secondary level, the overall number of students improved substantially (+13.2 per cent) between 2004 and 2007, with a marked improvement in female enrolment. However, girls only represented 35.5 per cent of schoolchildren in 2007 (and 45.2 per cent of primary school pupils during the same year).

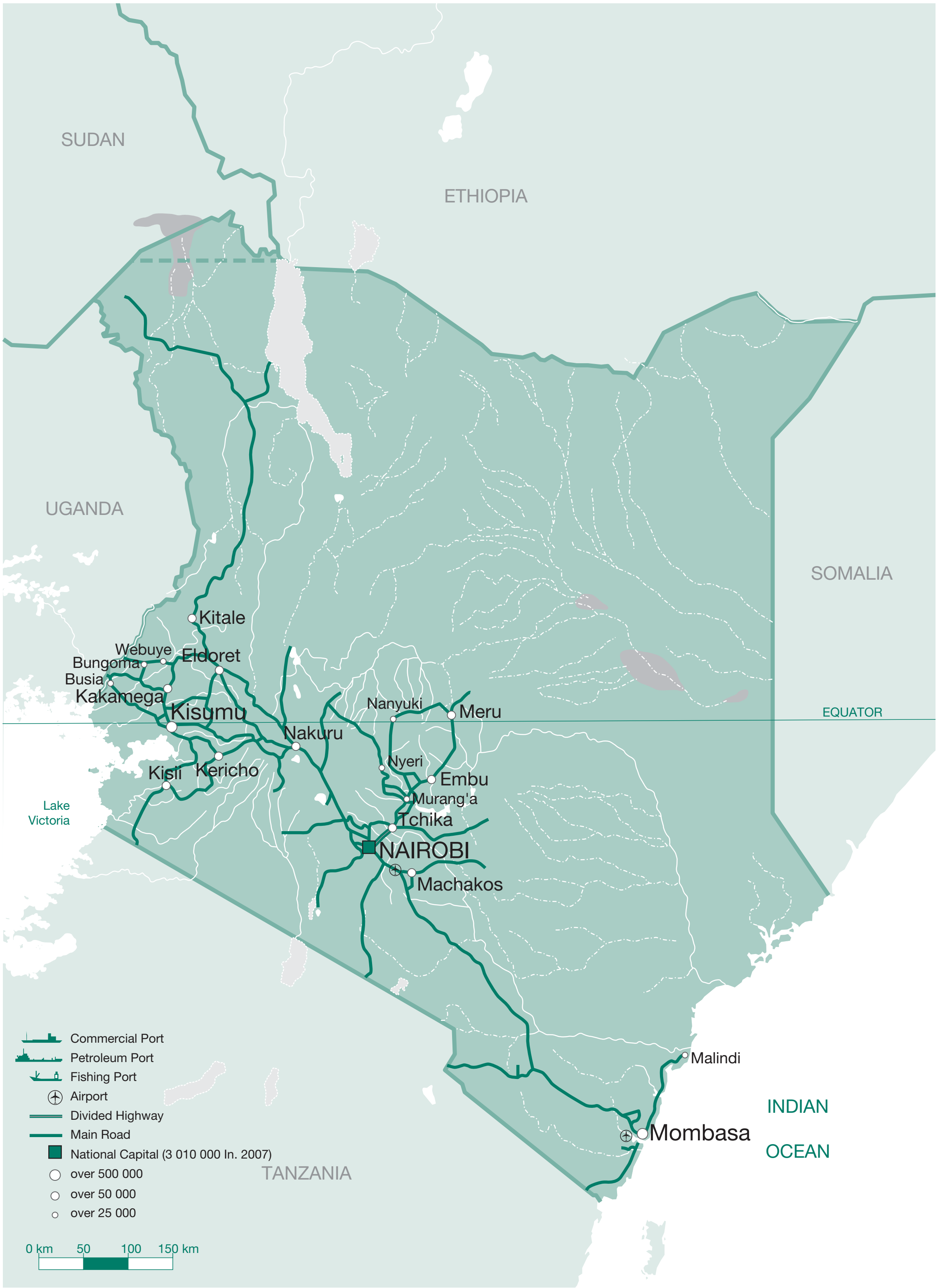
Spending on health has increased, although it has not reached PRS-2 objectives, due to a lack of funding and poor budget execution rates in this sector. However, the fight against endemic illnesses, maternal and infant protection and HIV/AIDS remain priorities at present. The government distributed 365 000 mosquito nets in 2007 to prevent malaria, compared to 100 000 the previous year. In 2007, there were renewed cholera outbreaks, with 7 265 cases and 262 deaths. Maternal and infant protection has advanced significantly thanks to free Caesarean births in public hospitals and complete vaccination coverage. These efforts are expected to reduce mortality rates, which remain high: maternal deaths almost doubled between 1999 and 2005. The HIV/AIDS prevalence rate was 1.5 per cent (0.9 per cent for men and 1.9 per cent for women), a slight drop compared to 2003. Antiretroviral treatment is available, although the Ministry of Health's capacity could only meet the needs of 11 251 patients out of 25 000 people requiring treatment, which is about a 45 per cent coverage rate. Under such circumstances, prevention through the co-ordination of the PMS (multi-sectoral project for the fight against HIV/AIDS) remains essential. This project offers each decentralised community and each sector of activity the possibility of managing the fight against the disease by relying on its own methods.

Kenya

key figures

- Land area, thousands of km²: 569
- Population, thousands (2008): 38 765
- GDP per capita, PPP valuation, USD (2008): 1 535
- Life expectancy (2008): 54.3
- Illiteracy rate (2008): n.a.

Kenya



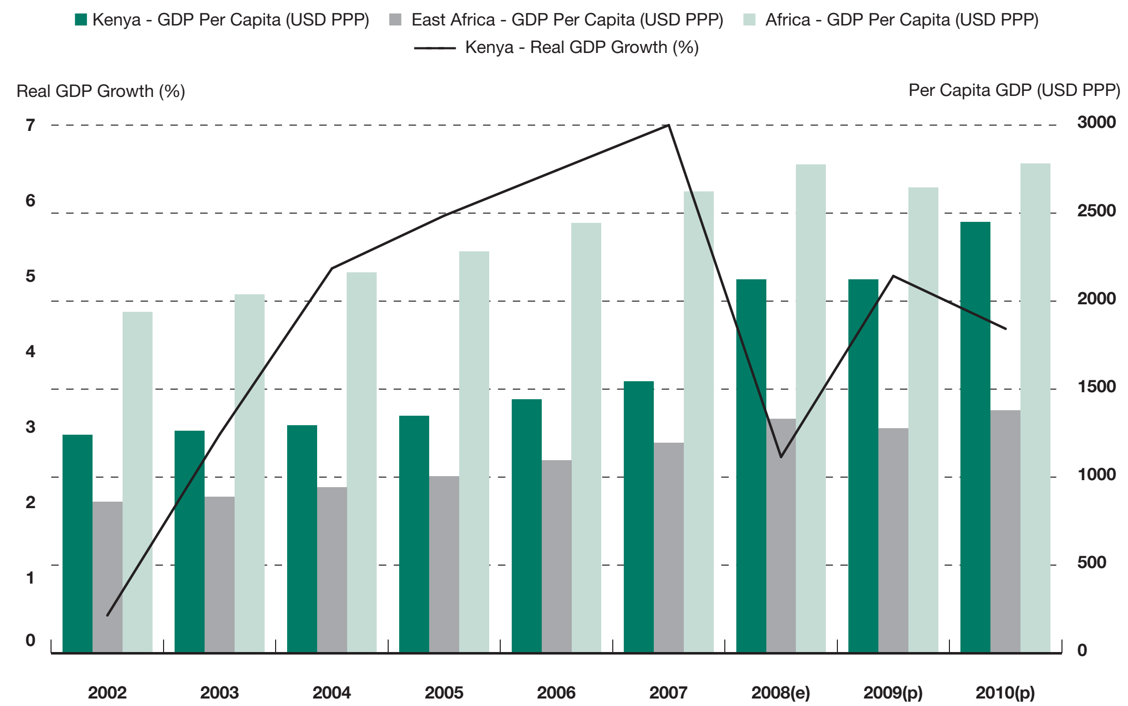
SUDAN
ETHIOPIA
UGANDA
SOMALIA
TANZANIA
Lake Victoria
INDIAN OCEAN
EQUATOR
Kitale
Webuye
Bungoma
Busia
Eldoret
Kakamega
Kisumu
Nakuru
Kisii
Kericho
Nanyuki
Meru
Nyeri
Embu
Murang'a
Tchika
NAIROBI
Machakos
Malindi
Mombasa
Commercial Port
Petroleum Port
Fishing Port
Airport
Divided Highway
Main Road
National Capital (3 010 000 In. 2007)
over 500 000
over 50 000
over 25 000
0 km 50 100 150 km

IN 2008 GDP GROWTH IS ESTIMATED to have slowed 2.6 per cent. The forecast is for higher growth rates of 5.0 per cent and 4.3 per cent in 2009-10, respectively. The slowdown in 2008 was partly due to the post-election violence that affected almost all sectors of the economy during the first quarter. The economy rebounded in the second and third quarters but slowed down during the last quarter partly as a result of the global financial crisis. The sectors that recorded positive growth included manufacturing, electricity and water, wholesale and retail trade; and fishing picked up during the second quarter of 2008, leading the recovery. In addition, construction, mining and quarrying, and public administration grew faster during the last half of 2008. Sustained growth in construction has been underpinned by long-term construction activities like roads and extension of the Jomo Kenyatta International airport, while mining and quarrying have benefited from the resulting demand for construction material.

The country is recovering from the post-election violence of early 2008, which reduced growth.

The global slowdown will continue to affect Kenya's economic performance during 2009 leaving the country vulnerable to large current account deficits, high debt levels, increasing fiscal deficits and declining foreign exchange reserves. The sectors which might be affected include: commercial agriculture, such as tea, coffee and horticulture, due to a reduction in foreign demand for these products; manufacturing, especially in the export

Figure 1 - **Real GDP Growth and Per Capita GDP**
(USD/PPP at current prices)



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

StatLink http://dx.doi.org/10.1787/570131483327

processing zone (EPZ) dependent on demand in the US and European markets; and tourism. Remittances, especially those intended to finance investment, may also be hit by a protracted recession in these industrial countries.

In 2008, Kenya, as in the rest of the world experienced an unprecedented rise in food and oil prices following smaller increases in 2007. High food prices were exacerbated by shortages resulting from the post-election violence and drought-related production shortfalls. Since oil prices were liberalized some years ago, the increases in world oil prices were completely passed through to consumers. This, in turn, resulted in higher costs for electricity and transportation, raising costs in the manufacturing sector, adding to inflationary pressures. However, even after oil prices began falling in the last half of 2008, retail prices remained high, prompting the government to reduce tax on electricity during the last quarter of 2008. For the year as a whole, inflation surged to 25.8 per cent in 2008 compared 9.8 per cent in 2007. Consequently, the Government intends to control oil prices during 2009, under the Energy Regulatory Commission (ERC). Aided by falling import prices and a normalization of food supply and transport, inflation is projected to ease to 9.1 per cent in 2009 and 6.8 per cent in 2010.

Recent Economic Developments

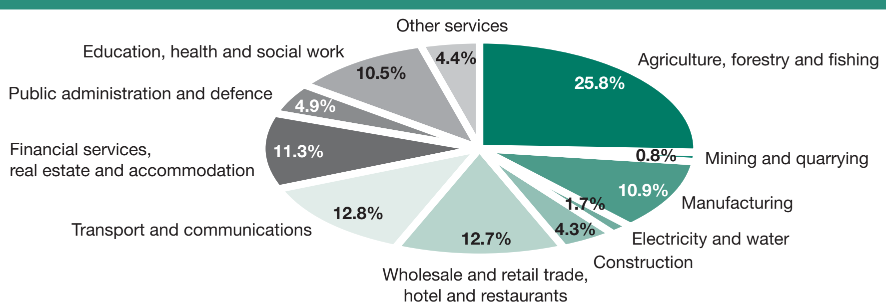
In 2008, the country launched the first Medium Term Plan (MTP) 2008-12 under Vision 2030. The MTP prioritizes policies consistent with available resources and is based on three pillars: economic, social and political. The objective of the economic pillar is to accelerate annual GDP growth to 10 per cent on a sustained basis to make Kenya a middle-income country by 2030; the social pillar aims for equitable social development; and the goal of the political pillar is to achieve an issues-based, accountable democratic political system.

Kenya's real GDP is estimated to have grown by 2.6 per cent in 2008, down from 7.0 per cent in 2007. Forecasts are for substantially higher growth of 5.0 per cent and 4.3 per cent in 2009-10.

Agriculture and forestry (23.1 per cent of GDP) suffered the double blow of poor weather conditions and the post-election disruptions in early 2008. Many farmers, mainly in the fertile Rift Valley province were displaced during the violence. In addition, delays in planting, reductions in acreage under cultivation, and high fertilizer prices jolted the performance of the agricultural sector in 2008. Output fell by 2.0 per cent compared to growth of 2.3 per cent in 2007. The sector is, however, expected to grow by about 3.0 per cent in 2009 and 2010.

Maize production declined significantly with the area under cultivation falling by 32 per cent; wheat production was also lower in 2008. These factors led to steep rise in food prices, with the price of maize nearly doubling. The government responded by buying tractors and imported fertilizers to subsidize the cost of farming and boost maize and wheat cultivation for

Figure 2 - **GDP by Sector in 2007** (percentage)



Source: Authors' estimates based on local sources.

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the 2008-09 growing season. The resettlement of people temporarily displaced during the post-election violence has continued, and they are expected to resume their normal farming activities in the course of the year. The government also imported maize to counter famine affecting close to a third of the population and the problem of high food prices throughout the country. However, assuming normal rains in 2009, production of staple food is expected to increase as farmers respond to the prevailing favorable prices. Production of tea and coffee, which are major exports, declined during the first ten months of 2008 at average annual rates of 11.3 and 29.4 per cent, respectively compared to growth of 26.9 and 7.3 per cent for the same period in 2007. Horticulture export volumes (mainly cut flowers and vegetables) increased by 4.7 per cent during the period compared to 14.8 per cent for the same period in 2007.

The transport and communication sector (11.0 per cent of GDP) was badly affected by the post-election violence, with revenue from most of the key transport facilities showing negative growth during the first ten months of 2008 compared with positive rates for the same period in 2007. However, the telecommunications sub-sector showed strong growth during the first 10 months in 2008, with Kenya Revenue Authority recording a 14.7 per cent increase in revenue from excise taxes on airtime compared with 29.9 per cent for the same period in 2007.

Manufacturing (11.5 per cent of GDP) is estimated to have grown at a lower rate in 2008 than in 2007 due to the post election troubles, high energy costs and global recession, and is expected to decline further in 2009. However, cement, beer and soda ash manufacturing grew over the first 10 months of 2008, at an average rate of 9.8 per cent, 13.4 per cent and 39.5 per cent respectively.

Activities in the wholesale and retail trade sector contracted by 0.4 per cent compared to growth of 13.0 per cent in the first quarter of 2007. This picked up during the last half of 2008, though performance was lower than that of 2007.

Both domestic and internal tourism was hit hard by the post-election violence during the first half of 2008 and later by the global financial crisis, leading to losses for hotels and restaurants. Tourist arrivals declined by 35.2 per cent during the first 10 months of 2008 to 565 748 from 873 111 in 2007. However, the industry is expected to pick up later in 2009 and 2010 amid a marketing effort and hopes for a recovery in the global economy.

Table 1 – **Demand Composition**

	Percentage of GDP (current prices)		Percentage changes, volume			Contribution to real GDP growth		
	2000	2007	2008(e)	2009(p)	2010(p)	2008(e)	2009(p)	2010(p)
Gross capital formation	**17.6**	**20.2**	**10.5**	**8.0**	**9.0**	**2.6**	**2.1**	**2.5**
Public	4.6	4.6	12.0	8.0	9.0	0.7	0.5	0.6
Private	13.0	15.5	10.0	8.0	9.0	1.9	1.6	1.9
Consumption	**90.6**	**92.0**	**4.2**	**4.8**	**5.8**	**3.8**	**4.4**	**5.3**
Public	15.3	17.2	4.0	3.8	3.8	0.7	0.7	0.7
Private	75.2	74.8	4.2	5.1	6.2	3.1	3.7	4.6
External demand	**-8.1**	**-12.2**				**-3.7**	**-1.5**	**-3.4**
Exports	22.3	26.6	-2.0	1.2	1.6	-0.8	0.5	0.6
Imports	-30.5	-38.8	5.3	3.5	7.2	-2.9	-2.0	-4.0
Real GDP growth						**2.6**	**5.0**	**4.3**

Source: Data from local sources; estimates (e) and projections (p) based on authors' calculations.

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Growth in 2008 was supported by gross capital formation, reflected in ongoing construction projects and increased public consumption. However private consumption was depressed due to an erosion of purchasing power caused by double-digit inflation. And reductions in exports combined with strong growth in imports badly affecting growth. Growth is expected to increase in 2009-10, with some recovery of exports, as well as a sustained rise in public and private investment and higher private consumption.

Macroeconomic Policies

Fiscal Policy

The aim of the Medium Term Plan (MTP) 2008-12 is to redirect spending to high priority areas, including increased capital spending on infrastructure, as well as more spending on education and agriculture. Increased spending will be balanced by increased revenue collection and improved management.

Government expenditure, which rose from 23.7 per cent of GDP in 2006/07 to an estimated 31.5 per cent in 2007/08, is projected to decline to 25.2 per cent in 2008/09. An estimated deficit of 6.1 per cent of GDP of the overall budget balance on a commitment basis (excluding grants) was recorded in 2007/08 compared to a deficit of 1.1 per cent of GDP in 2006/07. The deficit is expected to drop to 3.0 per cent of GDP in 2008/09 (see Table 2). The target is to contain it to below 5.7 per cent of GDP during the MTP period, while the target for fiscal balance on a commitment basis (including grants) is below 3.6 per cent of GDP.

Expenditures rose from 23.7 per cent of GDP in 2006/07 to an estimated 31.5 per cent of GDP in 2007/08. These are targeted to remain at around 27.6 per cent of GDP during the MTP period, with development expenditures increasing from 4.7 per cent of GDP in 2006/07 to an estimated 8.9 per cent in 2007/08. Much of it will be devoted to infrastructure. The government will issue infrastructure bonds equivalent to 0.8 per cent of GDP during the MTP period beginning February 2009. Capital expenditure increased as a percentage of GDP from 4.7 per cent in 2006/07 to 8.9 per cent in 2007/08. In 2008, the government reduced the stock of pending bills as a percentage of GDP from 2.0 per cent in 2006/07 to 1.3 per cent in 2007/08, reflecting an improvement in the budget execution rate.

Although the wage bill rose by 13.1 per cent in 2007/08, wages as a percentage of GDP increased marginally from 7.5 per cent in 2006/07 to 7.7 per cent

Table 2 - **Public Finances** (percentage of GDP at current prices)

	1999/2000	2004/05	2005/06	2006/07	2007/08(e)	2008/09(p)	2009/10(p)
Total revenue and grants[a]	**19.6**	**22.6**	**21.8**	**22.6**	**25.4**	**22.3**	**21.3**
Tax revenue	18.0	19.5	18.7	19.7	21.9	19.0	18.0
Oil revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants	0.5	1.1	1.3	0.9	1.7	1.5	1.6
Total expenditure and net lending[a]	**18.8**	**22.5**	**25.2**	**23.7**	**31.5**	**25.2**	**24.4**
Current expenditure	16.8	19.1	20.7	18.9	22.5	18.6	17.1
Excluding interest	*13.6*	*16.9*	*18.0*	*16.4*	*19.9*	*16.3*	*14.9*
Wages and salaries	7.1	7.8	7.4	7.5	7.7	6.4	5.9
Interest	3.2	2.3	2.7	2.5	2.6	2.3	2.2
Capital expenditure	1.9	3.3	4.5	4.7	8.9	6.6	7.2
Primary balance	**4.0**	**2.4**	**-0.7**	**1.4**	**-3.5**	**-0.7**	**-0.8**
Overall balance	**0.8**	**0.1**	**-3.4**	**-1.1**	**-6.1**	**-3.0**	**-3.0**

a. Only major items are reported.
Source: Data from local authorities ; estimates (e) and projections (p) based on authors' calculations.

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in 2007/08. This is above the target of below 6.8 per cent of GDP during the MTP period that is to be attained through public sector reforms. Wages as a percentage of GDP are projected to decline to 6.4 per cent and 5.9 per cent in 2008/09 and 2009/10 respectively. However, the wage bill as a percentage of revenues decreased from 32.8 per cent in 2006/07 to 31.4 per cent in 2007/08.

In 2007/08, tax revenues increased by 17.9 per cent compared to 2006/07 and are projected to increase by a further 11.9 per cent in 2008/09. This was mainly due to an increased tax base, a rise in value-added tax (VAT) and higher import duties. Revenues as a percentage of GDP increased from 22.6 per cent in 2006/07 to 25.4 per cent in 2007/08.

Monetary Policy

Since 2008, monetary policy is the responsibility of the Monetary Policy Committee (MPC) chaired by the Governor of the Central Bank of Kenya (CBK). The CBK has set an inflation target of 5.0 per cent or below, as well as the goal of maintaining flexible exchange rates. It also plans to build foreign reserves equivalent to an average of six months of imports, based on the preceding 36 months, a target agreed upon by the East African Community.

During 2008, the Kenya shilling exchange rate with the US dollar (USD) was KES 67.6. It is projected to depreciate to KES 75 and KES 77 to the USD in 2009 and 2010, respectively. This was due to increased demand for the dollar in the domestic market and the strengthening of the dollar against other currencies in the international foreign markets.

The CBK lowered the minimum amount for investments in T-Bills to KES 100 000 from KES 1 million in December 2008. This might force commercial banks to increase their interest rates on deposits to lock in funds from their current clients. Depositors might also gain from the higher rates, as banks struggle to remain within CBK limits for cash ratios. The CBK also reduced its reserve ratio from 6.0 per cent to 5.0 per cent to reduce interest rates and, thereby, spur bank lending as part of a stimulus package for the economy. In addition, the Central Bank Rate (CBR) was lowered from 9.0 per cent in November 2008 to 8.5 per cent in December 2008. There was also a narrowing of interest rate differentials among notes of different maturities. The interest rate of the 91 Day Treasury bill increased from an average of 6.9 per cent in December 2007 to 8.5 per cent in December 2008. The average 182-day Treasury bill rate rose from 7.8 per cent in June 2007 to 8.84 per cent in June 2008 and then to 9.0 per cent in December 2008. Average lending rates in 2008 were between 13.8 per cent in January and 14.8 per cent in December, while the deposit rates were between 4.4 per cent and 4.8 per cent for the same period.

External Position

The leading merchandise exports in the year to October 2008 were horticulture (15.5 per cent), tea (17.8 per cent), manufactured goods - mainly clothing and accessories (12.7 per cent) while coffee accounted for only 3.2 per cent. Although tea and coffee export volumes declined, they fetched higher export prices during the year to October 2008 with coffee rising marginally and tea significantly. During the same period, horticultural exports increased, both in terms of volume and prices.

During the year to October 2008, there were increased import volumes of machinery and transport equipment, oil, manufactured goods and chemicals as well as rises in food and fuel prices. This led to a substantial increase in the total value of merchandise imports, which contributed to large current account deficits in the year. Oil and machinery and transport equipment accounted for 28.3 per cent and 27.0 per cent respectively, while chemicals accounted for 13.3 per cent of the total import bill during the period.

Nearly half of Kenyan exports in 2008 went to African countries (46.8 per cent), with countries in COMESA accounting for 32.2 per cent. The main bilateral export destinations were: Uganda (12.3 per cent), UK (11.2 per cent), Tanzania (8.3 per cent), the Netherlands (7.7 per cent) and the US (6.0 per cent).

Others included Sudan, Egypt, Somalia, and Pakistan which accounted for 4.0 per cent each. This outcome is one of the results of the government strategy of raising the share of manufactured products in the regional market from 7.0 per cent to 15.0 per cent during the MTP period.

Asia remained the major source of Kenya's imports with UAE accounting for 16.2 per cent, mainly for oil products. This was followed by India (11.5 per cent), China (7.8 per cent), Japan (6.1 per cent) and South Africa (5.9 per cent). Others were the US, UK, Germany, Saudi Arabia, Indonesia and France, accounting for between 2.0 per cent and 3.6 per cent each.

The current account deficit worsened during 2008 as the growth in merchandise imports exceeded the growth in exports of both goods and services. However, the services account improved by 1.3 per cent as a result of increased current transfers and net factor income. It is estimated that the deficit as a percentage of GDP was 4.2 per cent in 2008 compared to 4.1 per cent in 2007 and is projected to improve to 0.4 per cent in 2009 (see Table 3).

During the year to October 2008, the capital account recorded a surplus of USD 2 142 million compared to USD 1 497 million in the same period in 2007. This was mainly driven by increased inflows of private medium and long-term portfolio investment and foreign direct investment. At the end of 2008, international reserves were USD 2.3 billion compared to USD 3.3 billion a year earlier. This amounted to 3.3 months of import cover compared to 4.0 months of cover at the end of 2007. The foreign exchange reserves based on a 36 month average of imports declined from the 4.9 months cover in December 2007 to 3.6 months cover in October 2008 - well below the target of 6 months - which poses challenges to the authorities in the face of the current global recession.

The country's debt stock (public and publicly guaranteed) rose by 4.9 per cent during 2007/08. However, as a percentage of GDP, the overall debt stock declined from 44.4 per cent to 41.4 per cent during the period, thus continuing the trend of the last five years. Domestic debt and external debt increased by 4.4 per cent and 5.4 per cent, respectively, with the domestic debt as a percentage of GDP declining from 22.2 per cent in July 2007 to 20.4 per cent in July 2008. The share of domestic debt in the total debt stock declined slightly from 50.0 per cent in July 2007 to 49.7 per cent in 2008 but increased to 51.1 per cent by October 2008 due to an increase in Treasury Bills and Government overdrafts at the CBK.

The total external debt as a percentage of GDP declined from 22.2 per cent in July 2007 to 21.0 per cent in July 2008. Much of it is owed to multilaterals including the IMF (60.4 per cent as at October 2008). Overall, external debt to commercial banks and in the form of non-bank trade accounted for 0.1 per cent and 4.7 per cent respectively.

Table 3 - **Current Account** (percentage of GDP at current prices)

	2000	2005	2006	2007	2008(e)	2009(p)	2010(p)
Trade balance	-10.0	-11.4	-14.5	-15.8	-16.2	-12.7	-11.4
Exports of goods (f.o.b.)	14.1	18.4	15.6	15.3	13.1	11.9	10.6
Imports of goods (f.o.b.)	24.2	29.8	30.1	31.1	29.4	24.7	22.0
Services	1.9	4.0	4.7	4.6	5.8	6.3	6.2
Factor income	-1.1	-0.6	-0.3	-0.7	-0.6	-0.6	-0.3
Current transfers	7.3	6.7	7.9	7.8	6.8	6.6	5.6
Current account balance	**-1.9**	**-1.3**	**-2.1**	**-4.1**	**-4.2**	**-0.4**	**0.1**

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

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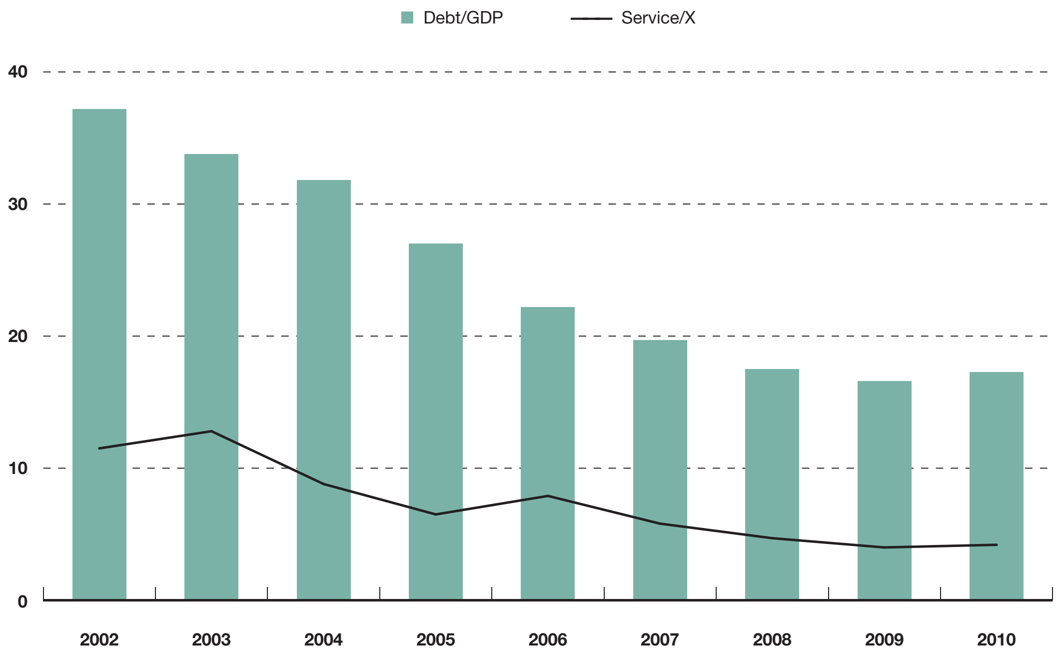
Figure 3 - **Stock of Total External Debt** (percentage of GDP) **and Debt Service** (percentage of exports of goods and services)



Source: IMF.

StatLink http://dx.doi.org/10.1787/573377001002

Structural Issues

Private Sector Development

During 2008, the government acted to improve the business environment. It established a business regulatory reform unit (BRRU) within the Ministry of Finance and an electronic registry for all valid licenses. Kenya's sovereign ratings, which were downgraded following the post-election violence in early 2008, were upgraded in November 2008 by S&Ps to positive B from stable B. Similarly, Fitch Rating upgraded the outlook from Negative to Positive, while retaining the earlier ratings of B+ for long-term foreign debt and BB- for long-term domestic debt in November 2008. In 2008, the Port of Mombasa began to operate on a 24-hour basis.

The government sold 25 per cent of Safaricom's shares through an Initial Public Offer (IPO) in 2008, while retaining 35 per cent: Vodafone Kenya retained 40 per cent. In July 2008, the Cabinet approved the sale of the government's shares in the National Social Security Fund (NSSF) and National Bank of Kenya. The privatization of the Development Bank of Kenya (DBK) and Kenya Wine Agencies (KWAL) as well as a second offer for KenGen shares are to be undertaken during 2009. The Privatization Commission of Kenya, which was gazetted in December 2007, became effective on 1 January, 2008

The number of financial institutions increased from 45 in 2007 to 46 in 2008. The performance of the banking sector in 2008 was sound despite the global crisis. Liquid assets, as a proportion of total deposit liabilities, were over 40 per cent, well above the statutory minimum requirement of 20 per cent, mainly because of a large increase in deposits. This was due to the deposits of the proceeds of an initial public offer of shares by a mobile communication company and aggressive marketing by some financial institutions. As a result the banking sector assets grew by about 39 per cent.

The stock of non-performing loans has been declining following write-offs and improved loan recovery. However the gains in reducing non-performing loans were adversely affected by the impact of the post-election violence on business and household financial positions. The share of gross non-performing loans to gross loans declined from 14.6 per cent in January 2007 to 8.4 per cent in December 2008. During the year the CBK created a division for monitoring financial stability for the entire financial sector.

In 2008, the 2006 Microfinance Act became law allowing the CBK to regulate and supervise deposit-taking microfinance institutions (MFIs). In consultation with stakeholders, the CBK already prepared and gazetted regulations setting out the legal, regulatory and supervisory framework for the MFIs in December 2008. The Ministry of Finance also prepared non prudential regulations for the other MFIs. The 2006 Insurance Amendment Act led to the establishment of an Independent Insurance Regulatory Authority in April 2008 which is expected to improve insurance penetration.

The Nairobi Stock Exchange (NSE) is now well established, with 19 member firms, after one stockbrokerage firm closed down. The number of listed firms on the NSE is currently 58, out of which 52 are equities and six are corporate bonds. Performance in the stock market remained bearish for most of the year with the NSE 20 share index falling in 2008. The NSE has recorded a massive drop in share prices to a three-year low. Compared to its regional counterparts, the NSE loss of 18 per cent was the biggest registered since the beginning of 2008, mainly due to the post- election violence and the global financial crisis.

Other Recent Developments

The Government continued to strengthen public sector institutions throughout 2008. This involved deepening budgetary and public financial management reforms. To help boost private sector growth, the Government allocated greater resources to improving the security situation, purchasing modern crime-fighting equipment for the police force, recruiting additional officers and increasing salaries. In 2008, the government continued to expand investment in physical infrastructure, including roads, water and sanitation, energy and housing.

In 2007, the Government through the Ministry of Environment and Natural Resources and the National Environmental Management Authority (NEMA) revised several sectoral and legal frameworks. A road map for the preparation of a pro-poor Environment Policy was developed and launched in 2007 to guide mainstream environment issues into development planning and budgeting. The government also enacted regulations to ensure that all private and public projects undergo an Environmental Impact Assessment (EIA) before implementation.

The Kenya Slum Upgrading Programme (KENSUP) is a key core poverty program aimed at addressing the urban slum challenge affecting the majority of the urban population. Further, the National Housing Corporation has proposed several low-income housing projects in various locations in the country meant to ease the demand for low-cost housing and prevent new slums rising up in urban areas. The schemes include mortgage, tenant purchase, site and service, rental housing, and in-fills.

The six agricultural-related government ministries are working together on a set of policies aimed at improving productivity in the sector. For example, the government intends to increase the allocation to agriculture in the national budget to 8.0 per cent from the current 4.5 per cent over the next five years. With this increase, Kenya will have moved closer to the 10 per cent commitment that African governments agreed at a regional meeting in Maputo six years ago.

Other issues that will be addressed include farm subsidies, regional imbalances and food security. The revamped government Agricultural Finance Corporation recently partnered with Equity Bank to set up the Biashara Kilimo input financing scheme to provide more credit and subsidies to motivate farmers to increase production. With 80 per cent of the country falling into the Arid and Semi-Arid Lands (ASAL) category, policy-makers are seeking to expand arable land and boost food security through arid land reclamation and the revival of several irrigation schemes launched in the 1980s. So far, the country is importing tonnes of assorted fertilizer ahead of the planting season and plans to sell it at a substantial discount.

A pilot National Accelerated Agricultural Input Programme (NAAFAP) has led to 36 000 farmers getting inputs in the form of fertilizer and seed. These farmers have subsequently managed to increase their maize productivity seven fold, from 4 bags per acre to 30 bags per acre, substantially improving household food security. In 2008/09, the Government will further expand the program to target 65 000 farmers.

Innovation and ICT

The existing telecom infrastructure equipment in Kenya includes the fixed–line network comprising mainly copper, ADSL and cable; a terrestrial / submarine fibre-optic cable, which is under construction, and radio network infrastructure. Radio and TV network infrastructure grew rapidly since the early 1990s after liberalization of the airwaves. This resulted in a vibrant broadcasting industry especially in FM and TV broadcasting (Table 4). The national broadcasting station also operates a network on AM Medium Wave. Kenya is among the African countries that agreed at the ITU Radio communications Conference 2006 (RRC-06) to migrate from analogue to digital television broadcasting by 2015. A national Task Force has already proposed a migration plan and efforts are underway to start implementing the plan in 2009.

Telecommunications technologies used for Internet in Kenya comprise Digital Subscriber Line (DSL), cable, satellite, wireless and dial-up service providers. Mobile telephone networks rely on Global System for Mobile (GSM) communication and Code Division Multiple Access (CDMA) technology and include base transceiver stations (BTS) and satellite networks including gateways. The fixed-line network is outdated, but is rapidly being modernized to cope with rising demand. On the other hand, mobile network infrastructure is relatively new and modern but is concentrated in urban areas due to the availability of electricity. However, potential demand for telecommunication services in the rural areas is rising rapidly following the government's rural electrification programs. New value-added services and applications such as mobile banking (M-PESA) and provision of on-line services by the government also contributed to increased telecommunications demand throughout the country.

The infrastructure, including antenna towers and optic fibers owned by utility companies, is not currently

Table 4 - **Current Account** (percentage of GDP at current prices)

Indicator	Status as at December 2007
Tele-density	0.9
Fixed telephone line subscribers	275 000
Mobile subscribers	11 million
Licensed ISPs	78
Internet Users	2.7 million
Cyber Cafes/ Telephone Bureaus	1 000
Operational television Stations	16
FM Radio Stations	48
Public phones	17 500
% of Population with Access to Radio Services	90
% of Population with Access to TV Services	80

Source: Kenya, Republic, *Towards A Knowledge Economy Vision 2030*, National ICT Sector Master Plan 2008-2012.

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being shared among operators. Operators with dominant positions enjoy monopoly rents from providing services and are unwilling to share infrastructure with competitors, in the continued absence of regulations requiring them to.

The government is currently implementing the National Optic Fibre Backbone Infrastructure project (NOFBI) which aims to connect all administrative district headquarters in the country via a fibre optic link. A planned national telecommunication infrastructure project aims to provide internet connection points to all rural communities after the commissioning of the country-wide fibre optic cable network.

Currently there are only limited cross-border links to the national telecommunication backbones of neighbouring countries. However, there are ongoing initiatives by mobile operators in collaboration with respective EAC member countries to interlink their national broadband networks. In addition, the Eastern Africa Submarine Cable System (EASSy), an initiative to connect countries in the region via a high-bandwidth fibre optic cable system from South Africa, is underway and will link the East African countries to the rest of the world.

SEACOM, another submarine cable linking Africa to Europe and Asia via the Middle East, will have a landing point in Mombasa, Kenya. The cable's pricing is expected to be 90 per cent less than current fibre optic pricing of about USD 3 000 per Mbps/month. The landing point in Mombasa is already completed and is expected to be operational in June 2009. Another submarine cable, TEAMS (The East Africa Marine System), a Kenya government initiative, will connect the region to Europe through the United Arab Emirates, once completed during the second half of 2009.

Due to the high concentration of service providers in the urban areas, access and usage of telecommunications services is high as competition keeps prices down. However, the cost of providing such services is high in the rural areas and therefore access and usage is low. Kenya faces a challenge in that it lacks sufficient capital to finance the expansion, maintenance and rehabilitation of the requisite backbone infrastructure. Similarly, policies regarding infrastructure integration, use and development are inadequate, causing service providers to duplicate rather than to complement one another. Also, low penetration of electricity in most parts of the country has hampered extension of services in rural areas.

The government has prepared several ICT policy documents that define how the telecommunications sector is to be developed. The policy instruments cover all sub-sectors of ICT including telecom, broadcasting, and information technology. The instruments include an ICT policy paper, the National ICT Strategy paper, and the Telecommunications Act, among others.

Institutions charged with promoting and regulating telecoms development are the Ministry of Information and Communications and the Communications Commission of Kenya (CCK). The Ministry is responsible for the development of ICT while the CCK is responsible for regulating ICT and media activities besides issuing licenses for operations. The CCK has instituted a Unified Licensing Framework (ULF). Econet Wireless Kenya in January 2009 became the first GSM Cellular Mobile Network operator in the country to be issued with technology-neutral licences under the new ULF

The CCK regulates the interconnection fees between different telecom operators whenever disputes arise by setting price caps. The fixed-line operator, Telkom Kenya, and Orange mobile, which was launched in August 2008 as an affiliate operator, have common ownership. In Kenya, GSM is preferred for mobile phone communications although CDMA technology is being used by Telkom to provide wireless telephone services. Mobile operators in Kenya have agreed with their counterparts in other EAC countries to allow regional roaming.

The installation of telecommunication infrastructure is subject to environmental and health regulation. In principle, for any new proposed installation an Environmental Impact Assessment (EIA) must be carried out. However, there is some question as to whether the EIA requirement and other laws are actually followed

In January 2009 a new law on Converged ICT became operational**.** The new law effectively brings the regulation of the entire ICT sector under one body (i.e. the CCK) in line with global best practice. Under the new law, the CCK will be responsible for the licensing of broadcasters, regulation of broadcast content and facilitation of e-commerce. The law has also enhanced mechanisms for ensuring fair competition and fair treatment of players in the sector. It also provides for the establishment of a Universal Service Fund that will be dedicated to the provision of communication services to un-served and under-served areas in Kenya. It also provides for co-location and infrastructure sharing among operators.

Bureaucracy, lack of capital and poor management of telecommunications by the former parastatal Telecom Kenya, are blamed for the slow growth of fixed-line networks. However, competition among service providers amid full liberalization of the telecommunications sector will spur the growth of fixed-line networks in the coming years. Two more private mobile telephone operators became operational during 2008.

All mobile phone handsets are subject to taxation when imported into Kenya. Additionally, the mobile phone handsets are subject to VAT when sold internally. There is also an airtime tax; a tax on the number of minutes used for voice conversations. This revenue source offsets some of the costs to government of regulating the sector.

In 2008, the construction of a Business Processing Outsourcing (BPO) Park was commissioned in Nairobi. The cellular operators are providing banking services in the country with M-PESA by Safaricom and SOKOTELE by Zain. M-PESA is an e-banking Vodafone/Safaricom money transfer service established in Kenya in 2007 and has so far reached over 5 million subscribers. It currently provides money transfer services within the country, but M-PESA is expected to be extended to include transfer between countries in 2009. These services are popular among small to medium income families. In addition, some farmers use mobile phones for checking commodity prices. In February 2009, Standard Chartered Bank launched a new mobile-phone banking (mBanking) facility based on the new Unstructured Supplementary Service Data (USSD) platform. This will allow customers to check their bank balances, transfer funds between personal accounts and nominated accounts and pay utility bills from their cell phones from anywhere in the world.

The government prepared an e-Government strategy which was approved by the cabinet in 2004. Its purpose is to ensure that the Government fully embraces modern Information Technologies to enhance efficiency. A comprehensive public awareness campaign was launched in 2008 by the Directorate of e-Government and is expected to reach rural areas in 2009. E-government is intended to make government more result oriented, efficient and responsive to citizens.

ICT services and innovations have made a significant impact on the way business is done in the informal sector, providing wider market reach, and greater efficiency due to reductions in overhead costs and journeys that may otherwise have required physical movement of people or goods. Similarly, with the availability of money transfer service using phones, it is now easy to buy and sell goods at different locations in the country.

The relative ease of communicating, and more so in the transfer of money, has had significant impact on the emergence of new enterprises both in the formal and informal sectors. This in turn has driven demand for training in telecommunication operations. The country has a large number of institutions offering such training.

Political Context

In 2008, economic and political developments continued to suffer a hangover from the violence which followed the late 2007 general election. Mediation led by Kofi Annan brought the two main political parties into a power-sharing government. The National Accord signed in February 2008 led to the formation of a Grand Coalition Government, headed by President Mwai Kibaki of the Party of National Unity (PNU) with Raila Odinga of the Orange Democratic Movement (ODM) as the Prime Minister, and Kalonzo Musyoka (ODM-K) as the Vice President. Two positions of deputy prime ministers, one each from the two big parties, were also created. During 2008, the National Accord bill was incorporated into the constitution.

An Independent Review Commission of Inquiry chaired by South African judge Johann Kriegler was charged with investigating the violence caused by the 2007 presidential elections. One of the recommendations of the commission was the reconstitution of the Electoral Commission of Kenya (ECK). In December 2008, parliament voted for the ECK to be dissolved. This allows for the formation of the Interim Independent Electoral Commission (IIEC) and the Interim Independent Boundaries Review Commission (IIBRC), under the Constitution of Kenya Review Act of 2008. A 27-Member Parliamentary Select Committee was also formed in December 2008 to guide the exercise of Constitutional review. In addition, this Act provides for the replacement of the existing Constitution with a new one, and a law on referendums.

A Commission of Inquiry into Post Election Violence, headed by Appeal Court Judge Philip Waki, recommended that the parties agree to the establishment of a Special Election Violence Tribunal. The President and the Prime Minister signed an agreement in December 2008 that paved the way to implement the Commission's recommendations, but the Bill was rejected by the Parliament in February 2009 and the authorities will need to address the issue again. If the agreement to establish the tribunal is not signed, or if for some reason it fails to work, the list of suspects believed to be responsible for the violence would be forwarded to the International Criminal Court (ICC).

Following the enactment of the Political Parties Bill in July 2008, political parties will be funded by the Government. Parties will face de-registration should they fail to field candidates at the next election or within six years. The political parties have to comply with a number of new requirements. They will need to submit financial returns on an annual basis, to reflect national membership and the diversity of Kenyan communities, not to have a religious slant. They will also have to avoid using repugnant symbols or those of other entities. In addition, for a party to qualify for funding, at least a third of its national officials must be from either gender.

The outcome of 2007 General Elections led to violent destruction of property and loss of life throughout the country. An estimated 1 300 people were killed and more than 350 000 people displaced. This called for resettlement programmes immediately after the National Accord was signed, and the country began to witness a return to normality. Resettlement activities continued throughout 2008 and by the end of December 2008, only a small fraction of internally displaced persons were still in camps.

Social Context and Human Resources Development

The country continued to strengthen existing systems of devolution such as: the Constituency Development Fund (CDF), Local Authority Transfer Fund (LATF), Constituency Bursary Fund, the Youth Enterprise Fund (YDF) and the Women Enterprise Fund (WEF). In 2007/08, the Government expenditure on social services increased by 17.2 per cent. During the same period, development expenditure in the Ministry of Education increased by 28.0 per cent while that of the Ministry of Health increased marginally and that of the Ministry of Youth Affairs was raised to KES 1.8 billion, mainly to support the creation of a revolving Youth Enterprise Fund.

Spending on school fees in Kenyan families has risen steadily in the past four years despite government efforts to reduce it through increased public spending on social welfare. The introduction of Free Primary Education together with Free Tuition for secondary schools seems to have only marginally eased the fees burden on parents. It is estimated that education accounts for up to 49 per cent of household spending in the middle and low income segments of the population, casting a heavy burden on poor families. Education takes a large share of public expenditure in Kenya. In 2008, 19.5 per cent of the total budget for 2008/09 was allocated to the sector. Enrolment in primary schools increased from 7 632 in 2006 to 8 229 in 2007 with girls comprising 48.8 per cent.

Primary schools increased by 0.7 per cent to 26 104 in 2007, while secondary schools increased by 14.6 per cent to 6 485 and Early Childhood Centers increased from 36 121 in 2006 to 37 263 in 2007. The number of primary school pupils increased by 7.8 per cent to 8 229 300 pupils in 2007 and that of secondary school students increased by 14.6 per cent to 1 180 300 in 2007. Participation levels in pre-primary schools increased slightly, with the Gross Enrolment Rate (GER) rising from 58.8 per cent in 2006 to 59.3 per cent in 2007. Similarly, the Net Enrolment Rate (NER) increased from 33.6 per cent in 2006 to 39.7 per cent in 2007. In primary schools, GER for boys and girls was 110.7 per cent and 105.9 per cent in 2007 respectively, while NER was 75.5 per cent in 2007. In secondary schools, GER increased from 32.2 per cent to 50.3 per cent in 2007, with girls recording 48.6 per cent and boys, 52 per cent. The total number of primary school teachers grew by 6.2 per cent to 173 157 in 2007 and that of secondary school by 4.5 per cent to 44 305 in 2007.

The country intensified its fight against TB, HIV/AIDS and malaria, increasing its budgetary allocation by 9.2 per cent to KES 35.7 billion in 2008/09. The HIV/AIDS prevalence rate dropped from 13 per cent in 2000 to 6.7 per cent in 2004. However, according to the Kenya Aids Indicator Survey (KAIS) 2007, the prevalence rate now stands at a worrying 7.4 per cent. It is now estimated there are 1.2 million people infected with HIV/AIDS while about 85 000 die annually of AIDS related complications. Efforts that pushed down the prevalence rate include the 2006 move by the Government to provide free Anti-Retroviral Drugs at public hospitals. As a result of this, the number of people on ARVs has increased from 2 000 in 2003 to 140 000 in 2007. The decline is also due to increased supply of condoms from 28.4 million in 2005 to 36 million in 2006 and 64.5 million in 2007, as a result of increased awareness.

Health institutions increased by 13.2 per cent to 6 194 in 2007 due to the construction of new health facilities funded through CDF. The number of registered medical personnel increased by 3.9 per cent to 69 805 in 2007, while the number of medical personnel in training went up by 15.3 per cent to 8 005 in 2007. Full immunization coverage for children aged under one year improved by 6.8 per cent to 978 417 cases in 2007. Reported malaria cases declined by 135 393 mainly due to free distribution of about 3.4 million long lasting treated insecticide bed nets, and extensive spraying of households by the Ministry of Health.

The high rate of unemployment, particularly among the youth, remains a source of instability and is a major challenge for the Government. Among the many initiatives to expand employment opportunities is the introduction of an amendment to the Armed Forces Act to enable the youth in the National Youth Service to be absorbed into the armed forces. The overall performance of the labour market outside small-scale agriculture and pastoralist activities grew in 2007. The growth was mainly in the informal and modern private sectors. All sectors of the economy recorded improved performance, which translated into improved employment opportunities across the board. Employment in the public sector continued on a declining trend in spite of selected recruitment in the civil service. A total of 4 747 000 new jobs were created between 2006 and 2007 with the informal sector accounting for 89.9 per cent of the additional jobs. This growth is attributed to a favorable business environment, availability of credit from the financial institutions and increase in investment opportunities in the country.

Lesotho

key figures

- Land area, thousands of km²: 30
- Population, thousands (2008): 2 049
- GDP per capita, PPP valuation, USD (2008): 1 542
- Life expectancy (2008): 45.2
- Illiteracy rate (2008): 45

Lesotho


FREE STATE
SOUTH AFRICA
KWAZULU NATAL
SOUTH AFRICA
EASTERN CAPE
Butha-Buthe
Maputsoe
Leribe
(Hlotse)
Peka
Mapoteng
Teyateyaneng
MASERU
Mazenod
Roma
Mokhotlong
Thaba
Tseka
Mantsonyane
Morija
Tsa-Kholo
Sehonghong
Mafeteng
Semonkong
Sehlabathebe
Mohale's Hoek
Qacha's Nek
Mount
Moorosi
Quthing
Airport
Main Road
National Capital (210 000 In. 2007)
Main city
other main city
0 km
12.5
25
37.5 km

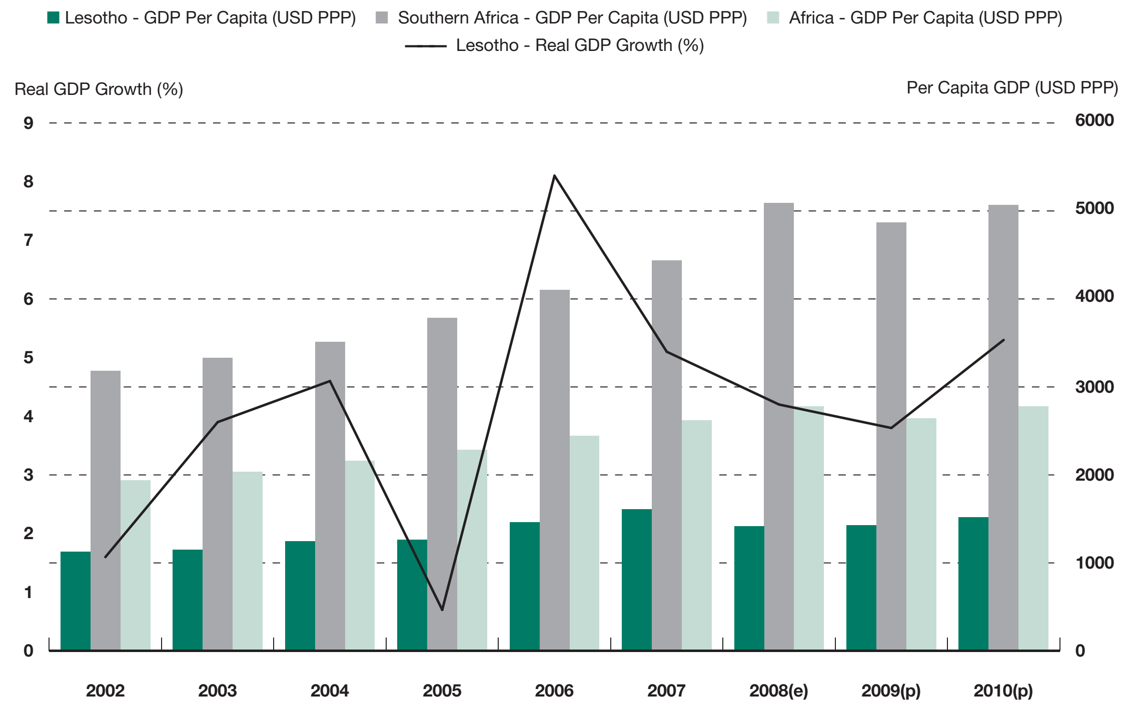
LESOTHO'S ECONOMIC GROWTH IN 2008 is estimated to have fallen to 4.2 per cent from 5.1 per cent in 2007. The slowdown is due, in part, to the global financial and economic crisis but high inflation driven by soaring food and oil prices has also played a role. Growth is expected to fall further to 3.8 per cent in 2009 before picking up to 5.3 per cent in 2010.

Lesotho's financial sector is small and relatively isolated from the global capital markets but the crisis has been felt through its very important links to South Africa. Lesotho's currency, the loti, is pegged to the South African rand and has weakened as international investors have cut their positions in emerging markets.

The sharp drop in commodity prices has reduced demand for labour in South Africa and put pressure on remittances, a key source of income for Lesotho. Exports to key developed country markets are also likely to contract due to the global slump. The downturn in the United States in particular has already impacted clothing and textiles exports, with 42 000 jobs at risk. The government, however, has continued to strengthen capacity in the textiles sector while exploring other market opportunities in Asia and Africa.

The business climate is improving, but the global crisis has hurt exports.

Figure 1 - **Real GDP Growth and Per Capita GDP**
(USD/PPP at current prices)



Source: IMF and Bureau of Statistics data; estimates (e) and projections (p) based on authors' calculations.

StatLink http://dx.doi.org/10.1787/570167541406

Lesotho's ranking in the World Bank's *Doing Business* survey improved from 144 out of 181 countries in 2007 to 123 in 2008, reflecting some progress in the investment climate. The telecommunications sector is open to competition under an independent regulator.

HIV/AIDS poses a serious challenge and the government has made the fight against the disease a major priority among its Millennium Development Goals (MDGs). HIV/AIDS, coupled with human capacity constraints in education, will continue to impact service delivery and productivity in the public sector.

With immediate and sustained action to address these challenges, Lesotho has the potential to boost economic growth and reduce poverty. Lesotho's prudent macroeconomic policies, its commitment to regional co-operation and opportunities in the diamond mining sector offer prospects for future growth and poverty reduction.

Recent Economic Developments

New diamond mines, which opened in 2004 and 2005, continued to make significant contributions to Lesotho's economic growth. However, manufacturing came under pressure in the second half of 2008 as consumer demand in the United States weakened. It is estimated that textiles, footwear and leather products output will contract 10.7 per cent for the whole year, compared with an increase of 5.1 per cent in 2007. GDP growth is expected to fall to 4.2 per cent in 2008 from 5.1 per cent in 2007, slipping to 3.8 per cent in 2009 before recovering to 5.3 per cent in 2010. Inflation will likely have peaked in 2008 as oil and food prices jumped, with price pressures expected to ease thereafter, giving the economy some relief.

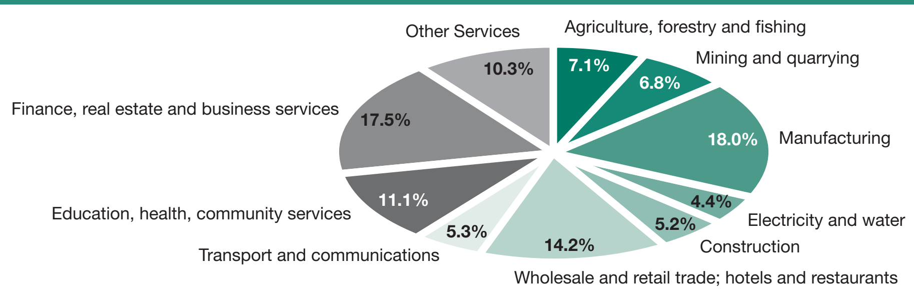
Manufacturing accounted for 18 per cent of GDP in 2008, mostly textiles for export. Manufacturing's share is expected to fall in 2009 due to weaker demand as a result of the global financial crisis. To avoid further deterioration in this key industry, the government plans to take equity in some of textile companies and to facilitate trade finance.

The share of agriculture in GDP has fallen steadily. It was estimated at 7.1 per cent in 2008, down from 11.4 per cent 10 years earlier. In contrast, the share of mining has risen, to 6.8 per cent of GDP in 2008 from less than 1 per cent a decade ago.

Construction activity remained robust in 2008 as a result of ongoing road projects. Diamond mining was generally resilient in the face of the global financial crisis through to September 2008. Activity in this sub-sector has contributed to the increase in capital formation, put at 24.3 per cent of GDP in 2007. Growth in the tertiary sector is projected to fall to 2.5 per cent in 2008, driven by a slowdown in financial intermediation.

Tourism presents an important opportunity for Lesotho to diversify, especially in view of the 2010

Figure 2 - **GDP by Sector in 2008** (percentage)



Source: Authors' estimates based on Bureau of Statistics.

StatLink http://dx.doi.org/10.1787/571841578717

Table 1 – **Demand Composition**

	Percentage of GDP (current prices)		Percentage changes, volume			Contribution to real GDP growth		
	2000	2007	2008(e)	2009(p)	2010(p)	2008(e)	2009(p)	2010(p)
Gross capital formation	**42.1**	**24.3**	**4.3**	**4.2**	**5.2**	**1.2**	**1.2**	**1.5**
Public	3.2	3.7	6.0	5.0	6.0	0.3	0.2	0.3
Private	38.9	20.6	4.0	4.0	5.0	1.0	1.0	1.2
Consumption	**143.7**	**132.8**	**2.2**	**2.6**	**1.1**	**2.9**	**3.2**	**1.3**
Public	34.3	33.8	2.5	3.5	4.5	1.0	1.4	1.7
Private	109.4	99.0	2.1	2.1	-0.5	1.8	1.9	-0.4
External demand	**-85.8**	**-57.1**				**0.1**	**-0.6**	**2.5**
Exports	32.3	55.6	2.3	0.9	6.5	1.5	0.6	4.2
Imports	-118.0	-112.8	1.2	0.9	1.4	-1.4	-1.1	-1.7
Real GDP growth						**4.2**	**3.8**	**5.3**

Source: Data from Bureau of Statistics; estimates (e) and projections (p) based on authors' calculations.

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FIFA World Cup in South Africa. However, tourist industry growth still lags behind other sectors and the government will need to provide support to improve infrastructure and management.

Macroeconomic Policies

Fiscal Policy

Lesotho continues to run budget surpluses, a trend that began five years ago. The surplus reflects a combination of large increases in revenue, mainly from customs, and restrained spending. A strong economic performance in the Southern African Customs Union (SACU) region has led to an increase in the customs revenue pool and correspondingly higher transfers to member countries. SACU transfers to Lesotho could amount to 36.6 per cent of GDP in 2008.

In addition to higher customs revenue, other tax and non-tax income has risen, partly due to continued efficiency gains in tax collection following the establishment of a semi-autonomous revenue collecting authority in 2003. Income tax, the second largest revenue item, increased 26.6 per cent in fiscal 2007/08 in line with rising income levels. Income tax and Value Added Tax (VAT) collections continued to grow in the first nine months of 2008 and could close the year higher than 2007 levels. For fiscal 2008/09, total revenues are estimated at 84.9 per cent of GDP, falling to around 70 per cent in the two following years.

Total expenditure for 2008/09 is estimated at 74.1 per cent of GDP, significantly higher than 48.3 per cent in 2007/08. Current spending is expected to account for 61.6 per cent of GDP in 2008/09, up from 41 per cent in 2007/08. Capital expenditure is expected to grow from 7.3 per cent of GDP in 2007/08 to 12.5 per cent in 2008/09. Beyond 2008/09, total expenditure will remain above trend because of government efforts to offset the impact of the global slowdown.

The primary balance has been in surplus in recent years. It reached 15.2 per cent of GDP in 2007/08 and is expected to fall to 14.5 per cent in 2008/09. The overall balance also maintained a strong surplus position due to low interest payments. It is expected to decline from a surplus of 12.1 per cent of GDP in 2007/08 to 10.8 per cent in 2008/09 before rising again in the next two years.

In the medium term, the public finances are expected to strengthen. However, SACU revenue may decline in 2009 and beyond due to a contraction in

Table 2 - **Public Finances** (percentage of GDP at current prices)

	2000/01	2005/06	2006/07	2007/08	2008/09 (e)	2009/10 (p)	2010/11 (p)
Total revenue and grants[a]	**48.3**	**51.7**	**49.9**	**60.4**	**84.9**	**70.1**	**72.0**
Tax revenue	37.3	43.6	43.8	54.3	72.9	59.1	60.6
Grants	2.6	2.7	0.9	0.9	3.2	5.0	5.4
Total expenditure and net lending[a]	**55.0**	**42.8**	**47.0**	**48.3**	**74.1**	**54.9**	**55.4**
Current expenditure	45.5	34.6	39.3	41.0	61.6	44.6	44.5
Excluding interest	*41.8*	*32.8*	*36.9*	*38.0*	*57.9*	*43.5*	*43.8*
Wages and salaries	16.5	13.9	13.8	12.8	21.0	14.1	13.7
Interest	3.6	1.8	2.5	3.0	3.7	1.1	0.7
Capital expenditure	9.5	8.2	7.7	7.3	12.5	10.3	11.0
Primary balance	**-3.1**	**10.7**	**5.4**	**15.2**	**14.5**	**16.3**	**17.3**
Overall balance	**-6.7**	**8.9**	**2.9**	**12.2**	**10.8**	**15.2**	**16.6**

a. Only major items are reported.
Source: Data from Central Bank of Lesotho and Ministry of Finance; estimates (e) and projections (p) based on authors' calculations.

StatLink http://dx.doi.org/10.1787/577377046431

demand for capital and consumer goods in the group. Revenue could also drop due to trade policy reforms and a possible revision of the SACU revenue formula. New instruments will be needed to make up for any loss in revenue. In 2009 and 2010, Lesotho is expected to receive more grants to support activities associated with some of its social challenges such as HIV/AIDS as well as assistance to resolve structural problems revealed in the global financial and economic crisis.

Monetary Policy

Lesotho maintains a fixed exchange rate system under the Common Monetary Area (CMA), where the loti is pegged at parity to the South African rand and the two are both legal tender in the domestic economy. Lesotho's economy is closely linked to South Africa's.

Lesotho's inflation is sensitive to food price movements, with food having a 39.4 per cent weighting in the consumer price index (CPI) basket. Good rains and relative political stability in the region resulted in a low inflation rate of 3.5 per cent in 2005 but it has risen sharply since then due to a combination of drought, regional tensions, increasing global demand for cereals and rising oil prices. Food inflation spiked from 2.7 per cent in 2005 to a peak of 16.5 per cent in September 2008. Overall inflation reached 8 per cent in 2007 and 10.7 per cent in 2008. It is expected to slow to 9.8 per cent and 7 per cent in 2009 and 2010 as food and oil prices ease.

The fixed exchange rate system ties the country to South African monetary policy. The Central Bank of Lesotho (CBL) uses open market operations to control liquidity in the domestic banking sector and to maintain an adequate level of reserves to support the rand-loti peg. In September 2008, the CBL reformed the government securities market with the aim of increasing participation and competition. The number of instruments was increased from two (91- and 182-day Treasury bills) to four by the introduction of 273-day and 364-day securities. Fortnightly auctions and non-competitive bidding were introduced for all maturities. In addition, the threshold for competitive bidding was lowered from LSL 250 000 (Lesotho lotis) (USD 28 250) to LSL 100 000 (USD 10 150). The market responded well to the new reforms, with most auctions over-subscribed and Treasury bill rates moving in line with interest rates on similar instruments in the CMA region. The exchange rate is expected to appreciate in 2009 and 2010 as risk aversion to emerging markets starts to diminish.

A real-time settlement system was introduced and successful bids are now settled electronically through bank accounts. Funds from maturing securities are deposited directly into customers' bank accounts. The use of cheques and settlement of successful bids by direct cash payment to the CBL have been abolished.

To encourage development of the secondary market, sale of securities prior to maturity will only be allowed to other investors. Selling to the issuer, the CBL, is allowed only when a quarter of the term of the security is left before maturity.

The CBL continues to maintain adequate foreign reserves, estimated at more than USD 1 billion as of September 2008, double its minimum target. SACU receipts and diamond exports have supported the build-up of the reserves which have been maintained at a level in excess of six months of imports in recent years. As of the third quarter of 2008, reserves were estimated at eight months of imports. Ongoing trade liberalisation in the region, which could reduce customs revenue, and possible increases in foreign currency outflows, may lead to a decline in the level of official reserves in the coming year.

Nominal money supply grew 16 per cent in 2007 and maintained the same pace through to September 2008. The money supply growth rate is generally consistent with the 14.6 per cent increase in nominal GDP for 2007 and the projected 13.5 per cent for 2008, and so should not increase inflationary pressures. Private sector credit grew 32 per cent as of September 2008. Net claims on the government remained negative and continued to fall.

Interest rates trended higher in 2008 due to attempts by regional monetary authorities to contain inflation. The average prime lending rate at Lesotho's commercial banks was 16.58 per cent in September, up from 15.42 per cent in December 2007. Commercial banks in South Africa raised their prime rates by 100 basis points during the same period. Deposit rates also rose in 2008 but the increase was smaller and they remained below the rate of inflation.

The growth in private sector credit reflects continued strong demand in the economy despite higher interest rates and the impact of the global financial crisis. However, credit extension is still low, standing at 39.4 per cent of private sector deposits as of the third quarter of 2008. This low level means that the commercial banks tend to hold large amounts of liquid assets, resulting in strong demand for government securities.

Prior to the global crisis, Lesotho's financial sector was tested by a proliferation of pyramid schemes. At the end of 2007, the CBL applied to the courts to close two of the most important groups involved. The larger of the two had liabilities equivalent to 3.3 per cent of GDP in 2007 and its potential bankruptcy threatened the financial system and the economy as a whole. The CBL has won most of the ensuing legal battles and intends to file applications for the liquidation of the groups. Depositors in the institutions involved have not received their monies and no decisions have been made on possible reimbursement so far. In addition, a loophole in financial regulations allowed credit co-operatives to take deposits from non-members even though they were not licensed to do so and were not supervised by the CBL. This resulted in the emergence of weakly supervised deposit-taking institutions and unscrupulous operators who exploited legal grey areas. The problems highlighted the need for closer co-ordination between the Department of Co-operatives and the CBL, and revisions to relevant legislation. A draft of a revised financial supervision law was completed in 2008 and will be discussed by Parliament in 2009. It includes provisions to improve corporate governance by introducing a section on the composition, selection and duties of boards of directors. It also specifies minimum capital requirements for different categories of financial institutions.

The four commercial banks, three of which are foreign-owned, continued to be adequately capitalised and profitable. Their combined assets were equal to an estimated 46 per cent of GDP at end-2008. Credit extension remains limited and is concentrated among a very small number of borrowers. State-owned Postbank operates on a limited licence that prohibits the extension of credit. Plans are underway, however, to use this bank as a vehicle for rural financial intermediation in the coming year. The insurance industry consisted of five insurance companies and 26 brokers in 2008.

External Position

Lesotho ran a balance of payments surplus in 2008 and is expected to do so again in 2009 and 2010. The surplus reflects increases in current transfers and exports as well as net inflows on the capital and financial accounts.

The current account surplus is estimated to show a deficit equal to 4.5 per cent of GDP in 2008, a sharp reversal from the surplus of 12.6 per cent in 2007. Strong diamond and textiles exports in the first half bolstered the trade balance but import growth outpaced export gains, leading to a rise in the overall trade deficit. The current account may experience some pressure in

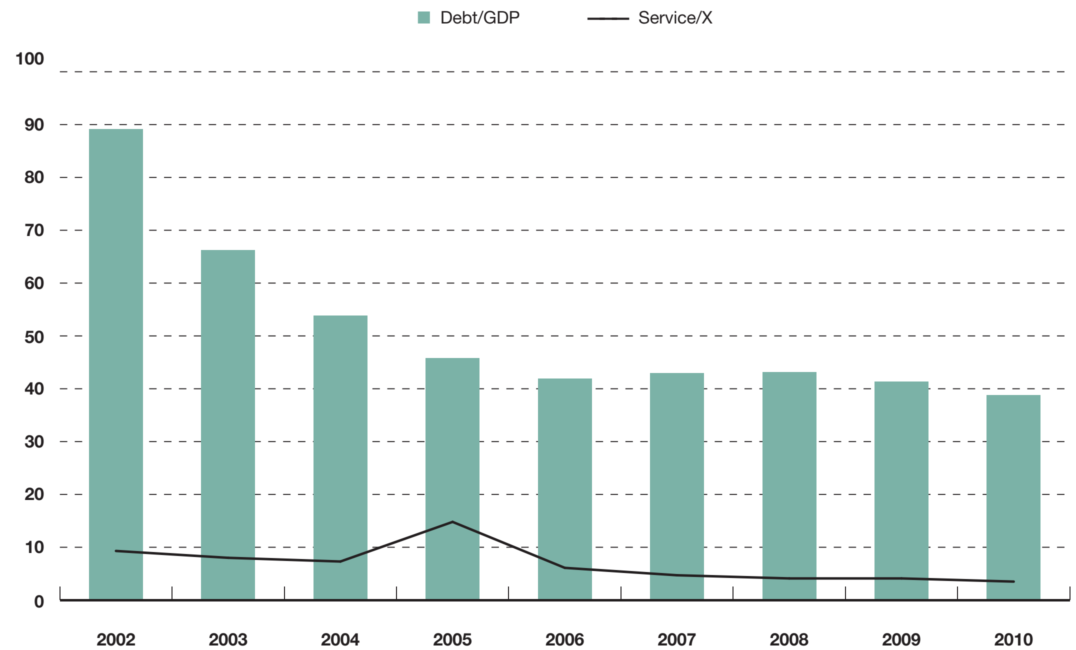
Table 3 - **Current Account** (percentage of GDP at current prices)

	2000	2005	2006	2007	2008(e)	2009(p)	2010(p)
Trade balance	-65.9	-47.7	-44.0	-47.8	-55.9	-62.6	-52.9
Exports of goods (f.o.b.)	27.0	47.3	46.1	48.1	55.2	58.4	55.8
Imports of goods (f.o.b.)	92.9	95.0	90.1	95.9	111.1	121.0	108.7
Services	0.0	-3.7	-2.4	-2.0	-2.0	10.5	1.4
Factor income	28.8	22.1	25.1	25.0	22.0	25.4	21.6
Current transfers	17.2	21.8	25.7	37.5	31.4	35.6	31.4
Current account balance	**-19.9**	**-7.5**	**4.3**	**12.6**	**-4.5**	**8.9**	**1.4**

Source: Data from Central Bank of Lesotho; estimates (e) and projections (p) based on authors' calculations.

StatLink http://dx.doi.org/10.1787/578677161886

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



Source: IMF.

StatLink http://dx.doi.org/10.1787/573380464600

2009 and 2010 due to the recent closure of one diamond mine and weakened external demand for textiles. However, SACU receipts should continue to grow, albeit at a slower pace, and the current account is expected to return to surplus in 2009 and 2010.

The capital and financial account showed a surplus of 7.1 per cent of GDP in 2007 and continued gains through to the third quarter of 2008. The account is typically driven by grants accruing to the government, direct investment and changes in commercial banks' external assets.

External debt levels have improved, dropping from 44.6 per cent of GDP in 2006 to 41.2 per cent in 2007 and declining further in the period to September 2008 as the government used part of its surplus to repay loans. Further progress could be dampened by loti depreciation.

As a SACU member, Lesotho has worked towards trade liberalisation since the early 1990s. SACU concluded negotiations on three trade agreements in 2008 and implementation will be finalised in 2009. The SACU–EFTA Free Trade Agreement (FTA) came into effect on 1 May 2008. Negotiations between SACU and MERCOSUR for a preferential trade agreement (PTA) were also concluded in 2008, with signing due in 2009. A Trade, Investment and Development Co-operation Agreement (TIDCA) between SACU and the United States was signed in July 2008.

Lesotho is a member of the Southern African Development Community (SADC) and an SADC Free Trade Area was established in 2008. Lesotho is part of the SADC Economic Partnership Agreements (EPAs) negotiating group.

Lesotho enjoys preferential access to the United States under the Generalised System of Preferences (GSP). The African Growth and Opportunity Act (AGOA) of 2000 expanded duty-free access to textiles and apparel products, and renewed the GSP until 2015. Lesotho also has preferential access to the Canadian market and generous GSP access to Japan and the Nordic countries.

Structural Issues

Private Sector Development

The government recognises the importance of private sector development as an engine of growth. Lesotho's ranking in the World Bank Ease of Doing Business survey improved from 144 out of 181 countries in 2007 to 123 in 2008. Areas requiring further progress include administrative procedures, investor protection, contract enforcement and permits. To reduce moral hazard and increase the commercial banks' willingness to extend loans, a credit bureau will be set up and national identity cards issued. A commercial court will be established and a case management system introduced. An automated clearing house is expected to improve the conduct of business through the speedy settlement of payments, reduced transaction costs and increased confidence in administration. The government also aims to improve land policy, resulting in systematic regulation of urban and suburban areas. As more owners obtain full and clear legal title to their land, they can more easily pledge their property as loan collateral.

In 2008, the government also embarked on a major reform programme, developed with the World Bank and other donors, to remove legal and regulatory impediments to private sector growth, to improve access to credit and to increase the participation of women in the economy.

Other Recent Developments

Lesotho signed the Millennium Challenge Compact (MCC) with the United States in July 2007. The MCC seeks to assist Lesotho in removing impediments to both private sector-led growth and increased regional trade. The MCC is expected to run for five years and cost USD 363 million. Water resource projects in the programme account for some 45 per cent of the total funding, with 34 per cent spent on health schemes and 10 per cent on private sector development.

The MCC water project focuses on improving the provision of water to industry and households in the lowlands. The Metolong Dam will be developed to supply garment and textile operations, helping create employment over the longer term. It will also extend and rehabilitate water networks in urban and suburban areas, benefiting more than 300 000 people. Ventilated improved toilets (VIP) and water systems will improve household sanitation services. The project also includes a wetlands restoration and conservation programme in the highlands.

The health sector project seeks to remedy the negative effects of poor maternal health, HIV/AIDS and tuberculosis by strengthening healthcare infrastructure. It includes the renovation of 150 health centres, setting up anti-retroviral therapy (ART) clinics and building a new central laboratory and blood collection facility.

Innovation and ICT

The information and communication technologies (ICT) sector comprises fixed and mobile telecommunications, broadcasting, multimedia and the Internet, which feed into other key sectors such as the postal service, banking and e-commerce. Policy agreed in 2005 aims to develop ICT in support of Lesotho's poverty reduction agenda. It focuses on wealth creation, promoting universal access, effective regulation, developing human resources capacity in ICT and coherent implementation.

The Lesotho Telecommunications Authority (LTA) is the independent regulator for telecommunications, broadcasting, radio frequencies and postal services. Its main goals are the development of reliable ICT services, promoting competition and human resources capacity in the industry, and ensuring high quality services.

Telecom Lesotho is the sole fixed-line operator, with a telephone penetration rate of 2.53 per cent as of March 2008. Telecom Lesotho was privatised in 2001, with Mountain Kingdom Communications holding 70 per cent and the Lesotho government 30 per cent. The company provides voice and Integrated Services Digital Network (ISDN) services alongside data network platforms to support broadband and Internet access. The roll-out of wireless local area networks and Wifi services has begun. In 2007, Asymmetric Digital Subscriber (ADSL) was introduced to support faster data transmission but it is limited to areas in Maseru.

Mobile operators dominate the telecoms market, counting more than 482 000 subscribers as of March 2008 compared with 47 500 for fixed line services. The mobile penetration rate at 25.65 per cent, however, is still below the African average.

The main mobile operators are Vodacom Lesotho and Econet Ezicel Lesotho. Vodacom Lesotho is nearly 90 per cent owned by Vodacom, with the remainder held by Sekha-Metsi, a local company. It has a market share of 80 per cent, increasing its customer base by 35.7 and its profits by 47.1 per cent between 2006 and 2007. Vodacom provides pre-paid and contract services that are accessible in all towns. Econet is registered in Botswana but based in South Africa. It operates in Africa, Europe and the East Asia Pacific Rim. Its presence in Lesotho has brought some competition and product diversification to the mobile sector. Econet provides mobile telephony, Internet and satellite services. Bethlehem Technologies has an international gateway providing data services and has recently been licensed as a third network operator.

Lesotho has made progress in improving ICT, setting up an independent regulator and allowing some level of competition. However, mountainous terrain, power outages, poor overall infrastructure and signal spillage from South Africa pose a challenge. Access is a key issue. Starting from a low base, penetration rates for both mobile and fixed lines are expected to rise in 2009 and 2010.

Political Context

Lesotho is a constitutional monarchy under King Letsie III, with a bicameral legislature of a Senate and a National Assembly elected since 2002 under a mixed first-past-the-post and proportional representation system. The prime minister, commanding a majority in Parliament, is formally appointed by the King. Prime

Minister Bethuel Pakalitha Mosisili has been in office since 1998. His Lesotho Congress for Democracy (LCD) won the most seats in the last general election in 2007 but the major opposition parties challenged the outcome, especially over its proportional representation seats in parliament. In an effort to resolve the resulting political impasse, the SADC named former Botswana president, Sir Ketumile Masire, to mediate. Despite the problems, the government has been able to press ahead, helped by growing splits among the opposition parties.

Social Context and Human Resource Development

The government has collaborated with its development partners to improve human resources. The Free Primary Education (FPE) programme was started in 2000 and will ultimately cover all primary and secondary education. Primary education is free and students receive free meals while at school. Secondary school fees are partly subsidised and a rental scheme provides books for students. FPE is expected to boost the long-run economic potential of the country by improving skills while allowing poor households to use the savings from school fees for basic needs such as food. The programme has directly boosted economic activity through the construction of schools and large increases in the number of teachers. It has a direct impact on poverty reduction by outsourcing meal provision to local providers and feeding children in school. Education accounted for 20.1 per cent of expenditure in the last budget, the single biggest commitment.

A university of technology, Limkokwing, was established in October 2008 to provide a local training facility in fields such as software engineering and industrial design. It is Lesotho's second university. In addition, the People's Republic of China has offered scholarships to Lesotho students for study in China in subjects such as economics and computer engineering.

The government recently secured into an agreement with Nigeria to train doctors and the first 20 students went there in November to begin medical school. In subsequent years, medical students will train for the first three years at the National University of Lesotho before completing their studies in Nigeria. Such education partnerships will complement Lesotho's own funding of college students.

Alarmed by a drastic decline in indicators, the government has made health, especially HIV/AIDS, a priority MDG. The prevalence rate for HIV/AIDs in the population aged 15-49 is 24 per cent. The impact is clear and dramatic — life expectancy plunged from 60 years in 1996 to 34 years in 2005, according to the United Nations Children's Fund (UNICEF).

One of the major challenges in the health sector is human resources. Lesotho has difficulty retaining doctors and nurses attracted by opportunities abroad in the face of poor local working conditions. Salary levels, working conditions and supervision and career management structures are key issues in retaining staff.

Liberia

key figures

- Land area, thousands of km²: 96
- Population, thousands (2008): 3 793
- GDP per capita, PPP valuation, USD (2008): 358
- Life expectancy (2008): 58.3
- Illiteracy rate (2008): 45

Liberia

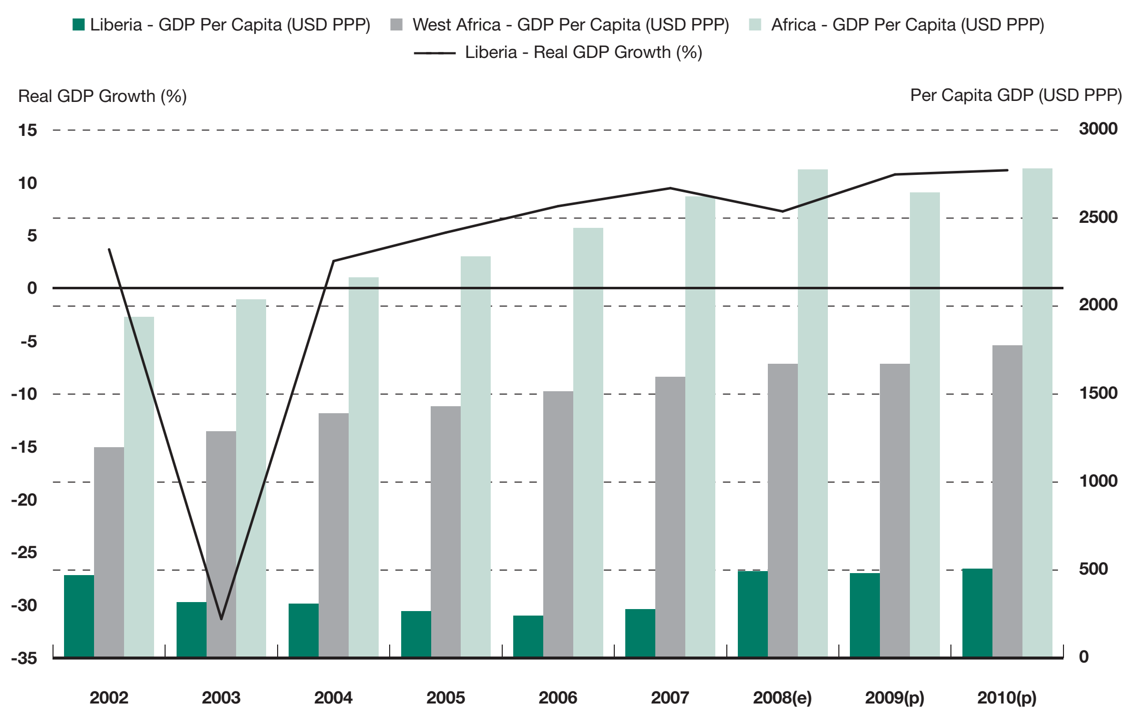
SIERRA LEONE
GUINEA
COTE D'IVOIRE
Sanniquellie
Gbarnga
Tubmanburg
Harbel
MONROVIA
Buchanan
Zwedru
Harper
NORTH ATLANTIC OCEAN
Commercial Port
Petroleum Port
Fishing Port
Airport
Main Road
National Capital (1 041 000 In. 2007)
over 10 000
0 km
25
50
75 km

Liberia has continued to make progress in overcoming the devastating effects of years of civil conflict. The country has shown signs of economic recovery and progress in attaining political stability, reconciliation, peace and national security. Liberia's real Gross Domestic Product (GDP) is estimated to have grown by 7.3 per cent in 2008. That growth is directly related to the resumption of forestry operations; increased diamond and gold exports; higher production of rice; and the continued vibrancy of the services and construction sectors. At the same time, government sources report that the global financial crisis has adversely affected Liberia in a number of ways: a drop in rubber prices of over 63 per cent between October 2008 and January 2009, the loss of income by the Central Bank of Liberia (CBL) from reduced interest rates on its foreign deposits, a fall in inward workers' remittances from USD 303.3 million (US dollars) at the end of 2007 to USD 181 million at the end of November 2008; salary cuts and lay-offs especially on large rubber plantations and a reduction in both continuing and planned investments. The government has responded by proposing a number of specific tax cuts and a USD 2 million guarantee fund to assist Liberian entrepreneurs.

The country is recovering from the devastating civil war, but the global crisis poses a threat to its renewed growth.

Liberia is not immune from the effects of the global food crisis. In 2008 separate reports by the African

Figure 1 - **Real GDP Growth and Per Capita GDP**
(USD/PPP at current prices)



Source: IMF and Liberia Institute of Statistics and Geo-Information Services data; estimates (e) and projections (p) based on authors' calculations.

StatLink http://dx.doi.org/10.1787/570178143277

Development Bank (AfDB) and the humanitarian organisation Action Against Hunger/Action Contre la Faim (ACF) classified Liberia as highly vulnerable to the crisis because of its overdependence on food imports, its government structures, the health of its local food markets, low living standards, its degree of urbanisation and its cereal balance. The government is attempting to address this last issue with a multidimensional food security programme.

The surge in fuel prices in 2008 also took a toll on the country. In response, the government raised the official price of petroleum products by an average of USD 0.60 per gallon to avoid hoarding and shortages that would lead to artificially high prices, reduced the import duty and goods and services tax on larger buses, and made provisions to add buses to the Monrovia Transport Authority's (MTA) fleet to soften the effects of high oil prices.

The outlook for 2009 and 2010 is encouraging in spite of the global financial crisis and the volatility of global food and energy prices. GDP growth is projected to rise to about 10.8 per cent in 2009 and 11.2 per cent in 2010. Nevertheless, the Liberian economy still faces a number of challenges. These include high unemployment, a huge debt burden, high levels of poverty, social tensions and a plague of crop-destroying pests.

In April 2008 the government finalised Liberia's Poverty Reduction Strategy (LPRS), covering the period April 2008 to June 2011. The LPRS is built on four pillars: *i)* consolidating peace and security; *ii)* revitalising the economy; *iii)* strengthening governance and the rule of law; and *iv)* rehabilitating infrastructure and delivering basic services. All four pillars are critical for establishing the foundations for sustained growth and development, and actions taken in connection with one pillar reinforce actions taken in connection with others. The total cost of implementing the LPRS is estimated at USD 1.6 billion.

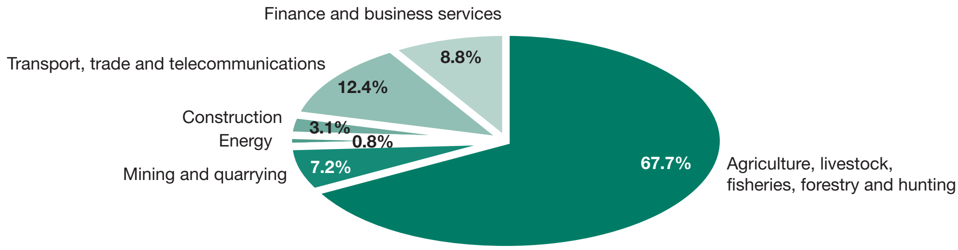
The LPRS builds on the government's comprehensive strategy for enhancing growth and reducing poverty that was encapsulated in the first 150-day action plan that covered the period from February to June 2006 and the Interim Poverty Reduction Strategy Paper (IPRS) that spanned the period July 2006 to June 2008. The LPRS policy objectives and priorities are linked to the Millennium Development Goals (MDGs). However, the document emphasised that Liberia may be unable to achieve most of the MDGs by the year 2015 because of the legacy of conflict in the country.

Recent Economic Developments

After declining by over 30 per cent in 2003 real GDP increased by 5.3 per cent in 2005 and 7.8 per cent in 2006. The recovery was fuelled by post-civil war construction, supported by large contributions from the donor community geared to the social services sector and the reconstruction of basic infrastructure. In 2007 real GDP growth reached 9.5 per cent, reflecting improvements in security in rural areas and continued construction. Real GDP growth is estimated at 7.3 per cent in 2008, driven by construction, the recovery in the agricultural and forestry sectors, and donor-funded expenditures in the country. Growth is projected to reach about 10.8 per cent in 2009 and 11.2 per cent in 2010. Weak external demand for the country's main export commodities and smaller flows of remittances and foreign direct investment (FDI) are potential threats to economic growth in 2009 and 2010.

Agriculture remains the mainstay of the Liberian economy. The sector accounted for about 61 per cent of aggregate GDP in 2007. Growth in the agricultural sector was driven by the production of rubber and timber and by donor assistance to subsistence farmers. Unfortunately, it also continues to witness seasonal rainfall problems, poor infrastructure and inadequate supplies of seeds and seedlings. But the major threat to the agricultural sector and livelihood of Liberians in 2009 is the destruction of crops by caterpillars (identified as *Achaea catocaloides*). Over 400 000 residents in more than 100 villages have been affected by the pests, which also contaminate water supplies with their droppings. The government has responded by declaring a state of emergency, spraying affected areas with pesticides, and providing water and food to the most vulnerable and displaced.

Figure 2 - **GDP by Sector in 2007** (percentage)



Source: Authors' estimates based on Liberia Institute of Statistics and Geo-Information Services data.

StatLink http://dx.doi.org/10.1787/571858838135

Manufacturing was the second largest sector in the economy with a 13 per cent share of GDP in 2007. There is considerable potential for expanding manufacturing activities. Almost all of Liberia's resources are exported raw with no value added. Adding value to these resources will not only stimulate growth in the economy but will also lead to reductions in unemployment and contribute to national income. The potential of the sector is being underutilised, because of an inadequately trained labour force, the high cost of raw materials, an inadequate power supply and damaged infrastructure.

The share of the service sector in GDP was 26 per cent in 2007. Growth in the sector was mainly based on increased activity in the construction, transportation and communications, and trade and hotels sub-sectors. The construction sector grew because of the reconstruction activities taking place in the country. Before the conflict, mining used to be one of the key drivers of economic growth and accounted for about 25 per cent of GDP. However, in 2007 the sector's contribution to total output was not considerable.

Although public investment increased by 19 per cent in 2008, private investment and private consumption remain the chief drivers of real GDP, contributing 4.2 per cent and 5.3 per cent to real GDP growth in 2008 (Table 1). The strong contributions of private investment are projected to continue for the next

Table 1 – **Demand Composition**

	Percentage of GDP (current prices)		Percentage changes, volume			Contribution to real GDP growth		
	2000	**2007**	**2008(e)**	**2009(p)**	**2010(p)**	**2008(e)**	**2009(p)**	**2010(p)**
Gross capital formation	**23.5**	**69.8**	**7.1**	**7.2**	**13.5**	**8.0**	**8.1**	**14.8**
Public	12.7	12.5	19.0	16.0	13.5	3.9	3.6	3.2
Private	10.8	57.3	4.5	5.0	13.5	4.2	4.5	11.6
Consumption	**78.3**	**100.4**	**6.2**	**6.0**	**5.5**	**7.4**	**7.1**	**6.2**
Public	20.9	30.1	5.0	5.4	5.1	2.1	2.2	2.0
Private	57.4	70.3	6.9	6.4	5.7	5.3	4.9	4.2
External demand	**-1.8**	**-70.2**				**-8.2**	**-4.5**	**-9.8**
Exports	30.1	50.4	5.9	1.4	8.8	3.6	0.8	4.8
Imports	-31.9	-120.6	6.1	2.8	8.2	-11.8	-5.3	-14.6
Real GDP growth						**7.3**	**10.8**	**11.2**

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

StatLink http://dx.doi.org/10.1787/575856643411

two years. The impressive contribution of private investment was driven by the banking and forestry sectors. The external sector was characterised by strong imports that continued to dampen economic growth. However, with the start of full operations in the mining and forestry sectors in 2010, exports are expected to contribute 4.8 percentage points to the projected 11.2 per cent increase in real GDP.

Macroeconomic Policies

Fiscal Policy

With the support of donor agencies, the government has continued to implement a wide range of measures to improve fiscal management, accountability and the rate of budget execution to support macroeconomic stability. These measures include limiting transfers between budget lines without legislative approval to a cumulative total of no more than 20 per cent; merging the Bureau of Budget (BoB) into the Ministry of Finance (MoF) as a key step toward overcoming the segmentation of budget preparation and execution; improving tax and customs administration, including the reorganisation of tax administration; the revision of tax rates; the elimination of non-cash payments; the strengthening of pre-shipment inspection and automation of tax and customs administration; and implementing a cash-based balanced budget.

The government is committed to a phased implementation of the Common External Tariff (CET) of the Economic Community of West African States (ECOWAS) by 2012 and plans to begin this process in 2009 by adopting the ECOWAS tariff book and reducing rates that are above the CET. In 2008 the government prepared a detailed Medium Term Fiscal Framework (MTFF) template that captures most of the fiscal activities under the Poverty Reduction Growth Facility (PRGF) programme. The MTFF will serve as a first step toward introducing a medium term perspective to budget preparation over a multiyear period. At the top of the government's agenda for 2009 is the opening of a one-stop customs facility in the port of Monrovia that will streamline customs operations and house representatives from customs, the port authority, the pre-shipment inspection (PSI) companies and the CBL.

The World Bank already provides support to the government to strengthen the capacity of its Public Financial Management Unit (PFMU) and this support is expected to continue through the Economic Governance and Institutional Reform Project (EGIRP). The AfDB has agreed to provide approximately

Table 2 - **Public Finances** (percentage of GDP at current prices)

	1999/2000	2005/06	2006/07	2007/08	2008/09	2009/10(e)	2010/11(p)
Total revenue and grants[a]	**15.0**	**17.6**	**19.1**	**29.3**	**23.4**	**27.5**	**26.6**
Tax revenue	13.1	16.6	18.1	27.7	19.1	23.4	21.0
Grants	1.1	0.2	0.2	0.3	0.7	1.0	2.8
Total expenditure and net lending[a]	**14.7**	**16.7**	**16.4**	**24.3**	**22.3**	**25.9**	**24.0**
Current expenditure	8.4	14.4	15.0	21.0	19.6	22.3	20.4
Excluding interest	*7.5*	*14.1*	*14.7*	*20.9*	*18.7*	*21.7*	*19.9*
Wages and salaries	3.2	9.3	7.3	8.0	7.7	8.3	7.7
Interest	0.9	0.3	0.3	0.1	0.8	0.6	0.6
Capital expenditure	6.3	2.3	1.4	3.3	2.7	3.7	3.6
Primary balance	**1.2**	**1.2**	**3.0**	**5.1**	**1.9**	**2.2**	**3.1**
Overall balance	**0.3**	**0.9**	**2.7**	**5.0**	**1.1**	**1.6**	**2.6**

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

StatLink http://dx.doi.org/10.1787/577378370523

USD 18 million in direct budget support to Liberia in fiscal years 2008/09 and 2009/10, which is to be used in strengthening public financial management. With the alignment of the 2008/09 budget to the Poverty Reduction Strategy, it is expected that a larger share of donor resources will be channelled through the budget.

Domestic revenues have consistently improved since 2006/07. The government attributes the increase to a general rebound of the economy, its own commitment to transparency and accountability, and the response to the policy measures it has put in place. Total revenues (excluding grants) have grown from about 18.1 per cent of GDP in 2006/07 to 27.7 per cent of GDP in 2007/08. They are estimated to decline to 19.1 per cent of GDP in 2008/09 and rebound in 2009/10 and 2010/11 as the result of revenues from forestry and mining and continued prudent fiscal management.

The government has successfully kept expenditures in line with revenues, consistent with its commitment to a cash-based budget. Government expenditure, estimated at 22.3 per cent of the GDP in 2008/09, is projected to increase to about 25.9 per cent of GDP in 2009/10 and fall marginally to 24 per cent of GDP in 2010/11. The government's fiscal policies resulted in an overall fiscal surplus that was equivalent to 2.7 per cent of GDP in 2006/07 and rose to 5 per cent of GDP in 2007/08. However, as a result of increased spending on infrastructure and the impact of the global financial crisis, the overall fiscal surplus is estimated to fall to 1.1 per cent of GDP in 2008/09 and rebound gradually in 2009/10 and 2010/11.

Monetary Policy

The monetary policy objective of the CBL is to maintain both price stability and the value of the Liberian dollar (LRD) against the US dollar (USD). Liberia's monetary policy is formulated by the CBL Money Management and Policy Review Committee (MMPRC), under the chairmanship of the executive governor of the CBL. The central bank continues to use foreign exchange auctions as its principal monetary policy instrument in affecting domestic monetary conditions.

As measured by the Harmonised Consumer Price Index (HCPI), the rate of year-on-year inflation averaged 11.4 per cent in 2007 and jumped to an average of 17.5 per cent in 2008. The higher inflation was due mainly to the sharp rise in world food and energy prices. It was also driven by structural factors, including the poor state of the economic infrastructure, the dilapidated condition of farm-to-market roads, inadequate farm inputs and the general shortage of some domestically produced food items.

The exchange rate of the LRD against the USD was relatively stable in 2007 at an average of LRD 61= USD 1. In 2008, however, the Liberian dollar depreciated to an average of LRD 63.5= USD 1 as a result of the global economic and financial crisis. The average lending rate declined marginally by 0.1 of a percentage point to 14.2 per cent in November 2008, from 14.3 per cent at the end of December 2007. The average personal loan rate also decreased to 14.4 per cent in 2008, from 14.9 per cent at the end of 2007. The broad money (M2) supply rose by 34.8 per cent from LRD 12 billion at the end of December 2007 to LRD 16 billion at the end of November 2008. The USD component accounts for 67.2 per cent of broad money, thus indicating a high degree of dollarisation in the economy. The high level of dollarisation is attributable to the fact that both Liberian and US dollars are legal tender in Liberia.

As of December 2008 the capital base of several operating banks in Liberia was above USD 6 million. This is in compliance with the CBL directive that the minimum required capital for banks operating in Liberia be raised from USD 2 million to USD 6 million by 31 December 2008. The minimum required capital will be raised to USD 8 million by the end of 2009 and USD 10 million by the end of 2010. As noted in the CBL's monetary policy stance for 2008, this policy directive is intended to make the Liberian banking system internationally competitive, create an incentive for banks properly and adequately to manage their risks, and put the banking system in a stronger position to help meet the financing needs of the economy. The banking industry capital adequacy ratio (CAR) was 21 per cent at the end of December 2008. The CAR exceeded the minimum legal requirement of 8 per cent by 13 percentage points as a result of the injection of additional capital by one new bank and the recapitalisation of the existing banks.

External Position

The current account deficit fell from 48.1 per cent of GDP in 2007 to 28.8 per cent of GDP in 2008 and is expected to decrease to 5.7 per cent in 2009 as a result of a drop in the trade deficit, a continued surplus in current transfers and a downward trend in the deficit on services and factor income. With an expected boost in exports in the timber and mining sectors, the current account is forecast to record a surplus in 2010 equivalent to 7 per cent of GDP. The export sector is dominated by rubber, which accounts for about 86 per cent of total exports. Historically, timber exports used to account for the largest share of export before the imposition of sanctions on log and diamond exports by the United Nations Security Council. Although the sanctions have been lifted, timber exports have yet to resume. However, Liberia's diamond exports resumed in September 2007 through the Kimberley Process Certification Scheme. Food and petroleum products account for an average of 50 per cent of Liberia's imports.

The LPRS emphasised the government's commitment not to engage in new external borrowing until Liberia's debt burden was reduced to a sustainable level. A comprehensive debt strategy has been developed and the institutional debt management capacity strengthened. Liberia has been able to clear arrears of debt owed to the major multilateral institutions and reached the Decision Point (or point at which interim debt relief is provided) under the Enhanced Heavily Indebted Poor Country Initiative (HIPC). The clearance of debt with these institutions paved the way for normalisation of relations with Liberia for the first time in nearly two decades. It is expected that Liberia will reach the HIPC completion point by 2010.

The arrears with the World Bank were cleared through a USD 400 million bridge loan, while arrears of USD 255 million with the AfDB were cleared through the AfDB's Post-Conflict Countries Facilities (PCCF). The arrears to the International Monetary Fund (IMF) were cleared through two financial arrangements totalling about USD 952 million: a USD 390 million Poverty Reduction Growth Facility (PRGF) arrangement and a USD 562 million Extended Fund Facility (EFF) arrangement. As of 22 December 2008, total disbursements under the PRGF amounted to about USD 331 million, while the EFF was fully disbursed by March 2008.

In April 2008, following the achievement of the Decision Point under the HIPC Initiative, Liberia reached agreement with the Paris Club creditors and received USD 254 million in immediate reductions. Liberia has received additional relief of over USD 850 million from the United States, Germany, and Denmark. Furthermore, China has announced its intention to forgive all its outstanding debt, and the International Fund for Agricultural Development (IFAD), the Saudi Fund, the OPEC Fund for

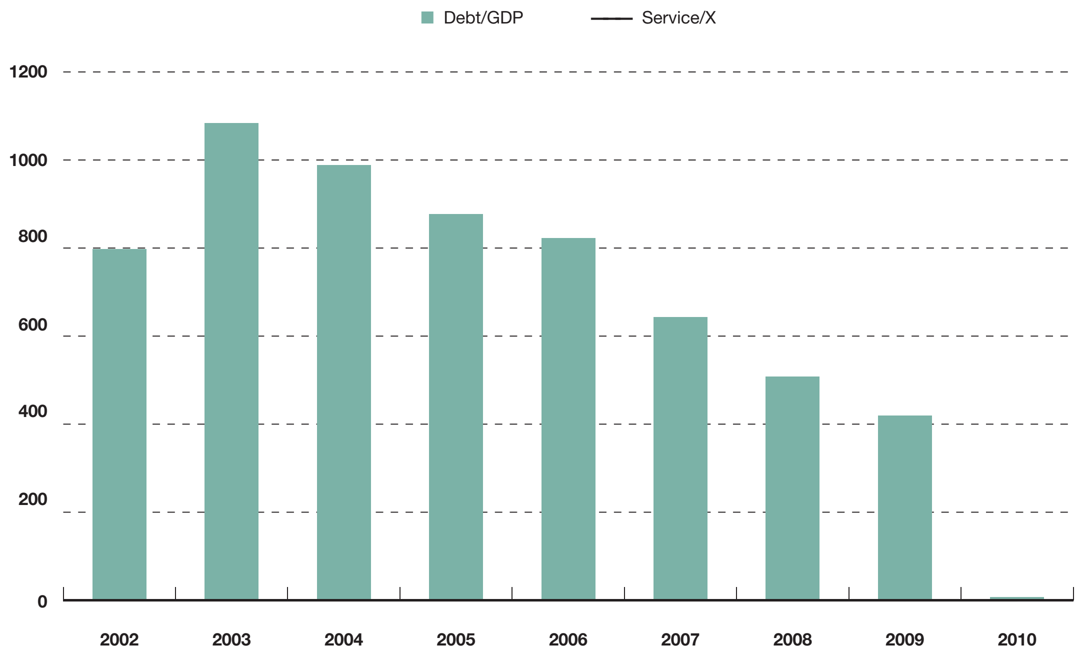
Table 3 - **Current Account** (percentage of GDP at current prices)

	2000	2005	2006	2007	2008(e)	2009(p)	2010(p)
Trade balance	-3.9	-40.5	-54.9	-51.1	-51.3	-37.4	-34.8
Exports of goods (f.o.b.)	18.2	24.4	35.7	36.5	33.8	28.8	28.0
Imports of goods (f.o.b.)	22.1	64.9	90.6	87.6	85.1	66.1	62.8
Services	0.0	-14.4	-20.6	-158.6	-114.8	-90.9	-64.1
Factor income	-26.1	-25.0	-38.0	-31.4	-28.8	-25.7	-21.0
Current transfers	10.2	68.7	61.9	193.0	166.1	148.2	126.9
Current account balance	**-19.8**	**-11.1**	**-51.6**	**-48.1**	**-28.8**	**-5.7**	**7.0**

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

StatLink http://dx.doi.org/10.1787/578686162841

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



Source: IMF.

StatLink http://dx.doi.org/10.1787/573387514323

International Development (OFID), and the Arab Bank for Economic Development in Africa (BADEA) have agreed to treat Liberia's debt on terms fully consistent with the HIPC initiative. As a consequence of debt relief, the country's total external debt fell from about USD 4.7 billion (about 643.2 per cent of GDP) in 2007 to USD 3.3 billion (about 508.7 per cent of GDP) by December 2008. Meanwhile, the net foreign reserves position of the CBL increased from USD 35.1 million at the end of December 2007 to USD 49.4 million at the end of December 2008.

Structural Issues

Private Sector Development

The challenges inhibiting private sector development include limited access to finance; the poor condition of infrastructure especially roads, telecommunications and electricity; high administrative costs; and an inadequately trained labour force. However, the LPRS contains special provisions to stimulate private sector investment and vigorously pursue the development of downstream production, manufacturing, trade and services. The government has made good progress in this direction. For example, it has developed a one-stop shop for customs and reduced the time it takes to process and register a business in Liberia from 90 days to ten. These reforms have improved Liberia's ranking in the World Bank's *Doing Business* 2009 report. Thus, Liberia was listed 157th out of 181 countries in the ease of doing business in 2008, up from 167th out of 178 countries in 2007. The latest report also shows Liberia topping the list of African countries in the adoption of reforms.

In February 2008, the Liberia Telecommunications Corporation (LIBTELCO) signed two memoranda of understanding (MoU) with Alink, an Ivorian telecommunications company, and ZTE Corporation, a Chinese manufacturer of Code Division Multiple Access (CDMA) telecommunication equipment. The CDMA 2000 has a capacity for 600 000 subscriber lines and is expected to provide the following services: fixed wireless, mobile services, wireless Internet and push-to-talk radio. Another step taken by the government to support private sector development is its endorsement of, and participation in, the annual Liberia Public-Private Dialogue (LPPD). The LPPD facilitates dialogue on investment climate issues with the explicit objective of measurably enhancing the environment for private sector activity that will lead to job creation and poverty alleviation in the country. To date, two dialogues, one in 2007 and the other in 2008, have been held. The dialogues were attended by public and private sector stakeholders including President Ellen Johnson-Sirleaf.

The CBL granted provisional licences to three international banks: Guarantee Trust Bank Liberia, Oceanic Bank Liberia Limited and AccessBank Limited. AccessBank Limited, a microfinance bank, is a commercial bank that will focus its activities on microfinance lending and providing financial services to the low-income segment of the population. It will also focus its short and medium-term lending on small and medium-size enterprises (SMEs). Accordingly, the number of banks operating in Liberia is expected to increase from six in 2008 to nine before the end of 2009. The Liberia Enterprise Development Finance Company (LEDFC) granted about USD 1.31 million in loans to SMEs in 2008. Furthermore, two major microfinance institutions, Local Enterprise Assistance Programme (LEAP) and Liberty Finance, benefited from a grant of USD 1.1 million disbursed through the investment committee chaired by the CBL during 2008.

Other Recent Developments

A national population and housing census was conducted in March 2008. Preliminary results of the census published on 6 June 2008 indicated that Liberia's population was 3 489 072, made up of 1 764 555 (50.6 per cent) males and 1 724 517 (49.4 per cent) females. In a related development, the national strategy for the development of statistics (NSDS) in Liberia was launched in July 2008 to facilitate the collaboration and co-ordination of the National Statistical Systems (NSS) for the efficient production, compilation, analysis and dissemination of national statistical and spatial data. The NSDS was designed with funding from the AfDB.

As part of its efforts to improve the quality and efficiency of the civil service, the government finalised its civil service reform strategy in June 2008. The strategy includes the creation of the Senior Executive Service (SES) Programme for the recruitment of both local and internationally-based Liberian professionals. The first set of 71 SES professionals was inducted into the Liberian civil service in December 2008.

To accelerate its economic recovery agenda, Liberia needs to improve the current state of its power supply. Before the war, the total installed capacity of the Liberia Electricity Corporation (LEC) was approximately 191 megawatts (MW). But the conflict resulted in the looting and vandalism of all energy infrastructure including power plants and sub-station transmission terminals. At present only about 10 per cent of Liberia's population have access to electricity, produced mainly from private generators. By 2008 electricity generation had risen to about 12 MW from approximately 2.65 MW in 2006. The government is planning to increase power generation to about 50 MW by 2010. Also, the West Africa Power Pool (WAPP) in Cotonou, Benin, is co-ordinating the supply of electricity from Côte d'Ivoire to 18 rural border communities in Liberia.

Innovation and ICT

The Information and Communications Technology (ICT) sector in Liberia was scarcely developed before the outbreak of civil war in 1989. There were about 6 000 fixed lines based on analogue technology for about 2.5 million people and there was little or no Internet presence. The telecommunication infrastructure was vandalised during the war, leaving no fixed-line service available. The fixed lines have not been reactivated to date. However, mobile service has been available since 1998.

The Ministry of Posts and Telecommunications (MoP&T) is the policy maker in charge of telecoms development in Liberia, while the Liberia Telecommunications Authority (LTA) is an independent regulatory body which was established by the Telecommunication Act of 2007. The LTA has the mandate to issue licences, manage spectrum allocation and drive the development and growth of the sector. It regulates only telecoms and generates its own funds. The authority is accountable to the national legislature and the president.

So far the telecommunications sector lacks an operating policy. However, the ministry has produced a draft national telecommunications/ICT Policy. The draft policy is consistent with the ECOWAS's ICT Act which aims to harmonise the national policies and regulatory frameworks of the ICT sector in West Africa. On 26 November 2008, a forum on the draft was held in Monrovia to receive and discuss feedback from stakeholders. It is hoped that the policy will be finalised by 2009. The LTA is working on a draft universal access policy and the establishment of a universal access fund in accordance with the provisions of the 2007 Telecommunications Act. It is expected that the rural areas that do not have access to ICT networks will be covered by the universal access programmes.

LIBTELCO, the nation's incumbent operator, was established in 1972 and has the legislative mandate to operate, build and provide fixed telecommunication facilities. Though its fixed-line network was effectively destroyed during the Liberian civil conflicts, LIBTELCO is expected to be reactivated in 2009. Currently, telephone services in Liberia are provided by four operators of the Global System for Mobile Communications (GSM): Cellcom Telecommunications Inc., Comium Liberia Incorporated, LiberCell and Lonestar Communications Corporation. Each GSM operator has its own gateway, but has not deployed Asymmetric Digital Subscriber Line (ADSL) data communications technology nor linked with any overland or sub-marine communication cable. However, they have base transceiver stations and antennae. There are officially ten Internet operators in Liberia. Apart from LIBTELCO, all telecommunication operators including the four GSM operators and ten Internet operators are private companies.

Very Small Aperture Terminals (VSATs), which receive signals from geostationary satellites, are the main technology used for Internet services in Liberia. Mobile phones are used for Internet services on a small scale. Locally, 2.4 gigahertz (GHz) and 5 GHz bands are used for transport. The GSM operators and some hotels have WiFi services. There is a Worldwide Interoperability for Microwave Access (WiMAX) operator named West Africa Telecoms. All the telecommunications service providers use generators to power their equipment including switches and earth stations.

Although the 2007 Telecommunications Act provides for the colocation of telecommunications network facilities, the GSM operators do not share infrastructure, apart from the LIBTELCO towers that were not destroyed during the civil war. All interconnection fees are negotiated between the operators by law. However, if two operators fail to reach agreement, the LTA will step in to resolve the dispute amicably.

The civil war destroyed both the national telecommunications backbone and the infrastructure that supported microwave links to neighbouring countries. Liberia does not have access to any submarine cables at the moment. A connection to the submarine cable, South Atlantic 3/West Africa Submarine Cable (SAT3/WASC) that travels from Portugal and Spain to South Africa along the west coast of Africa, is essential for Liberia's telecommunication development and the success of the economy. In particular, the SAT3/WASC cable will provide a low-cost port for Internet Protocol (IP) connectivity to the rest of the world and will facilitate the building of a local Internet exchange in Liberia.

The four digital cellular operators have frequency bandwidths in the GSM 900 megahertz (MHz) and 1 800 MHz bands. LIBTELCO has been assigned a bandwidth in the 800 MHz CDMA band. All of the above make use of C band for satellite communications. The regulatory body does not allocate lower frequency bands for rural areas. Every operator is allocated a segment of the frequency band and market competition has expanded service to the rural areas. Charges in rural areas are identical to those in urban areas and so are affordable.

All imported equipment is taxed at the point of entry. Tax on services is processed through the MoF when companies file their Earnings Before Income Tax (EBIT) information. In terms of over-the-counter transactions, taxes on end-users' purchases and cost of services are not separated from the total cost of the transaction. There has been no outcry to indicate that mobile phone handsets are being smuggled: however, mobile phone handsets are stolen on a daily basis.

In the past, LIBTELCO relied on several funding mechanisms including debt financing, revenue-sharing, equity-sharing, and government subsidies entailing waivers, duty-free privileges, tax breaks and direct project funding. Regional institutions and strategic partners have provided funding for specific ICT projects targeted at contributing to the national policy agenda. The private operators are basically funded through foreign investments, equity partnerships, revenue-sharing with financial institutions and targeted government investment incentives. The pricing scheme of the GSM operators is a combination of post-paid and pre-paid. Subscribers have the option of per second or per minute billing. Internet and data services are charged based on monthly flat rates and pre-paid schemes.

As mentioned above and confirmed by the LTA, there are no fixed wireless services in operation. But the four GSM operators collectively have a subscriber base of over 750 000, representing about 22 mobile cellular subscribers per 100 inhabitants as of December 2008. It is estimated that 60 to 70 per cent of the population centres receive signals from at least one of the mobile providers. The average revenue per user for mobile voice services ranges from USD 11 to USD 15. Competition in the sector has resulted in a reduction in the cost of SIM cards from USD 65 to between USD 3 and USD 5. The cost of calls has also fallen. Internet users have been estimated at around 1 000 to 1 500 subscribers, with fewer than one Internet subscriber per 100 inhabitants as of December 2008. The average monthly service charge for Internet usage is USD 50 per user.

The ministry of information, culture and tourism (MICAT) grants the initial permits for radio and television to operate in Liberia. Thereafter the radio and television operators obtain frequencies and spectrums from the LTA. As of December 2008, about 49 per cent of Liberia's households had radio sets receiving programmes and news from about 12 mainstream radio stations (mainly in Monrovia) and about 30 community radio stations (located in counties all over the country). On the other hand, fewer than 6.2 per cent of households owned television sets and viewed programmes from the five available television stations.

The use of Internet-based activities in key sectors such as agriculture, health, industry, and the public sector is rare in Liberia. However, some universities such as the University of Liberia and the Cuttington University College have VSATs through which e-education is promoted. In 2008 two Liberian banks introduced the use of short messages services (SMS) banking and Internet banking that enable customers to access selected banking services such as balance inquiries, money transfers between accounts, and requests for cheque books through the Internet and mobile phones. In the same vein, Automated Teller Machines (ATMs) were introduced by two of the banks in Liberia. The ATM card holder can withdraw cash at all ATMs in the country without necessarily being a customer of the bank. At the moment, there are no public payphones, electronic point of sale terminals or communication equipment in public places in Liberia.

The Ministry of Education introduced computer literacy programmes in all primary and secondary schools immediately after the end of the civil war. There are also programmes geared towards the development of human resource capabilities at the university level and in vocational training institutions. Finally, employees of the ICT operators are sent for training to acquire the special technical skills required in the industry.

The quality of service of some of the operators is deteriorating. According to the LTA, subscribers regularly complain about call termination, unusual noise when communicating and call delays. Some of the main challenges to the development of Liberia's telecom infrastructure include demographic pressures, limited financial resources, and low levels of ICT penetration and literacy.

Political Context

The political and security situation in Liberia remains generally stable but requires further consolidation. The legislature and the national elections commission have begun consultations to redraw the electoral constituencies on the basis of the new census figures in preparation for the 2011 general election. Legislative by-elections were held to fill the seats vacated as the result of the deaths of some members of Liberia's legislature.

There have been improvements in the fight against corruption in Liberia, evidenced by both the passage of relevant legislation and the steps taken against people charged with corruption. For example, the Liberia Anti-Corruption Commission Act has been enacted into law and the anti-corruption commission established. The draft Code of Conduct Bill, Freedom of Information Bill and Asset Freeze Bill are currently before the legislature for enactment. In addition, the Liberian Extractive Industries Transparency Initiative (LEITI) was established to ensure that all payments to, and revenues received by, the government from extractive industries are transparent and fully reported publicly.

Based on internal audits and investigations that showed financial malpractices, the government suspended or dismissed a number of officials including the acting deputy minister for administration, Ministry of Planning and Economic Affairs (MPEA); the assistant minister for administration, MPEA; a county superintendent; and officials and staff of the ministry of state, MoF, ministry of foreign affairs, ministry of lands, mines and energy, MoP&T, and the CBL. In addition, all non-statutory members of the board of directors of the LEC were dismissed following the establishment of improper conduct and lack of oversight responsibility.

Liberia has improved in all the major international governance indexes. In the World Bank Institute Governance Indicators for 2004, Liberia ranked 190th of 206 countries on "control of corruption". By 2007, its ranking had improved to 113th. In the 2008 Ibrahim Index of African Governance, Liberia was adjudged the most improved; its ranking rose five places to 38th, scoring 48.7 points. Similarly, the rating of Liberia improved from 150th in 2007 to 138th in 2008 in the Transparency International Corruption Perception Index. Nonetheless, corruption and lack of transparency remain critical challenges.

In 2008 the Truth and Reconciliation Commission (TRC) conducted public hearings in Monrovia, all Liberian counties, and the United States of America. Meanwhile, the trial of the former president, Charles Taylor, continued at the International Criminal Court in The Hague.

A report of the Human Rights and Protection Section (HRPS) of the United Nations Mission in Liberia (UNMIL) on human rights issues in Liberia over the period November 2007 to June 2008 indicates the situation in the country has improved. The report recognises that steps have been taken to address human rights concerns, such as the building or refurbishment of detention facilities, establishment of a judicial institute to train judicial officers, and establishment of a special new criminal court in Monrovia to handle directly cases of sexual and gender-based violence. However there remain deficiencies in the justice system, including recurring absenteeism and reports of corrupt practices involving judicial and law enforcement officials, and detention facilities that are below minimum human rights standards.

According to Office of the United Nations High Commissioner for Refugees (UNHCR) estimates, 72 000 Liberian refugees still live in various countries in the West African sub-region and other countries. Between 1 October 2004 and August 2008 the government repatriated 117 000 Liberian refugees with support from the UNHCR and the United Nations Mission in Liberia (UNMIL). The returnees are being assisted by the government and the United Nations to resettle and reintegrate into their former communities. Some of the returnees also receive microcredit loans, employment and skills training.

Social Context and Human Resources Development

Limited employment opportunities in the public sector and a weak private sector contribute to a high level of unemployment, currently estimated at 85 per cent. The informal sector remains the major source of employment. Through the Liberia Emergency Employment Programme (LEEP) and Liberia Employment Action Programme, the Ministry of Labour continues to engage unemployed youths in the Short Term Employment Scheme, in which young Liberians are paid for participating in programmes such as clean-up campaigns.

The LPRS also outlines the government's strategy to improve the delivery of basic social services. In this context, the government has rehabilitated 35 per cent of the country's health facilities, and increased the proportion of children who are immunised to over 95 per cent. In the education sector, the government introduced free primary education and improved the poor and grossly inadequate infrastructure in primary and secondary schools. Water supply to the Greater Monrovia area has tripled to 3 million gallons daily. In spite of these government actions and the support of its development partners, the country still faces challenges, particularly in the areas of health, education, food security, and water and sanitation. Indeed, the LPRS recognises that most of the MDGs may not be attained by Liberia in 2015 because of the legacy of the war. The global economic and financial crisis has further aggravated the humanitarian situation and may push more people below the poverty line.

In order to mitigate the effect of the sharp rise in food prices, the government formulated a comprehensive food security policy in collaboration with international donors to boost food production and ensure access to food by the vulnerable part of the population. It suspended the tariff on rice imports (resulting in a fall of USD 3.6 million in revenues), continued the suspension of import tariffs on agriculture, road, and building equipment and agricultural materials and supplies, and imposed export restrictions on palm oil and rice. It also increased the budgetary allocation to the Ministry of Agriculture by 70 per cent and arranged a USD 32.5 million concession agreement for mechanised large-scale rice production on about 8 100 hectares in some parts of the country. In addition, it waived all taxes on salary income for individuals earning the equivalent of USD 70 or less a month in both the public and private sectors.

Additional measures announced or implemented include a safety-food-net programme; an urban school food programme; a nutrition policy framework and guidelines; the provision of agricultural inputs; food aid; and capacity building for agricultural officials and farmers. The World Bank gave Liberia a grant of USD 10 million for food production through a cash-for-work programme. Part of the USD 18 million in direct budget support from the AfDB is expected to be used to respond to the adverse impacts of the food crisis in fiscal year 2008/09. Additionally, the AfDB and IFAD signed an *aide-mémoire* valued at USD 28 million to improve the livelihoods and living conditions of rural communities through the restoration and development of agricultural production.

The 2007 Core Welfare Indicator Questionnaire (CWIQ) and Demographic and Health Survey (DHS) provided a window into the dire poverty and social situation in Liberia. The CWIQ and DHS data revealed that over 64 per cent of the population were living below the national poverty line, down from 76.2 per cent in 2002 with only small differences in poverty incidence by gender. Net school enrolment rates are low – 37 per cent for primary school and 15 per cent for secondary school – and drop-out rates are high. Enrolment rates are lower among girls than boys, particularly at the secondary level. The overall adult literacy rate is 55 per cent, while the female literacy rate is 41 per cent. Life expectancy has dropped to 45 years.

Maternal mortality increased from 580 women per 100 000 live births in 1999/2000 to 994 women per 100 000 live births in 2007. By contrast, infant mortality rates fell from 117 per 1 000 live births in 1999/2000 to 72 per 1 000 live births in 2007. Similarly, under-five mortality fell from around 194 per 1 000 live births in 1999/2000 to 111 deaths per 1 000 live births in 2007.

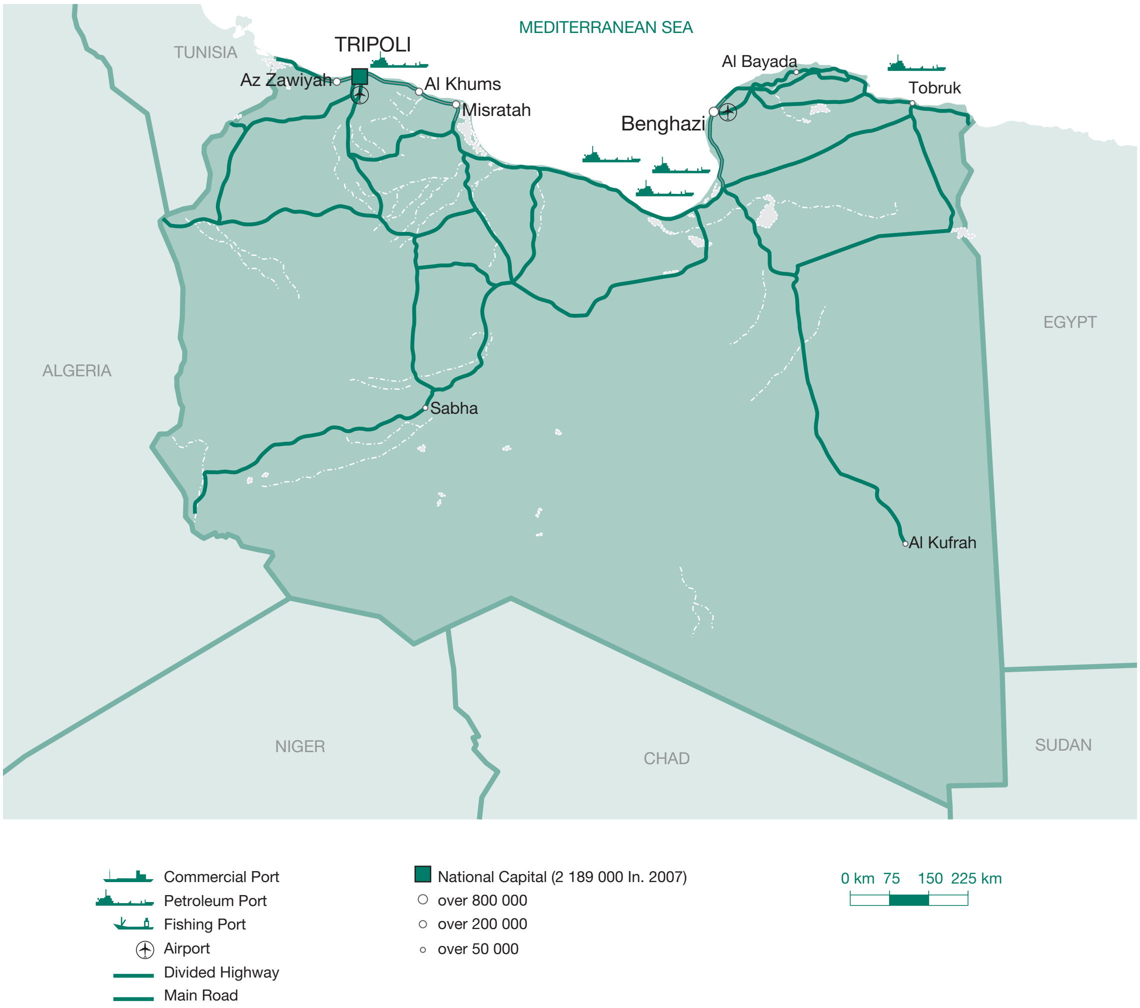
The HIV/AIDS prevalence rate among the population stands at 1.5 per cent with the female prevalence rate (1.8 per cent) higher than that of males (1.2 per cent). The malaria prevalence rate was 66 per cent for children in 2007. According to national sources, access to safe, delivered water increased marginally from 17 per cent of the population in 2003 to 25 per cent in 2008 and access to adequate sanitation facilities also increased from 7 per cent of the population in 2003 to 15 per cent in 2008. From these estimates, it is clear that limited access to water and sanitation is a critical problem in Liberia.

Libya

key figures

- Land area, thousands of km²: 1 760
- Population, thousands (2008): 6 294
- GDP per capita, PPP valuation, USD (2008): 14 369
- Life expectancy (2008): 74.1
- Illiteracy rate (2008): 13

Libya


MEDITERRANEAN SEA
TUNISIA
TRIPOLI
Az Zawiyah
Al Khums
Misratah
Al Bayada
Tobruk
Benghazi
ALGERIA
EGYPT
Sabha
Al Kufrah
NIGER
CHAD
SUDAN
Commercial Port
Petroleum Port
Fishing Port
Airport
Divided Highway
Main Road
National Capital (2 189 000 In. 2007)
over 800 000
over 200 000
over 50 000
0 km 75 150 225 km

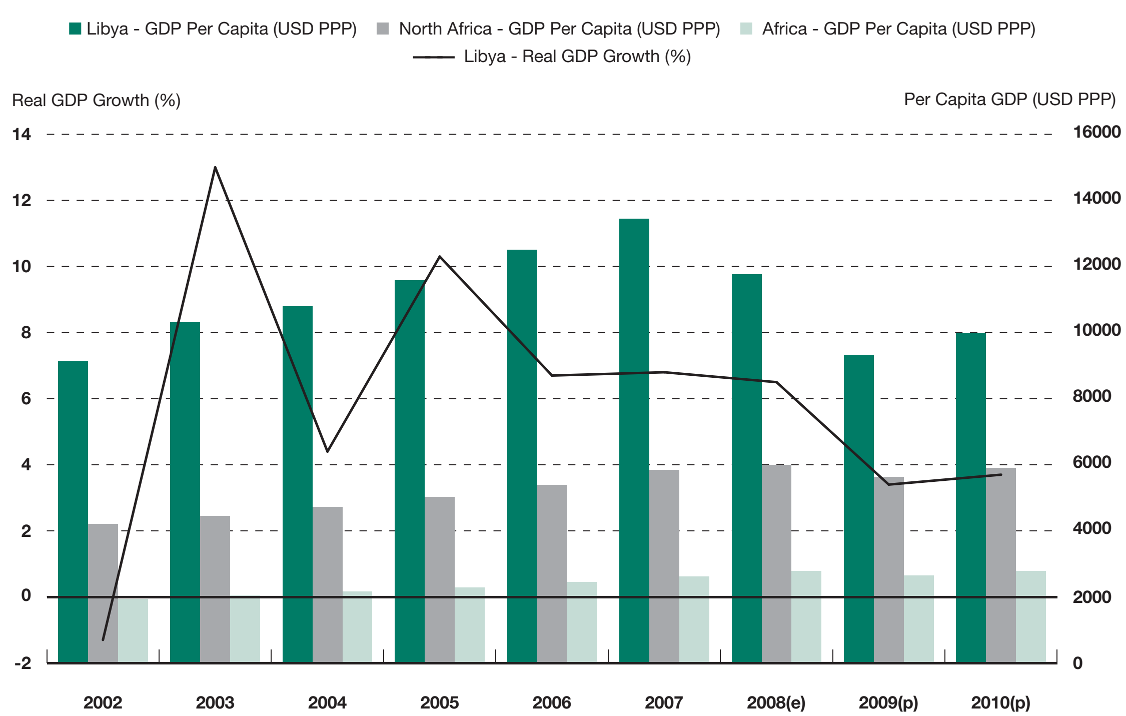
LIBYA'S ECONOMY IS HEAVILY DEPENDENT on revenues from natural resources with an oil sector that provides nearly all of its export earnings and constitutes more than two-thirds of GDP. This lack of diversification, however, means that its economic growth depends on the international oil market. In 2008, real GDP growth is estimated to have been 6.5 per cent, down from 6.8 per cent in 2007 and is forecast to slow to around 3.4 per cent in 2009.

The international economic sanctions imposed both by the United Nations (1992-99) and the United States (1986-2006) had serious effects on the productivity of all sectors and in particular of the oil fields. Since the ending of the sanctions; Libya has begun a process of economic reforms in order to modernise the economy, expand its oil and gas industry and reintegrate with the international community. Initial steps include applying for World Trade Organization (WTO) membership, cautiously reducing subsidies, and announcing plans for privatisation.

Libya's failure to diversify its economy makes it vulnerable to the fall in oil and gas prices.

Despite acceleration in inflation particularly by the fourth quarter of 2008, economic performance remained robust following higher past oil prices of 2007/08,

Figure 1 - **Real GDP Growth and Per Capita GDP**
(USD/PPP at current prices)



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

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continued easing of exchange controls and liberalised foreign trade, restructuring of the public sector and the banking system and further progress on privatisation.

The recent collapse in oil prices is particularly worrying since it could create difficulties in funding the recently adopted USD 84 billion (US dollars) infrastructure programme intended to stimulate and diversify the economy. However, Libya currently has USD 35.7 billion of net foreign assets, thanks to the high energy prices of 2008, which could provide a buffer until prices recover in 2010 or 2011.

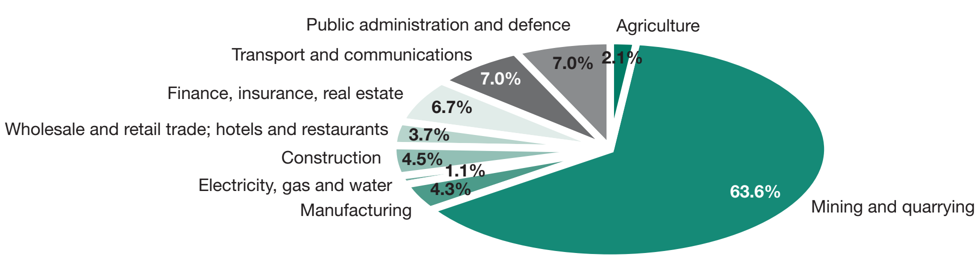
Recent Economic Developments

Real GDP grew by 6.5 per cent in 2008, supported by an expansion in the hydrocarbon sector (3.9 per cent) and a rapid increase in non-oil activities (10.3 per cent). Growth was particularly pronounced in construction, transportation, and trade. At the same time, after a period of deflation from 1999 to 2005, average inflation increased substantially to 11.5 per cent due to the unification of the exchange rate and to government efforts to liberalise trade. More recent inflation was largely driven by higher food prices and a marked increase in public expenditure and in public and private sector salaries. Inflation accelerated further by the end of 2008, averaging about 14.5 per cent in the fourth quarter 2008 according to Libya's General Authority for Information (GAI). That put inflation at the highest level for decades, as the government's continuous trimming of fuel and food subsidies fed through into the consumer price index and international non-oil commodity prices soared. In addition to the fuel and food components in the consumer price index, housing prices also increased.

The country's economic growth is driven by exports, government investment and public consumption, all dependent directly or indirectly on the energy sector. In 2008, for example, oil and gas provided more than 98 per cent of export earnings and 75 per cent of government revenue. Real GDP growth was an estimated 6.5 per cent in 2008, down from 6.8 per cent in 2007, with 3.4 per cent predicted for 2009 due to the collapse of oil prices in the late 2008 and the subsequent reduction in OPEC crude oil production quotas.

Libya is the third largest African oil producer with the largest proven reserves in the continent. The oil and gas sector dominates the economy, contributing to 63.6 per cent of GDP in 2007 up from 62.5 per cent of GDP in 2001. However, exploration and development in the oil and gas sector suffered during the years of international sanctions. Production between the 1980s and 2003 was not matched by new exploration due to lack of foreign and local investment, shortage of spare parts and poor maintenance of existing oilfields. Production capacity fell from 3.3 million barrels a day (b/d) in 1970 to 1.73 million in 2007 and 1.2 million in 2008. The lifting of sanctions, especially by the US, has opened the way for new exploration by foreign firms and upgrading and better maintenance of old oilfields. This should enable Libya to increase its estimated 41.5 billion barrels of reserves in both the

Figure 2 - **GDP by Sector in 2007** (percentage)



Source: Authors' estimates based on National Direction of Statistics.

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short and long terms and to boost oil and gas production and export capacity. The government has drafted an ambitious 2008-12 programme to make up for reserves exhausted between 1980 and 2005. New exploration permits will be granted in an effort to increase reserves to a level compatible with the country's post-2015 production strategy. The target is to have new reserves of 6.5 billion barrels by 2010, allowing production of 2.9 million b/d by 2015.

With 52.7 trillion cubic feet of natural gas reserves, Libya is fourth in Africa in terms of natural gas production and reserves. Libya's export capacity fell during the 1990s, when four power plants were connected to the national gas network, and rose again only in 2004 when an undersea gas pipeline to Italy was laid. The project to lay a pipeline to Tunisia has been delayed by technical supply problems.

Libyan gas production was most recently estimated at 54.7 billion cubic feet in the first quarter of 2008, but 59.7 per cent of it was flared due to lack of marketing capacity. Improved use of gas-liquid separation methods could greatly increase exports despite a sharp rise in local consumption. The 2010 production target is 113.4 billion cubic feet, but this target was revised downwards at the beginning of 2009.

In the past few years there have been noticeable efforts by the government to diversify the economy. Even though private sector activity can partly explain the recovery in the non-oil/gas sector, productive services and infrastructure (excluding construction) still account for half the non-oil/gas sector's growth; such sectors being heavily dependent on government investment and other activities which are linked to the national budget. Exports of non-hydrocarbon goods and services contribute very little to growth.

The non-oil/gas sector (26 per cent of GDP) has recovered somewhat from lengthy stagnation and even recession in the 1990s and grew by an estimated 8.1 per cent in 2008 (up from 7.5 per cent in 2007). The sector has been helped by continued high government spending, as well as increased imports due to unification of exchange rates and trade liberalisation, and contributed 77 per cent of GDP growth in 2008.

Agriculture, mining and manufacturing accounted in total for only 7 per cent of GDP growth in 2007, yet agriculture received 7 per cent of the development budget and industry 16 per cent. The dependence of overall growth on the oil and gas sector and its earnings also shows up in the composition of demand. Net exports (36 per cent) and consumption (37.8 per cent)

Table 1 – **Demand Composition**

	Percentage of GDP (current prices)		Percentage changes, volume			Contribution to real GDP growth		
	2000	2007	2008(e)	2009(p)	2010(p)	2008(e)	2009(p)	2010(p)
Gross capital formation	**9.8**	**26.2**	**14.8**	**5.5**	**9.6**	**3.7**	**1.5**	**2.7**
Public	7.8	19.3	14.0	5.0	5.0	2.6	1.0	1.0
Private	1.9	6.8	17.0	7.0	22.0	1.1	0.5	1.7
Consumption	**57.8**	**37.8**	**10.3**	**8.5**	**3.9**	**7.1**	**6.1**	**3.0**
Public	19.2	11.8	4.2	3.5	3.5	0.6	0.5	0.5
Private	38.6	26.0	11.9	9.7	4.0	6.5	5.6	2.5
External demand	**32.4**	**36.0**				**-4.4**	**-4.2**	**-2.0**
Exports	45.6	65.6	-0.8	-4.6	2.4	-0.2	-0.9	0.4
Imports	-13.1	-29.5	26.3	17.2	11.2	-4.2	-3.3	-2.4
Real GDP growth						**6.5**	**3.4**	**3.7**

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

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figured very prominently in 2007 overall demand, while investment was only 26.2 per cent. Public consumption was 11.8 per cent of GDP in 2008 and private consumption 26 per cent in 2007. Public investment was much greater than private investment illustrating the important role of government consumption and investment in growth, driven as it is by the government-controlled oil and gas sector. Hydrocarbons accounted for most of the 13.6 per cent growth in the country's nominal export earnings in 2008.

Investment grew by 14.8 per cent at constant prices in 2008 and consumption by 10.3 per cent; exports decreased 0.8 per cent while imports grew by 26.3 per cent. Consumption contributed 7.1 per cent to the overall growth rate of 6.5 per cent in 2008, investment 3.7 per cent while exports and imports made a negative contribution of respectively 0.2 per cent, and 4.2 per cent. Due to the drop in production and exports needed to comply with the recently agreed lowering of quotas by OPEC, the external sector is projected to account for a reduction of 4.2 per cent of GDP growth in 2009, but is expected to be less of a drag on the economy in 2010.

Macroeconomic Policies

Fiscal Policy

In 2008, oil revenues represented 57.8 per cent of GDP, compared with only 2.8 per cent of GDP contributed by other sources. Higher oil prices of early 2008 further increased the surplus and the dominance of oil and gas revenue over other income.

Private sector growth caused the revenue from income and profits taxes to more than double between 2001 and 2008 and that from other taxes to more than triple.

Libya spent 18.8 per cent of its GDP on public investment in 2008, much more than other similar countries, most of which spent less than 10 per cent. In view of the limited absorptive capacity of the economy, the increased public expenditure on investment and other programmes has created strong inflationary pressure. Public sector wages and salaries represented 7.8 per cent of GDP in 2008 while government purchases of goods and services were 3.4 per cent of GDP in the same year. In 2007, total expenditure increased from 29.5 per cent to 35.2 per cent with implementation of the Wealth Distribution Programme (WDP) which is intended at directly sharing the oil surplus, and remained high at 32.3 per cent in 2008. However, the recent nosedive in oil prices is expected to hit spending plans despite the existence of the oil and gas revenue fund set up in 1995.

In 2007, inflationary pressures intensified, caused in part by the increase in food prices and a rise in public spending. In 2008, the government also reduced the levels of fuel and food subsidies, which fed through into the consumer price index. Housing prices also increased. To contain the rising inflation, the authorities made efforts to tighten the fiscal stance by limiting the rapid increase in public expenditure.

Prior to 2001, the composition of the budget between current and capital expenditure followed a 70/30 rule. In 2008, however, current expenditure was 13.5 per cent of GDP, down from 14.2 per cent in 2007; whereas capital expenditure increased from 18.5 per cent of GDP in 2007 to 26.6 per cent of GDP in 2008.

During the period of higher oil revenues of early 2007, Libya's fiscal surplus narrowed to 26.2 per cent of GDP, compared to 35.5 per cent in 2006, it reached 34.5 per cent in 2008 and following the downturn in oil prices. This reflected a rapid increase in virtually all expenditure items, albeit at a slightly slower rate than what was envisaged in the budget. The decision to raise public sector wages brought about an increase in the wage bill of around 50 per cent. Capital expenditure also grew rapidly.

Extra-budgetary spending fell sharply from 15.2 per cent of GDP in 2001 to 2.6 per cent in 2006/7 as budget discipline improved, with better monitoring of execution. The new transparency also helps in drafting budget policy. When all income and expenditure are listed in the budget, decision makers know how much

Table 2 - **Public Finances** (percentage of GDP at current prices)

	2000	2005	2006	2007	2008(e)	2009(p)	2010(p)
Total revenue and grants[a]	**41.3**	**62.9**	**65.1**	**61.4**	**66.8**	**47.4**	**48.9**
Tax revenue	11.8	2.6	2.5	2.9	3.0	4.0	4.0
Oil revenue	28.4	58.5	60.2	55.2	60.2	40.5	41.8
Total expenditure and net lending[a]	**28.2**	**32.1**	**29.5**	**35.2**	**32.3**	**46.4**	**46.3**
Current expenditure	19.0	13.9	13.4	14.2	13.5	19.8	19.9
Excluding interest	*19.0*	*13.9*	*13.4*	*14.2*	*13.5*	*19.8*	*19.9*
Wages and salaries	10.2	7.2	6.6	8.3	7.8	11.9	12.0
Interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital expenditure	9.2	14.1	15.3	18.5	18.8	26.6	26.4
Primary balance	**13.0**	**30.9**	**35.5**	**26.2**	**34.5**	**0.9**	**2.6**
Overall balance	**13.0**	**30.9**	**35.5**	**26.2**	**34.5**	**0.9**	**2.6**

a. Only major items are reported.
Source: Data from GIA Libya 2008; estimates (e) and projections (p) based on authors' calculations.

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money is really available, so they can set taxes and make trade-offs between different funding sources.

With current oil prices hovering around USD 50 a barrel since hitting an all-time high of above USD 147 a barrel in July 2008, export revenues are expected to fall sharply in 2009 entailing in turn a sharp drop in oil income which contributes more than 90 per cent of Libya's public revenue. As a result, the fiscal surplus is expected to drop dramatically to 0.9 per cent of GDP in 2009.

The Central Bank of Libya (CBL) recently indicated that Libya had originally budgeted to sell its oil at USD 45 a barrel in 2008, up USD 20 from 2007. However, in the course of 2008 it raised the assumption to USD 113 and in its 2009 budget assumed a further increase to USD 122. The large increase in public expenditure budgeted for 2009 will have to be revised downwards or financed by drawing down reserves.

The appropriate or optimal level of a country's public spending is hard to define because it depends on cultural factors and the efficiency of both social security and public spending. As Libya's allocation of public funds is greatly distorted by substantial extra-budgetary spending, indirect subsidies and excessive decentralisation, the potential for gains in spending efficiency seems appreciable. More efficient public spending would allow better management of the non-oil/gas budgetary deficit, which is essential for macroeconomic stability and the sustainability of public spending in view of the unpredictability of oil and gas revenue.

Monetary Policy

The monetary base increased by a modest 32 per cent in 2007 and then by 23 per cent in the third quarter of 2008. The latter was due to a slight rise in money in circulation and in the cash in vault in the third quarter. Deposits with the CBL also fell 9.5 per cent during the first quarter of 2008 while regional commercial bank deposits rose 13.5 per cent in the first quarter of 2008. An increase in net foreign exchange movements had less effect on the money supply than in past years, as a large proportion of these inflows were held by the Treasury and thus did not add to the money supply.

Libya's foreign exchange policy has greatly altered since it left the sterling zone in 1971. The value of the dinar (LYD) has been periodically adjusted, either gradually or abruptly, owing to the highly interventionist exchange policy of the CBL.

The country's foreign exchange system has gone through four major phrases: adherence to the gold standard (1952-86), pegged to the International Monetary Fund's special drawing rights (SDR) (1986-94), a period with two fixed exchange rates (1994-2001) and a gradual return to a single fixed rate (starting in February 1999).

The CBL finished unifying the exchange rate in January 2002 and pegged it to a basket of currencies at LYD 1 = SDR 0.608 (an effective devaluation of more than 50 per cent) and LYD 1 = USD 0.826 (a devaluation of 46 per cent). This narrowed the gap between the official and black market rates, curbed the Dinar's rise between 1994 and 2002 and made non-hydrocarbon sectors more internationally competitive.

The consumer price index shows that inflation was kept under control until 2004 through price controls and a wage freeze imposed in 1981. Cost-driven deflation appeared in 2004 in the wake of exchange rate unification between February 1999 and January 2002, which reduced the price of imports, previously valued at a special exchange rate. The deflationary trend increased when customs duties were halved and state firms exempted from paying duty to make up for the January 2002 devaluation.

Inflation returned in 2005 and reached 6.7 per cent in 2007 as the moderating effects of early exchange rate unification and trade liberalisation faded away. The renewed inflation is fuelled by wage increases and higher public investment. Inflation reached its highest level in decades, 14.5 per cent in the fourth quarter of 2008.

In 2009-10 inflation is expected to fall to about 7 per cent, partly due to the ongoing drop in global non-oil commodity prices and to further declines in the prices of imports of refined oil products.

External Position

The 2008 trade surplus represented 39.2 per cent of GDP, reflecting high oil prices that more than offset the rise in imports to 28 per cent of GDP. The lifting of quantity restrictions on imports and the end of controls on capital, as well as private sector growth, stimulated demand for imports, in addition to the demand generated by higher public investment spending.

The current account surplus in 2008 is estimated at 32.3 per cent of GDP down from 34.1 per cent in 2007. This development was evidently due to the further increase in imports in 2008 resulting from an increased demand and a stable exchange rate.

The external position is comfortable; with foreign exchange reserves reaching a record of USD 94.8 billion in December 2007 and which are estimated to have increased further in 2008. Reserves in 2007 were equivalent to 33.1 months imports of GNFS at 2008 prices. However, the present outlook is subject to downside risks, especially if oil prices turn out lower than the USD 50 per barrel assumed for 2009 or the resolve to limit public expenditure growth (including in the context of the WDP) wavers. If these risks

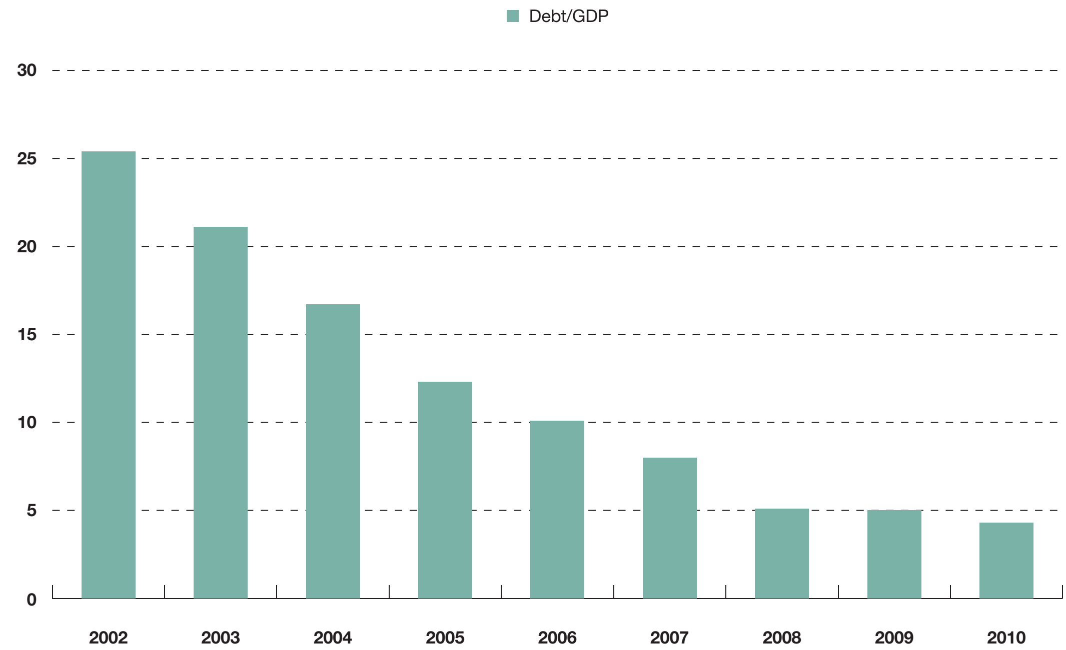
Table 3 - **Current Account** (percentage of GDP at current prices)

	2000	2005	2006	2007	2008(e)	2009(p)	2010(p)
Trade balance	24.5	44.4	47.4	38.9	39.2	10.6	9.8
Exports of goods (f.o.b.)	35.3	69.0	71.1	63.8	67.2	48.9	49.5
Imports of goods (f.o.b.)	10.8	24.6	23.7	24.9	28.0	38.4	39.6
Services	-1.9	-4.0	-3.4	-2.7	-2.9	-5.2	-6.0
Factor income	-0.5	-0.6	2.0	0.0	-1.8	0.3	4.9
Current transfers	-1.5	-1.4	-0.2	-2.0	-2.2	-2.4	-2.2
Current account balance	**20.6**	**38.4**	**45.8**	**34.1**	**32.3**	**3.3**	**6.5**

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

StatLink http://dx.doi.org/10.1787/578716521356

Figure 3 - **Stock of Total External Debt** (percentage of GDP)



Source: IMF.

StatLink http://dx.doi.org/10.1787/573463464714

materialise, the fiscal and external balances could be considerably weaker than the above projections, with adverse consequences on intergenerational equity, and inflation could further increase. A further acceleration in public expenditure would also likely lead to deterioration in its quality, with negative implications for the GDP growth outlook in the medium term.

Structural Issues

Private Sector Development

Privatisation and strengthening the private sector are governmental priorities. A list was made in October 2003 of 360 state-run firms that could be sold off between 2004 and 2008, ranging from steel, petrochemicals and cement to agriculture. Sixty-nine of the firms have so far been divested and the rest are being modernised in preparation for sale. The privatisation strategy will need strong institutional support if the transition to a market economy is to succeed. The biggest challenges are building a healthy investment climate, with institutions that can support more open markets and with a stronger banking system, while ensuring effective and sustainable social protection for the most vulnerable groups to make the transition easier.

Libya's banking system comprises the CBL, 10 commercial banks, three specialised ones and one offshore bank, the Libyan Foreign Bank (LFB). The Bank of Jumhuriya, the biggest bank in Libya, is wholly owned by the CBL. The Wadha Bank, in which the CBL had an 87 per cent share, sold 19 per cent of its capital to Jordan's Arab Bank in early 2008. The Sahara Bank was privatised in 2007 with France's BNP Paribas becoming a strategic shareholder. The private sector has a majority share in eight banks, the Commercial Development Bank, Wafa Bank, Aman Bank for Commerce and Investment, the Arab Unity Bank, United Bank, Saraya Bank, Mediterranean Bank and Arab commercial Bank. The private sector also owns the regionally decentralised National Banking Corporation (NBC).

There were also 48 regional banks owned by the government. These have now been consolidated into six. The consolidation process is expected to continue until they are all part of the NBC. The three specialised banks – the Agricultural Bank, the Bank for Savings and Real Estate Investment and the Development Bank – are wholly owned by the government. The structure of the banking system is not necessarily the result of a policy of specialisation; rather, it reflects the successive strategic choices made at various stages, as well as a lack of competition that could make the sector inefficient. The banking system continues to be dominated by the public sector, which accounts for more than 90 per cent of its business. The government has begun a thorough reform of the financial sector that will mainly involve privatising state-owned banks and upgrading the payments system.

Other Recent Developments

Some progress has been made in implementing reforms aimed at achieving greater regional integration and liberalising trade. Harmonisation of financial regulations, statistical frameworks, and payment and settlement systems with other Maghreb countries is ongoing. Certification requirements for trade with these countries have also been simplified. However, while customs duties on virtually all imports have been eliminated, imports-specific production and consumption taxes, in addition to a flat 4 per cent "service" fee, are in place. Furthermore, earmarked fees on imports, albeit small, have been recently introduced. Nonetheless, the effective rate of import taxation remains very low (less than 3 per cent) due to extensive exemptions.

Innovation and ICT

Libya ranks very low on all measures of physical infrastructure quality. Aside from electricity and water, other basic infrastructure, specifically transport and communication links, are inadequate.

Information and Communication Technology (ICT) constitutes an essential part of the country's physical infrastructure, and represents one of the most important means for promoting business and entrepreneurship. The Libyan telecommunications network is, however, poor, and has suffered significantly from lack of competition and requisite expertise. The government has made it a priority area, and is embarking on measures to make it more attractive to foreign investors.

The core of the ICT sector is the telecommunications network that supports voice and data traffic throughout the country. Rapid increases in network capacity and coverage in the last six to eight years, particularly by mobile networks, has failed to mask the fact that Libya still suffers from low levels of ICT penetration and has chronic problems in network performance. While mobile penetration reported by the General Post and Telecommunication Company (GPTC) has recently surpassed 2004 penetration levels for Egypt and Algeria, Libyan mobile use is still low compared to Tunisia and Morocco. Libya's fixed line use is more on a par with the low levels seen in the rest of the region, restricting both voice communications and Internet usage.

There are a number of services available. Landlines are available in hotels and offices although public phone booths are rare. There are two mobile phone networks, al-Madar and Libyana, and coverage is generally adequate, particularly in major urban areas. Internet, fax and international calls can be made through many hotels, and private communications centres are available in most urban areas. Connecting calls to Libya from abroad can be difficult.

Telecommunications infrastructure development is the responsibility of the state-owned GPTC, set up in 1984 and now headed by Eng. Qadhafi, a son of the Libyan leader. GPTC oversees the operation of fixed and mobile lines, as well as Libyan Internet service providers (ISPs).

GPTC has expanded landline coverage to many parts of Libya, although the quality of its infrastructure and service needs substantial improvement. In 1996, GPTC spun off the mobile phone company al-Madar

("Orbit") and then launched a second, Libyana, in 2004. Libyana, which offered service at a fraction of Madar's rates, quickly become the provider of choice in Libya, now providing an estimated 4 million accounts (91 per cent of market share). Cell phone penetration is estimated at 75 per cent. GPTC serves as the local service provider for the Thuraya satellite phone company, including sales of handsets and SIM cards. On the user side, Nokia currently maintains an estimated 90 per cent market share for cellular and radio communications equipment.

The sector has undergone a number of organisational shifts in the last several years. In 2005, the General People's Committee (GPC) established the General Post Telecommunication and Information Technology Company of Libya (GPTITC), which encompasses Libyana and al-Madar, Libya for Telecommunication and Technology, and the GPTC. It moved to establish the Communications General Authority (CGA) in late 2006, which supervises all of the above entities and reports directly to the GPC. In October 2006, the GPTC signed a contract with Alcatel and Sirti valued at an estimated 161 million euro to upgrade Libyan network flexibility and service reliability, known as the New Generation Basic Network (NGBN). In January 2007, the Chinese firm ZTE signed a contract with GPTC to supply a CDMA2000 network with a 300,000-line capacity, expected to be deployed commercially in August 2007. In January 2008, ZTE announced a deal with LTT to build a commercial WiMAX network that will cover eight major cities in Libya, including the capital Tripoli.

GPTC has announced its intention to spend USD 10 billion on telecommunications infrastructure over the next 15 years. GPTC has also expressed interest in US technology, and US-furnished centres for training and software certification. The privatisations of al-Madar and Libyana could offer opportunities for expansion, depending on terms and conditions.

Improving network performance in both fixed and mobile telephony remains a major challenge for Libya, and this may explain the low ratings recorded in terms of the quality of services provided via telephone and fax networks. Consumers complain of low coverage, poor connections and dropped calls at peak times, while industry leaders complain that consumers and businesses "use the network selfishly". These problems are considerably more acute for both inbound and outbound international calls.

The sector lacks competition, is government-controlled and managed, and marked by the absence of world class suppliers of technology and expertise. The full responsibility for investment and management of the ICT industry lies with the government, which operates a monopoly on the various ICT divisions. Through the Libyan Post, Telecommunications and Information Technology (LPTIT), the government controls all fixed line, mobile, Internet and postal communications across the country. It also owns the al-Madar and Libyana mobile phone companies. The absence of real competition between Libyan service providers appears to have held back development of the ICT infrastructure. According to Law 8 (1990) and its subsequent revisions, there are no official barriers to private sector ICT enterprises operating in Libya. There are similarly no restrictions for foreign investment in the ICT industry as per Law 5 (1997). However, lack of clarity in both the provisions and the implementation of these laws appears to have prevented any meaningful engagement of private or foreign enterprise. Industry structure is another important challenge. There is no separation of roles between the policy maker, regulator and operators. In the past, the General Authority for Information and Telecommunication (GAIT) has been responsible for all policy, regulation and monitoring activities, whilst the holding company LPTIT which reports to GAIT controls all ICT operations through its various subsidiaries. Addressing these problems is important for facilitating the growth of the Libyan ICT sector in the future.

Political Context

Between 1969 and 1978, the government adopted a state-led path of development and introduced unique people-based administrative and governance structures. From 1979 to 1999, the government, hard hit by the fall in oil revenues and external sanctions, attempted to liberalise the economy and fine-tune the political structure.

But with the lifting of the international sanctions, Libya has adopted a new development approach and is renewing ties with countries with which relations were strained in the past. The stage is also set for close relations with the developed countries and an increased interest in developing its vast oil and gas resources. As part of its strongly expansionary fiscal policy, the government launched the WDP in March 2008 aimed at distributing oil revenue directly to citizens. Among other things, the WDP is meant to entail replacing some ministries with smaller administrative bodies, and ordinary Libyans are supposed to take over the ownership and management of most public entities.

Up to 90 per cent of Libya's oil goes to the European Union (EU) and European oil majors have invested heavily in Libya to help develop its hydrocarbons industry. Much of this investment is being ploughed into exploration, as only around one-quarter of the country's territory has been explored so far. However, significant investment is also being earmarked for gas infrastructure, in which Libya is particularly deficient. There are plans to build further undersea pipelines between Libya and Italy for the transportation of oil and gas. Talks are also scheduled on establishing a transparent regulatory framework for the energy sector as well as ensuring that the development of Libya's hydrocarbons industry meets the latest standards in environmental protection. Further down the line, the EU hopes to integrate Libya into an interconnected regional Euro-Mediterranean energy market for electricity and gas.

Social Context and Human Resources Development

Human development indicators have significantly advanced towards the levels required to achieve the Millennium Development Goals. Life expectancy at birth rose from 63 years in 1993 to 69 years in 2004 and then to 74.1 years in 2008. Illiteracy fell from 26.6 per cent to 13.2 per cent over the period, and the overall school enrolment rate increased from 88 per cent to 94 per cent. In the United Nations Development Programme's 2005 Human Development Report, Libya was recognised as having the highest Human Development Index (HDI) in Africa. The report reclassified Libya from the group of countries with medium human development to high-HDI status, ranking 56th out of the 70 countries in the latter group.

The government provides free health care in public hospitals and clinics. The main hospitals are in Benghazi and Tripoli. The period of international sanctions eroded health care quality. The phenomenon of public sector employment being used as a welfare distribution mechanism is common across the Libyan public sector, particularly in health and education. Experts estimate that around 30 per cent of all registered nurses are inactive. Not only is it inefficient to spend health funds on such workers, rather than on real health care resources, but there is also evidence that their presence negatively affects the quality of service to patients, due to increased bureaucracy. In medical education, poor policy decisions are leading to inefficient outcomes. Medical education has expanded massively, placing enormous pressure on scarce resources, with an ensuing decline in quality. Libya is spending too little educating too many doctors. At the same time, there is a major lack of other health workers, like pharmacists, medical technicians and trained paramedics.

According to the GAI, the total population of the country was estimated in June 2008 to be 5.5 million compared to 5.32 million recorded in the 2006 census. The data also show a rise in the over-15 age group, to 68 per cent of the total population where about 32.4 per cent is under the age of 15. This will put pressure on the government with regard to job creation and to satisfy the increasing demand for social services, education and health care.

In 2007, the formal sector employed 1.52 million people, of which 1.12 million were males and 0.518 million were females. The former figure represents 30.7 per cent of the total population in 2006. The formal economy is characterised by a relatively small number (43 000) employed in the oil sector, which produces most of the country's wealth, and large and growing employment (840 000) in public services. It appears that the wealth created in the energy sector is redistributed through extensive "welfare" employment in the public sector, making it much less productive. The energy sector contributes more than 69 per cent to Libya's GDP, but employs only 3 per cent of the formal workforce, despite the fact that employment in the sector grew at an estimated rate of 10 per cent between 1999 and 2007. On the other hand, public services, including education and health care, contribute only 7.6 per cent to Libya's GDP, but employs 51 per cent of the formal workforce. Employment in public services doubled between 1999 and 2007, while overall formal employment grew by only 12 per cent. Although detailed or reliable statistics are not available for the informal economy, senior government officials estimate another 1.2-1.6 million people are informally employed, mainly in the agriculture, construction and retail trade sectors. The size of the informal economy is estimated to be as much as 30-40 per cent of the official GDP.

Unemployment was estimated at 13.5 per cent in 2007, up from 7.3 per cent in 2003. Keeping it in check will be a major task in coming years, especially as the government and social sector employ 60.5 per cent of the working population.

Transition to a market economy usually involves state withdrawal from the production sector and will probably have a major social effect in Libya. Income disparities have diminished since the 1990s as the government continues to provide extensive social support in the form of subsidies and higher pensions. Other indirect subsidies, such as cheap water and electricity and petrol at below world prices, also contribute to reducing income disparities.

The transition to a market economy may bring sweeping changes to this social support network, which suggests that the state's withdrawal should be gradual. Consumer purchasing power increased significantly between 2000 and 2004 due to the deflation caused by exchange rate unification and trade liberalisation. Lately, the government has set the minimum monthly income at LYD 250. State withdrawal, private sector growth and inflationary pressure pose serious threats to household purchasing power.

Madagascar

key figures

- Land area, thousands of km²: 582
- Population, thousands (2008): 19 111
- GDP per capita, PPP valuation, USD (2008): 935
- Life expectancy (2008): 60.4
- Illiteracy rate (2008): n.a.

Madagascar

Moroni
COMOROS
MOZAMBIQUE
Mozambique Channel
Antsiranana
(Diégo-Suarez)
Mahajanga
Toamasina
(Tamatave)
ANTANANARIVO
Antsirabe
INDIAN
OCEAN
Fianarantsoa
Manakara
Toliara (Tuléar)
TROPIC OF CAPRICORN
Commercial port
Petroleum port
Fishing port
Airport
Main Road
National Capital (1 697 000 In. 2007)
over 100 000
over 50 000
0 km
55
110
165 km

Madagascar

MADAGASCAR POSTED STRONG GDP growth of 7 per cent in 2008. High oil prices in the first half of the year adversely affected Madagascar, which produces almost no oil and is vulnerable to increases in transportation costs given its remote location. The country was relatively insulated from the world food crisis thanks to increased agricultural production, in particular of rice, and favourable contracts concluded with Asian suppliers before prices spiked.

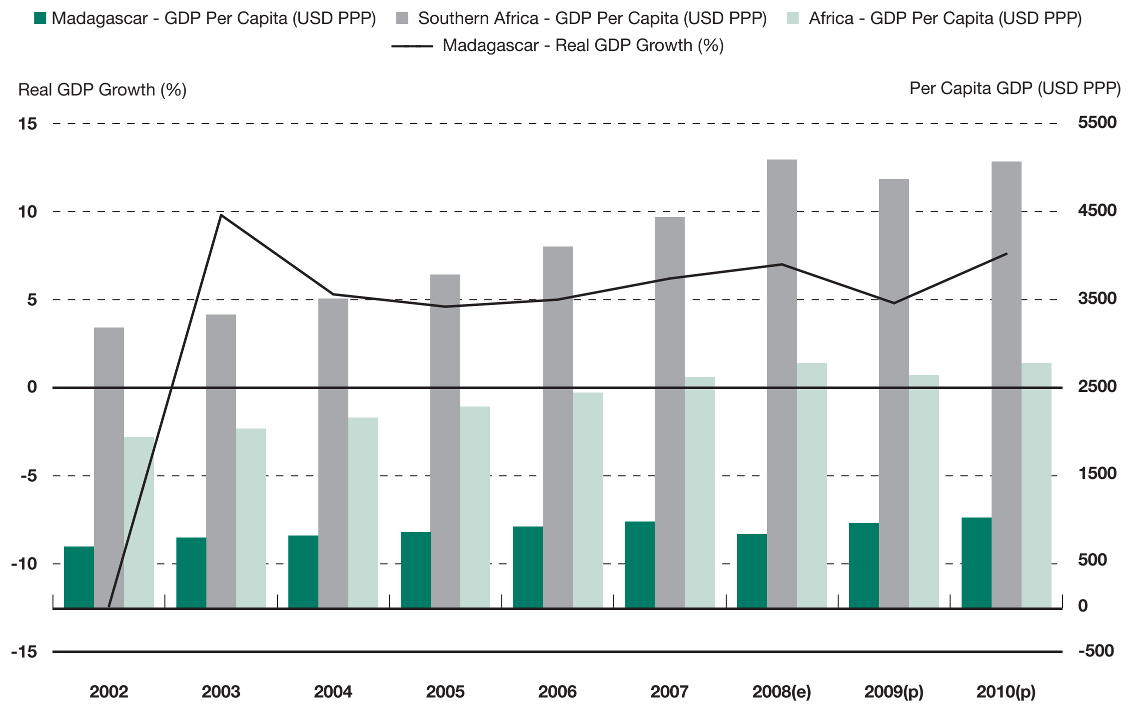
Despite the world recession, the outlook is relatively positive with growth projected at 4.8 per cent in 2009 and 7.6 per cent in 2010 on the assumption that the political crisis of early 2009 finds a prompt solution.

The main drivers of growth are private investment in large extractive industry projects in the east and south of the country, related exports of mining products, public investment in preparation for the African Union and Francophone summits, and the expansion of agricultural production in a new Green Revolution.

The political crisis is depriving the country of the international aid required for its development projects.

Exposure to the direct consequences of the international financial crisis is limited as the country's financial system is shallow and liquid. Secondary effects are expected in 2009, with a slowdown in mining

Figure 1 - **Real GDP Growth and Per Capita GDP**
(USD/PPP at current prices)



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

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foreign direct investment, a drop in tourist arrivals and a fall in exports. The sharp decline in oil prices since mid-2008 improves the outlook.

The global economic downturn is not expected to impact the level of development aid. About 75 per cent of such aid comes from multilateral donors who are either confirming previous commitments or even counter-cyclically scaling up their activities. Remittances are modest and not likely to be significantly affected.

The fallout from the political struggle between the President and the mayor of the capital Antananarivo may curtail growth prospects by disrupting tourist flows, foreign direct investment and development aid.

Recent Economic Developments

In 2008, GDP grew 7 per cent. Demand was driven mainly by private and public investment. Private investment was led by two large foreign-funded extractive industry projects – for nickel and cobalt in Ambatovy run by Sherritt, majority-owned by Canada's Dynatec; and Rio Tinto's Qit Madagascar Minerals (QMM) venture for ilmenite in Fort Dauphin. Public works include the upgrade of the International Airport of Ivato-Antananarivo (to be completed by 2011), construction of a new highway in the capital (to be completed in 2009), port construction in Ehoala (for the QMM mining project) and expansion of the port of Toamasina (to facilitate the Sherrit project). The external sector made a negative contribution to GDP growth via a slowdown in exports and a sharp increase in imports of equipment for the mining projects.

The economy was hit by a particularly destructive cyclone season, with damage to agricultural production and infrastructure estimated at 3.6 per cent of GDP, and by high international food prices, which led the country to restrict the export of agricultural products, particularly of rice, from March to November. Fuel costs remained high – local oil prices fell only 7 per cent as world prices tumbled 69 per cent in the second half of 2008 – and appreciation of the national currency crimped exports.

In 2007, the primary sector accounted for 26.9 per cent of GDP, industry and mines 17.7 per cent and the tertiary sector the remaining 55.4 per cent.

Despite the two cyclones that hit the country during the first quarter, production in the primary sector grew 3.1 per cent in 2008, up from 2.2 per cent in 2007.

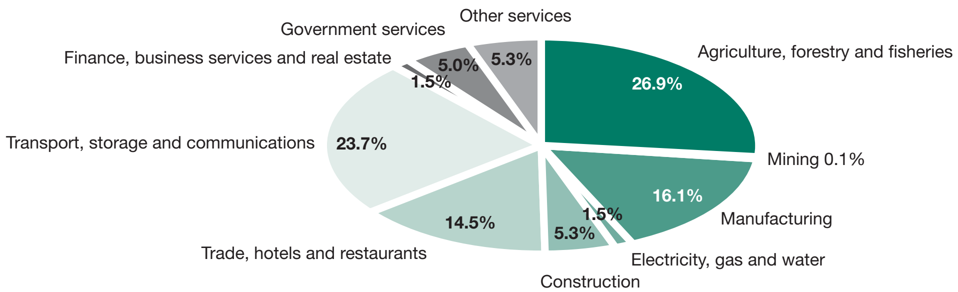
The outlook for agricultural production is positive due to the planned Green Revolution and to large FDI inflows. The Green Revolution aims to increase agricultural output through development of fallow arable land, the rehabilitation of irrigation infrastructure, the introduction of a counter-seasonal harvest, and the adoption of high yield rice seeds, doubling productivity from three to six tonnes per hectare. To be successful, these measures must be accompanied by improved granting of secure land title, which is very slow in Madagascar and constrains investment in agriculture as well as in tourism and other sectors. Several large foreign investments are expected but a controversial project by South Korea's Daewoo to take a 99-year lease on 1.3 million hectares of farmland (about half the size of Belgium) for the production of corn and palm oil. On 19 March the new president announced his decision to cancel the project, a decision which has still to be confirmed at the date of 15 April.

Production in the secondary sector grew 8.8 per cent in 2008, down from 9.8 per cent in 2007. This slowdown was due mainly to a weaker performance of the Export Processing Zones (EPZs) where output grew 8.6 per cent, down sharply from 28.6 per cent in 2007, as textile companies continued to be adversely affected by the end of the Multi Fibre Arrangement (MFA) which had previously capped the exports of China and other Asian competitors to markets in North America and Europe. The slowdown in manufacturing was partly offset by faster growth in the energy and extractive industries, at 12 and 9 per cent in 2008, against 5.6 per cent and a fall of 7.2 per cent in 2007. Electricity production benefited from the reorganisation of the national water and electricity utility (JIRAMA – Jiro sy Rano Madagascar), partly funded by international donors. In addition, QMM started its own energy generation in Fort Dauphin in the extreme South.

The outlook for the secondary sector is mixed. QMM plans to start production and export of ilmenite in 2009. Due to the global slump, demand and prices are likely to be lower than expected, although the drop may be limited by the fact that ilmenite is one of the few available substitutes for lead in paints. Exports of nickel and cobalt from Ambatovy were originally planned to start in 2010 but Sherritt recently announced a one-year delay as the company renegotiates contracts for construction materials, freight and labour in light of the more difficult international environment. The production of chrome in Tsaratanana is expected to rise to 190 000 tons in 2009. Uranium exploration is ongoing in Beravina. Coal will be mined in Sakoa starting in 2010, with production put at 5 million tonnes annually for a period of 60 years. Oil exploration is proceeding at a slow pace although the extraction of modest quantities from the Tsimiroro fields started in March 2008.

Production in the tertiary sector grew 8.9 per cent in 2008, up from 7.7 per cent in 2007. Construction and public works were the main drivers. The outlook for 2009-10 is mixed. Construction work by QMM in Port Dauphin will be completed in 2009. Sherritt's Ambatovy project will take longer than expected while contracts are renegotiated but work is expected to pick up in 2010. Public construction activity will likely increase as the country prepares to host the African Union summit in 2009, the Francophone Summit in

Figure 2 - **GDP by Sector in 2007** (percentage)



Source: Authors' estimates based on local authorities' data.

StatLink http://dx.doi.org/10.1787/571874756332

Table 1 – **Demand Composition**

	Percentage of GDP (current prices)		Percentage changes, volume			Contribution to real GDP growth		
	2000	2007	2008(e)	2009(p)	2010(p)	2008(e)	2009(p)	2010(p)
Gross capital formation	**15.0**	**26.4**	**50.2**	**-17.8**	**-2.3**	**15.4**	**-7.6**	**-0.8**
Public	6.7	6.7	48.0	4.1	14.5	3.7	0.4	1.5
Private	8.3	19.7	51.0	-25.0	-10.0	11.7	-8.1	-2.3
Consumption	**92.3**	**89.7**	**13.4**	**11.2**	**7.2**	**11.1**	**9.9**	**6.7**
Public	9.0	11.7	19.9	1.5	7.6	3.2	0.3	1.3
Private	83.2	78.0	11.8	13.7	7.0	7.9	9.6	5.4
External demand	**-7.3**	**-16.0**				**-19.5**	**2.6**	**1.6**
Exports	30.7	28.6	-2.9	0.8	19.6	-0.7	0.2	4.5
Imports	-38.0	-44.6	47.1	-4.4	5.6	-18.7	2.4	-2.8
Real GDP growth						**7.0**	**4.8**	**7.6**

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

StatLink http://dx.doi.org/10.1787/575881518473

2010 and as some EUR 600 million (euros) becomes available from the European Development Fund.

Growth opportunities are expected in tourism and in telecommunications. Tourism development targets high-end, environmentally-friendly projects. In 2008, the country decided to open selected protected areas for eco-tourism under the guidance of the Ministry of the Environment and in collaboration with the International Finance Corporation. A new law was issued, areas were identified and the first tenders planned for mid-2009. The programme targets wealthy tourists who spend about USD 500 (US dollars) per day, as in top South African resorts, while protecting the environment and distributing a substantial part of the benefits to local communities. In addition, luxury hotels are planned on the islands of Sakatia and Amporaha, scheduled to open in 2010. The development of information and communication technologies (ICT) services is linked to the recent completion of the national backbone and to the upcoming connection with two submarine cables networks.

Macroeconomic Policies

Fiscal Policy

Madagascar's tax collection is amongst the lowest on the continent and a major constraint for development. However, progress has been made since reforms in 2007 which reduced the number of taxes while widening the tax base. Tax revenue grew from 10.2 per cent of GDP in 2006 to 12.5 per cent in 2008. Including development grants, this put government resources at 17.5 per cent of GDP. Nonetheless, the overall public deficit grew from 2.6 per cent of GDP in 2007 to 4.5 per cent in 2008 because of an increase in public expenditure from 17.8 per cent to 22 per cent of GDP. The deficit is mostly covered by external resources, in particular financing for development projects. Currently, 25 per cent of aid received by the country goes to budget support.

The budget came under pressure in 2008 due to government efforts to mitigate the effects of higher food and oil prices on consumers. It cut value added tax on rice and adopted a partial pass-through policy for oil products. The price of electricity was held steady, contributing to a loss equivalent to 0.3 per cent of GDP for JIRAMA which was ultimately covered by the government. In addition, subsidies kept public transport prices unchanged.

Despite the unexpected increase in subsidies, the Treasury did not need to make use of the allowed statutory advances from the Central Bank and so they did not contribute to the creation of liquidity. The Treasury also limited bond issuance in the fourth quarter of 2008 and reduced the stock of internal debt.

Table 2 - **Public Finances** (percentage of GDP at current prices)

	2000	2005	2006	2007	2008(e)	2009(p)	2010(p)
Total revenue and grants[a]	**15.3**	**16.2**	**56.4**	**15.2**	**17.5**	**15.7**	**15.1**
Tax revenue	11.3	9.8	10.2	10.9	12.5	11.7	11.0
Grants	3.6	5.6	45.7	4.1	4.8	3.8	3.9
Total expenditure and net lending[a]	**18.1**	**20.7**	**20.5**	**17.8**	**22.0**	**18.9**	**18.9**
Current expenditure	11.4	10.7	10.7	10.5	12.2	10.2	10.0
Excluding interest	*9.0*	*8.2*	*8.4*	*9.4*	*11.3*	*9.2*	*9.3*
Wages and salaries	4.0	4.4	4.8	4.9	4.6	4.5	4.4
Interest	2.3	2.6	2.3	1.1	0.9	1.0	0.8
Capital expenditure	6.7	10.0	9.8	7.3	9.8	8.7	8.9
Primary balance	**-0.5**	**-2.0**	**38.2**	**-1.5**	**-3.6**	**-2.2**	**-3.1**
Overall balance	**-2.8**	**-4.5**	**35.9**	**-2.6**	**-4.5**	**-3.2**	**-3.9**

a. Only major items are reported.
Source: Data from local authorities; estimates (e) and projections (p) based on authors' calculations.

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Overall, fiscal policy in 2008 was rigorous but not restrictive. Government capital expenditure grew from 7.3 per cent of GDP in 2007 to 9.8 per cent in 2008. Social spending (including health and education) increased 16.1 per cent, productive expenditure (including rural development) 20 per cent and the decentralisation budget rose 31 per cent.

Budget execution remains weak, in particular on investment in sectors such as water, sanitation, energy and mines. Budget formulation, however, is improving. A new nomenclature with increased consistency between allocations and goals was adopted in 2008 and will be operational in 2009. It aims to increase public spending efficiency and to simplify its assessment. In addition, starting in 2009, all ministries will implement a new system of hierarchical control of spending decisions. Whereas previously all expenses had to be pre-approved by the Ministry of Finance, in the new system pre-approval will be required only for expenses above MGA 700 000. The threshold may appear low but the measure is expected to speed up budget execution by cutting the workload of the Office of the Controller by over 50 per cent. A pilot of the new system was introduced in 2008 at the ministries of Health, Education and Economy and by the Region of Haute Matsiatra.

In 2009, the government is expected to maintain the same restraint as in 2008, with no recourse to statutory advances. The budget increases funding mainly for agriculture (for the Green Revolution), for health (to make child hospital delivery a right), for education and decentralisation. The overall deficit is projected to narrow to 3.2 per cent of GDP in 2009 but rise to 3.9 per cent in 2010.

Monetary Policy

Monetary policy was restrictive in 2008 relative to previous years. M3 money supply grew 18.6 per cent, against 20.5 per cent in 2007 and 25.9 per cent in 2006. The benchmark interest rate was kept between one and two percentage points above inflation, and the rate of mandatory reserves on bank deposits was conservatively set at 15 per cent.

Inflation eased to 9.2 per cent in 2008 from 10.3 per cent in 2007 and 10.8 per cent in 2006, reflecting in part government efforts to dampen rising prices for food and oil. In the first quarter, the government imported rice to make good the damage caused by the cyclones; in the second, as international prices rose, it banned exports and suspended VAT (Value Added Tax) on rice. Output was also boosted by promotion of a counter-seasonal harvest with the result that rice prices overall rose only 8 per cent in 2008.

Inflationary pressures were also contained by the appreciation of the national currency, the Ariary (MDG). Last but not least, the government did not need to use statutory advances (initially programmed for up to 15 per cent of the previous year's budget) and so limited the creation of liquidity. Nonetheless, inflation pressures remain very high in areas around the large mining projects where the influx of skilled foreign workers dramatically increases the demand for all types of commodities and services, especially food and housing. In Fort Dauphin, for example, prices of basic necessities rose 33 per cent.

The Central Bank of Madagascar aims to reduce inflation further in 2009-2010 and has set a medium term target of 5 per cent for 2012. However, recent political events are generating increasing inflationary pressures. On the assumption of a prompt resolution to the political impasse, inflation is estimated at 11.7 per cent in 2009, dropping to 7.1 per cent in 2010.

External Position

Madagascar is a member of COMESA (Common Market of Eastern and Southern Africa) and SADC (Southern African Development Community). Trade liberalisation aims to completely eliminate tariffs within 10 years, allowing some exceptions for sensitive products. Further liberalisation is ongoing for trade with the European Union within the framework of the Economic Partnership Agreements (EPAs). In order to meet the challenge posed by more open markets, the government plans an Agency for the Promotion of Exports (APEX) to help Malagasy producers meet the higher international norms and quality standards required.

Table 3 - **Current Account** (percentage of GDP at current prices)

	2000	2005	2006	2007	2008(e)	2009(p)	2010(p)
Trade balance	-2.7	-11.5	-9.5	-13.0	-22.3	-16.5	-14.9
Exports of goods (f.o.b.)	21.4	16.4	17.0	16.0	12.4	11.5	11.7
Imports of goods (f.o.b.)	24.1	27.9	26.5	29.1	34.7	28.0	26.6
Services	-4.6	-2.3	-1.2	-3.0	-5.7	-5.5	-3.2
Factor income	-1.8	-1.5	-1.4	-0.8	-0.6	-1.0	-6.6
Current transfers	3.5	4.6	3.7	2.9	2.8	2.0	1.7
Current account balance	-5.6	-10.6	-8.4	-13.9	-25.8	-21.0	-22.9

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

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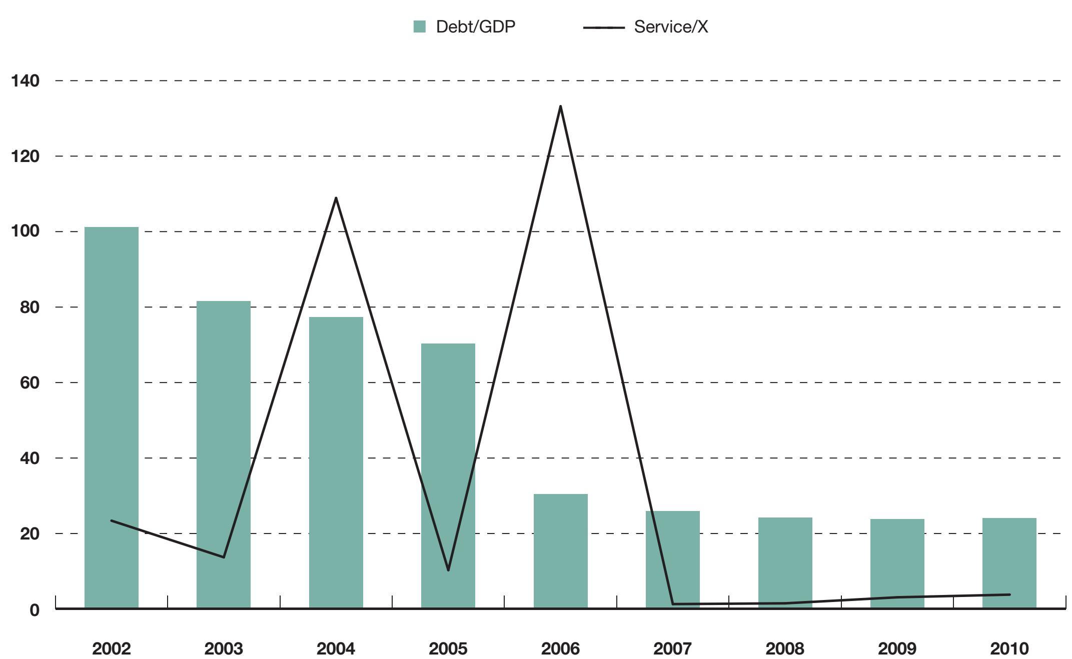
The country's main imports in 2008 were equipment and raw materials, in particular oil. Exports are relatively undiversified by product and destination. In 2008, the main exports were textiles, vanilla and shrimps, going to the European Union (in particular France), the United States and Japan. From 2010, mining products are expected to take the lead.

The country records a chronic current account deficit, which reached 25.8 per cent of GDP in 2008, up sharply from 13.9 per cent in 2007. This negative trend is mostly explained by imports of mining equipment and by a 50 per cent spike in the energy bill. Higher import prices, especially for oil, and lower export prices led to a 50 per cent deterioration in the terms of trade over the first three quarters of 2008.

Despite the recent drop in oil prices, the current account deficit is expected to continue above trend, at 21 per cent of GDP in 2009 and 22.9 per cent in

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



Source: IMF.

StatLink http://dx.doi.org/10.1787/573483560635

2010. After 2010, the current account deficit is expected to diminish as mine exports grow.

Foreign direct investment (FDI) doubled between 2006 and 2008. According to the Central Bank of Madagascar, about 60 per cent of FDI went into mining, 17 per cent in telecommunications (up from only one per cent in 2006) and 12 per cent in energy. Portfolio investment is concentrated in agro-industry. FDI is expected to drop in 2009-10 as QMM completes construction and Sherritt modifies its business plan.

In the last few years, the Central Bank of Madagascar has sterilised part of the large FDI inflows to limit currency appreciation. During the first three quarters of 2008, the central bank purchased some USD 80 million of foreign currencies but the Ariary still appreciated by 14 per cent per cent against the Euro.

The appreciation of the Ariary mitigated inflationary pressures from rising international prices for food and oil. On the other hand, it made the country's exports less competitive, particularly in the textile sector which has suffered since the ending of the Multi Fibre Arrangement. In the period 2009-10, the Ariary is not expected to appreciate significantly given the slowdown in FDI flows but the central bank is ready to continue to intervene to maintain the country's competitiveness if needed.

The balance of payments was in surplus with capital inflows more than offsetting the current account deficit in 2008. Foreign exchange reserves increased to the equivalent of 3.2 months of imports as of end-2008, excluding imports associated with mining investments.

Structural Issues

Private Sector Development

The achievement of the country's development goals requires high levels of investment, including FDI. Attracting sufficient FDI is contingent on improving competitiveness and the business climate. To this end, some important measures have been taken. The mining code was reformed in 2005. A new investment law was approved in January 2008 to allow foreign ownership of land and buildings, and remove limits on foreign equity positions. The labour code will be revised in 2009 to ensure it is in line with the new investment law. Regulations are being simplified. In 2008, the number of steps to transfer land or a building dropped from 14 to 7. In 2009, the time required to obtain a construction permit will fall from the current range of 90-365 days to 30 days and the process will be handled by a single office. The tax system is being simplified, with the number of taxes reduced from 26 to 14 in 2008. The suspension of Value Added Tax on investments in 2008 has been extended to 2009. Tax rates in general are dropping, compensated for by an expansion of the tax base.

The government is promoting the country as a stable destination for FDI, highlighting its untapped economic potential. The Economic Development Board of Madagascar (EDBM), established in 2006, is responsible for promoting private sector development and aims to bring together foreign investors with Malagasy companies. There are six priority areas for investment — tourism, agri-business, extractive industry, light manufacturing, infrastructure and ICT.

Export Processing Zones (EPZs) will be phased out as they have been found to have only limited linkages with the rest of the economy. During 2009-2010, new and existing exporters will be able to choose between the EPZ regime and a new status which allows more freedom to purchase and sell on domestic markets. After 2010, no new company will be granted EPZ status but those companies which have EPZ status will be allowed to retain it indefinitely.

The financial sector is still underdeveloped and constrains private sector development. The market is dominated by eight retail banks, all branches of foreign institutions. Only 3 per cent of the population has a bank account and commercial banks are virtually absent in rural areas. Credit is short to medium term, with a maximum maturity of seven years, which makes the funding of infrastructure projects a challenge. However, gradual reforms are being implemented for the payments system, micro-finance, pension funds and a credit information network is being set up. The central bank is also strengthening accounting regulations. A new bank law is expected in 2009.

Other Recent Developments

Private sector development requires the upgrading of infrastructure and important progress in this area was made during 2008 or is planned.

The electricity grid does not cover much of the country. Supply is insufficient and new customers have difficulty obtaining service. Large companies often produce their own power. For example, Sherritt is building a 150 MW power plant but as its initial internal requirement is only 100 MW, the surplus will be sold to local communities and to the Antananarivo grid. The country has an enormous untapped potential capacity of 7 GW of hydroelectric power with only 200 MW exploited to date and 400 MW more expected by 2012.

The road network is underdeveloped and connecting all regions is an Madagascar Action Plan (MAP) priority. In 2008, for the first time, the far north and far south were connected by an all-weather road. The time taken to travel from Antananarivo to the city of Diego in the north has been cut from 96 to 20 hours. In addition, the port of Toamasina has been connected with Antananarivo and a road along the east coast (with rivers crossed by ferry boats) has been completed. A road from Fort Dauphin to Ihosy is planned for 2009.

As part of the Ambatovy mining project, the port of Toamasina has been upgraded and can now receive larger ships. Shipping lines seeking to avoid pirates around the Horn of Africa offer a potential development opportunity for Madagascar. A port is being built in the south in Ehoala. The upgrading of Toamasina port and the road connection with Antananarivo have already resulted in an increase in traffic from 200 to 700 trucks per day on this route. These trucks transport inputs and final products, in particular for the export processing zones around the capital where the textile industry is concentrated.

The International Airport of Antananarivo is being upgraded. In 2008, Air France established a regular cargo route between Antananarivo and Paris in response to rising demand. Air Madagascar is expected to follow in the near future. In addition, a partnership has been finalised with Kenya Airlines which will allow direct flights to continental Africa.

Innovation and ICT

Liberalisation of the telecommunications sector began in 2005 but fixed telephony is still a monopoly in the hands of Telma, the partly privatised heir of the former public operator.

Mobile telephony has experienced rapid development, driven by competition between the French company Orange (owned by France Telecom), Zain of Kuwait and, since 2008, Telma. The penetration rate increased from 2.3 per cent in 2005 to 11.7 per cent in 2007 and is estimated at 18 per cent in 2008.

All the technology and equipment is imported, mainly from China, and networks are built by foreign companies which rely in part on the Malagasy work force. Affordable product prices have allowed for rapid growth. At the end of 2008, a mobile phone with SIM-card could be purchased for as low as MGA 13 000 (EUR 6).

The national backbone was completed in 2008. Most of the work was carried out by Telma on three links connecting Antananarivo to Toliara, Mahajanga and Toamasina. In addition, Orange laid a fibre optic cable between Antananarivo and Toamasina. Exploiting the full potential of the backbone requires connecting the country with the rest of the world. Two projects are ongoing. Orange is spending EUR 44 million to connect Toamasina to the Island of Reunion and so to the Asian SAFE (South Africa Far East) cable. Completion is expected in 2009. Telma is spending USD 13 million to connect Toliara to the EASSy (Eastern Africa Submarine Cable System). Completion is expected in 2010. As a result of these two projects, broadband connection charges are expected to start dropping from 2012.

Further development of the ICT sector faces five major challenges — low income levels, an outdated regulatory framework, monopolies, limited human resources and the poor state of road and power infrastructure.

The regulatory system still adheres to the principle that what is not authorised is forbidden. For example, credit card payments over the Internet are not allowed, preventing the development of e-commerce. No electronic signature system has been developed. Voice Over Internet Protocol (VOIP) communications are forbidden. The establishment of an appropriate regulatory framework is now a priority, with contacts between operators and institutions ongoing.

The fixed telephony market was supposed to have been liberalised in June 2008 but this has been put back to June 2009. Telma is the only fixed line operator and also has a monopoly on commercial exploitation of the backbone so Orange may be forced to lease out its Antananarivo-Toamasina cable.

The ICT sector requires 1 000 engineers (holding a five year degree after the baccalaureate) and 4 500 technicians (holding a two year degree after the baccalaureate) annually. Currently, schools train 200 engineers and 700 technicians each year. ICT enterprises have started to cooperate with schools to train more engineers.

Despite these constraints, the ICT sector is dynamic and contributes to the development of previously isolated areas. Two innovative uses of ICT promoted in rural areas by the Ministry of Telecommunication (MoT) are telecentres and the ICT-villages (VillageTIC). Telecentres are equipped with phones, fax machines, Internet access and other resources, and are the result of co-operation between the MoT, municipalities and local communities. The former supplies the technology infrastructure and trains local technicians who are responsible for maintenance; the municipalities provide the office space and local communities cover part of the operating costs by paying affordable tariffs and managing the businesses. The first three telecentres were opened in 2007 and 13 followed in 2008. The goal is to have at least one telecentre in each of the 22 regions. To this end, the World Bank provides infrastructure assistance in connecting the backbone to isolated and poor regions, either via cable or antenna.

The ICT-villages are supplied with mobile-phone based e-services like e-governance and e-health. A tender for project implementation was launched in 2008. A group of consultants is currently identifying the centres and the services. The material has been acquired and implementation should start in 2009.

These innovations aim to reduce the distance between the population and the public administration. For example, a telecentre opened in a small community 60 kilometres from Diego allows electronic delivery of civil state certificates and time savings of up to one day in obtaining such documents.

Political Context

The political scene was recently dominated by the power struggle between President Marc Ravalomanana, elected for a second term in 2006, and Antananarivo mayor Andry Rajoelina, elected at the end of 2007 with the support of a heterogeneous coalition of opposition parties. After days of protests in March 2009 during which more than 100 people lost their lives, President Ravalomanana resigned and Mr. Rajoelina assumed power backed by the military. The South African Development Community (SADC) challenged his right to be in office. The outlook remains uncertain and poses threats to continued economic growth and improvements in social indicators. The projections contained in this note are based on the assumption that the political turmoil finds a rapid and peaceful solution.

One of the country's targets has been to improve governance, including raising Madagascar's score on Transparency International's Corruption Perception Index to a level of five by 2012. The index reading has improved from 1.7 in 2002 to 3.2 in 2007 and 3.4 in 2008.

Modest improvements in governance are reflected in the World Bank's World Development Indicators' Aggregate Governance rankings. Madagascar reported an improvement in "voice and accountability" from 47 in 2006 to 48 in 2007 (the latest available year); from 45 to 47 in "government effectiveness"; from 46 to 49 in "regulatory quality" and from 46 to 47 in "rule of law." At the same time, however, the ranking for "political stability and absence of violence" fell sharply from 48 to 40.

Another goal is to achieve greater decentralisation, allocating 10 per cent of the national budget to municipalities by 2011. The target for 2008 was set at 4.5 per cent but realisation fell short at 2.5 per cent. Nonetheless, the political will to achieve the goal is reflected in the large increases in the budget of the Ministry of Decentralisation in both 2008 and 2009.

Social Context and Human Resources Development

Progress towards the achievement of the Millennium Development Goals (MDGs) is slow and many of the targets are unlikely to be met. Despite the ambitious goals set in the MAP, the budget for social development is limited and the revision of the MAP in November 2008 showed that many intermediate objectives were not reached.

The poverty rate soared to 80.7 per cent in 2002 in the crisis following the contested presidential elections in 2001, well above the 70 per cent rate of 1990. Subsequently, the poverty rate fell to 67.5 per cent in 2006, still far from the goal of 35 per cent by 2015. The relatively small impact that strong economic growth has had on poverty reduction likely reflects the capital-intensive nature of the large mining projects and their limited linkages with the local economy.

The country has made major progress towards the second MDG on universal primary education, with enrolment rising from 71 per cent in 1997 to 96.2 per cent in 2006. The primary education completion rate rose from 39 per cent in 2002 to 52 per cent in 2006. The government is now raising compulsory school attendance from five to seven years, which should be in effect nationwide by 2012. The provision of safe drinking water, school kits and canteen services all help boost attendance. The Ministry of Education's budget has been increased.

An impressive reduction in child mortality was achieved between 1997 and 2004, from 93 to 58 per 1 000 for infants, and from 159 to 94 per 1 000 for under-fives. Progress on the fifth MDG on maternal health has been modest so far. For example, the proportion of women giving birth assisted by qualified health personnel rose from 47 per cent in 1997 to 51 per cent in 2004. The government recently made child delivery in hospitals a right, promising to substantially improve maternal health.

HIV/AIDS prevalence remains low by sub-Saharan standards. However, it is estimated that only 25 per cent of males and 10 per cent of females aged 15-24 use condoms, and the development of the tourism industry poses risks which need to be addressed. Malaria remains widespread although the mortality rate of those afflicted with the disease decreased from 6.9 per cent in 2004 to 4.2 per cent in 2006.

The share of the population with access to safe drinking water increased from 24 per cent in 1999 to 39.6 per cent in 2005, suggesting a positive outlook for the achievement of the MDG of 62 per cent by 2015. Some 48 per cent of the population had access to improved sanitation in 2006, up from 44 per cent in 2004, and 51.5 per cent had access to latrines. However, only about 14 per cent of the population has access to latrines that do not pollute underground water and are washable. The budget for the water and sanitation sector, managed for the first time by the newly established Ministry for Water rather than by a department of the Ministry of Energy and Mines, will be increased by 51 per cent in 2009.

Legislation promoted by the Ministry of the Environment recognises the fundamental role of water and forest resources. A new integrated water management approach to irrigation was launched in

2007 with assistance and financing from the World Bank and the Global Environmental Fund. The new system became operational in 2008 and is being piloted in four regions.

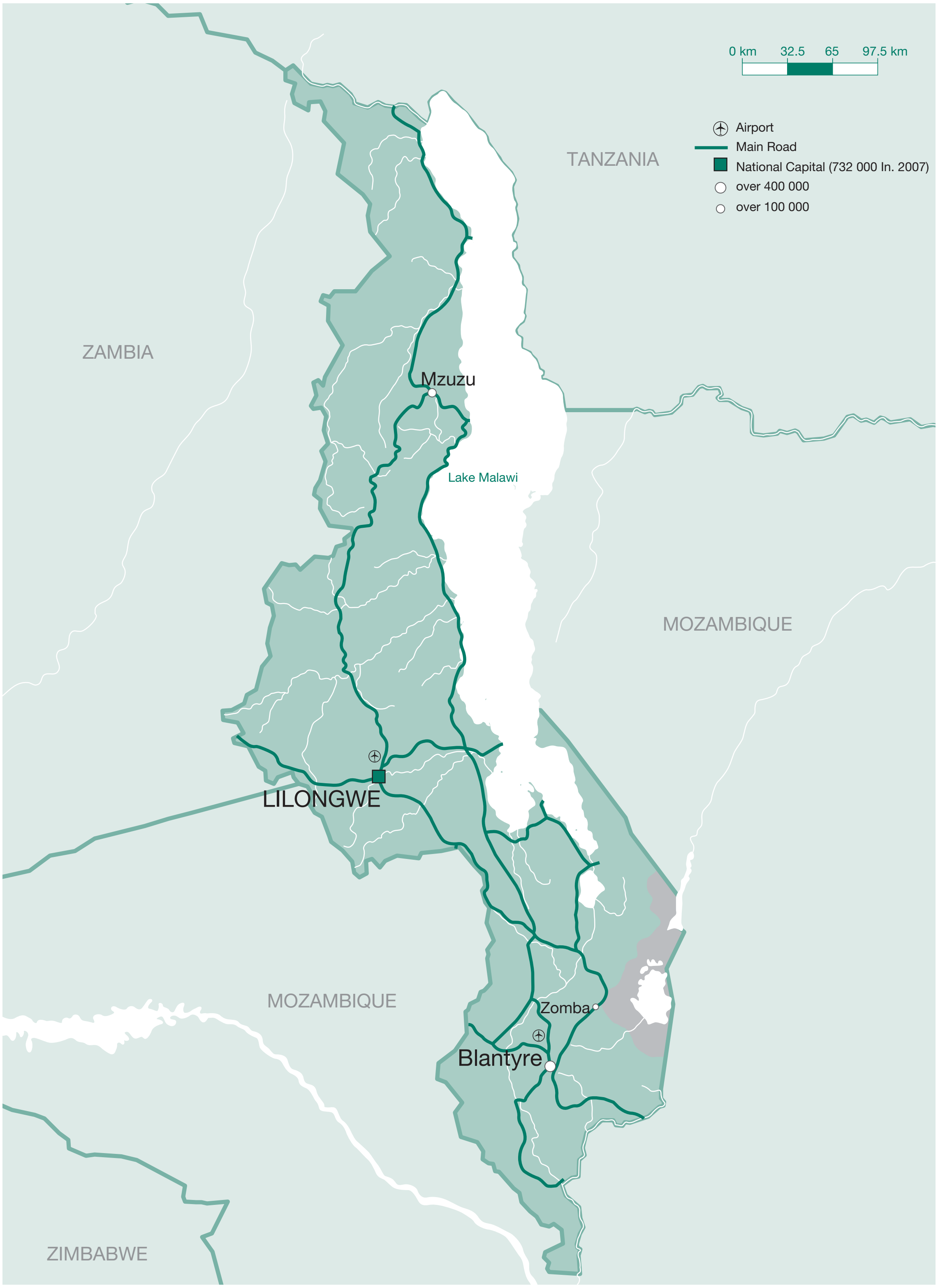
Forests aid rainfall, regulate water flow and ensure biodiversity. The target is to protect 10 per cent of the territory or 6 million hectares. Protected areas grew from 2.9 per cent in 2004 to 6.4 per cent in 2006. Promising opportunities for forest management and protection also come from carbon dioxide emissions control. Madagascar recently signed its first contract for the sale of carbon credits to US and German buyers. The contract entails the sale of 10 million tons of carbon dioxide emission rights set against 300 000 hectares of protected forests over a 30-year period. The price is set at USD 3 per ton, giving nominal revenues of USD 30 million. About half of these benefits will accrue to the local population. In the near future, new protected areas could attract similar contracts.

Malawi

key figures

- Land area, thousands of km²: 94
- Population, thousands (2008): 14 846
- GDP per capita, PPP valuation, USD (2008): 756
- Life expectancy (2008): 53.1
- Illiteracy rate (2008): 28

Malawi



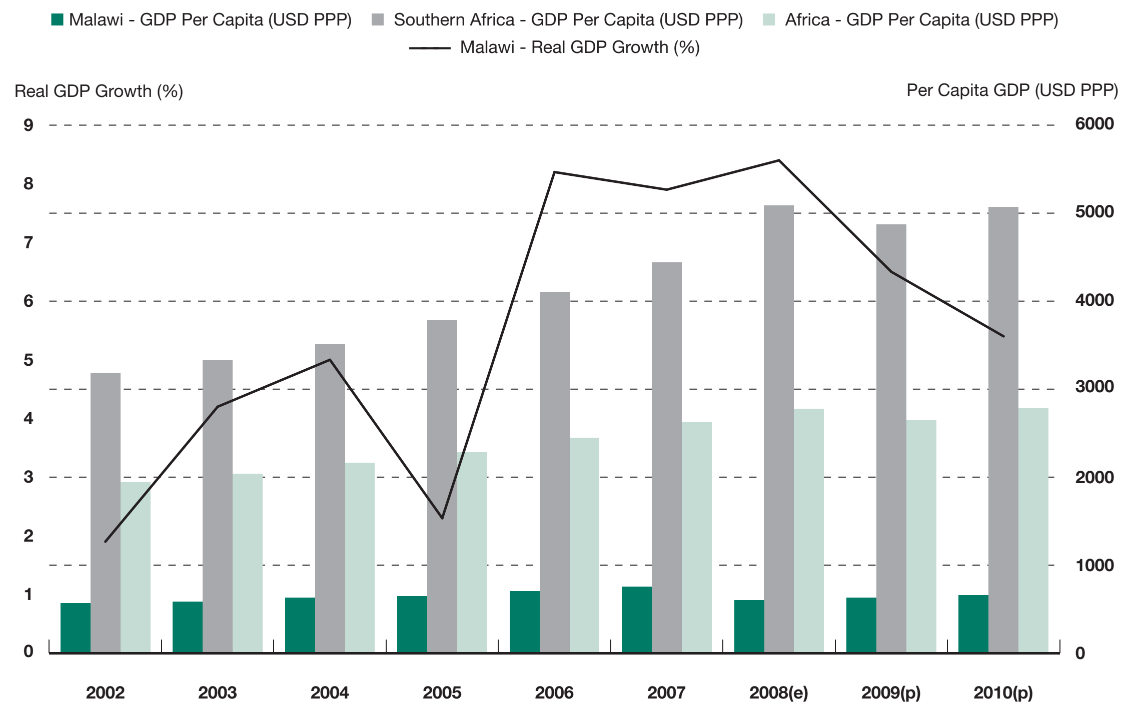
0 km
32.5
65
97.5 km
Airport
Main Road
National Capital (732 000 In. 2007)
over 400 000
over 100 000
TANZANIA
ZAMBIA
Mzuzu
Lake Malawi
MOZAMBIQUE
LILONGWE
MOZAMBIQUE
Zomba
Blantyre
ZIMBABWE

MALAWI RANKS AMONG THE WORLD'S most densely populated and least developed countries. Nevertheless, its macroeconomic performance has been impressive in recent years, with gross domestic product (GDP) growing by 8.4 per cent in 2008 compared to 7.9 per cent in 2007. Underpinning this has been a good performance by the agricultural sector, although output growth at 10.1 per cent was slightly lower than in the previous fiscal year. The government's input subsidy programme combined with ample rains across the country has resulted in good harvests in maize and other crops over the past few years.

The country has also remained relatively insulated from the contagion effects of the global financial crisis thanks to its limited integration with the global financial system. However, the country is likely to suffer from second round effects of the crisis arising from declining demand for its commodities, coupled with a decrease in commodity prices. More significantly, the country experienced a substantial terms of trade shock in 2008 because of high fuel and fertiliser prices, which has led to fiscal vulnerabilities and put tremendous pressures on international reserves. These are the key structural weaknesses that the government will have to tackle in 2009 if Malawi is to maintain its recent strong economic performance.

Economic growth is reducing poverty, and uranium mining will boost exports.

Figure 1 - **Real GDP Growth and Per Capita GDP**
(USD/PPP at current prices)



Source: IMF and National Statistical Office (NSO).

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On the political front, presidential and parliamentary elections are due to be held on 19 May 2009. Early indications suggest that the elections are likely to be closely contested, with no candidate emerging as a front-runner. This increases the likelihood of another hung parliament with potentially negative implications for the country's development agenda. The last five years of the current administration of Dr. Bingu wa Mutharika have seen few legislative changes being made in parliament. No reforms were undertaken in 2008[1].

Recent Economic Developments

GDP growth on average has been an impressive 8 per cent since 2005 and reached 8.4 per cent in 2008. Sustaining this growth momentum will be, however, challenging given the current global economic downturn. As a result GDP growth is forecast to grow at a slower pace of 6.5 per cent in 2009[2]. This will be driven primarily by mining production which is expected to be operating at full capacity in 2009.

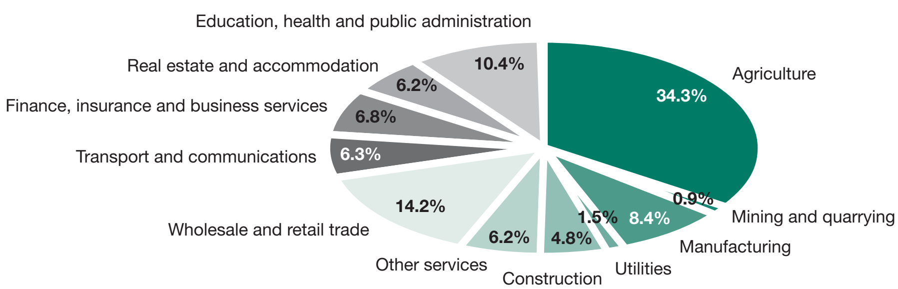
Malawi's economy remains predominately agrarian, with approximately 85 per cent of the population living in rural areas. Thus, the sector is a key driver of growth, accounting for more than one-third of GDP and 90 per cent of export revenues. However, the sector is highly vulnerable to weather shocks and the frequency of drought has increased in recent years.

Agricultural output grew by 10.1 per cent in 2008, slightly down from 10.8 per cent in the previous year. This marginal drop in the rate of increase in agricultural output was reflected in declines of 19 per cent and 22.6 per cent in maize and sugar production respectively. This was however offset by a substantial increase in tobacco output on account of increased production and high auction prices. The sector is forecast to grow moderately by 6 per cent thanks to the continued government fertiliser subsidy programme and good rains. The government continues to prioritise agriculture as the cornerstone of its development policy and currently allocates roughly 14 per cent of the national budget to the agricultural sector.

The mining and service sectors are likely to be highly influential in shaping the economic environment in Malawi in the future. The Kayelekera uranium mine is scheduled to open in 2009, and at its peak production is expected to increase mining output by 5 per cent and exports by 25 per cent. In 2009, the sector is estimated to grow by 9.6 per cent mainly thanks to these anticipated exports from the Kayelekera mine. Furthermore, increased quarrying, mining of agricultural lime and improved performance by the Mchenga coal mine are also likely to boost mining output further in the years ahead.

Recent developments in the finance and information and communication technologies (ICT) sectors imply the strong performance should continue and help bolster overall economic growth.

Figure 2 - **GDP by Sector in 2008** (percentage)



Source: Authors' estimates based on National Statistical Office, Ministry of Economic Planning and Development.

StatLink http://dx.doi.org/10.1787/571882612481

1. *Doing Business in Malaw*i 2008– World Bank and IFC Publication.

2. http://www.imf.org/external/np/sec/pr/2008/pr08309.htm

Table 1 – **Demand Composition**

	Percentage of GDP (current prices)		Percentage changes, volume			Contribution to real GDP growth		
	2000	2007	2008(e)	2009(p)	2010(p)	2008(e)	2009(p)	2010(p)
Gross capital formation	**13.6**	**24.3**	**18.8**	**7.8**	**4.0**	**4.1**	**1.8**	**1.0**
Public	10.0	14.1	18.0	12.0	6.0	2.3	1.6	0.9
Private	3.5	10.2	20.0	2.0	1.0	1.8	0.2	0.1
Consumption	**96.2**	**98.4**	**7.2**	**7.4**	**5.1**	**7.2**	**7.3**	**5.0**
Public	14.6	12.2	16.8	13.3	6.9	2.0	1.7	1.0
Private	81.6	86.1	6.0	6.5	4.8	5.2	5.5	4.1
External demand	**-9.7**	**-22.7**				**-2.9**	**-2.6**	**-0.6**
Exports	25.6	23.0	19.0	-4.2	2.6	3.2	-0.8	0.4
Imports	-35.3	-45.7	16.3	4.6	2.7	-6.1	-1.8	-1.0
Real GDP growth						**8.4**	**6.5**	**5.4**

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

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Malawi's formal manufacturing sector remains small and accounted for 8 per cent of GDP in 2008. Manufacturing firms also tend to be inward looking with only 14 per cent of output exported. The sector grew by 12.1 per cent in 2008 compared to 8.8 per cent in the previous fiscal year. Underpinning this high growth has been strong performances of trailer building as well as tea and fertiliser manufacturing.

Growth in the construction sector was 8.1 per cent in 2008 down from 9.2 per cent in 2007. However, the sector is forecast to grow by 8.4 per cent in 2009 driven by increased infrastructure development projects such as roads, schools and hospitals.

In respect of final demand, the contribution of private consumption to GDP has grown considerably, from 81.6 per cent in 2000 to 86.1 per cent in 2007 while public consumption declined from 14.6 per cent to 12.2 per cent. However, growth of real exports is expected to decline in 2009. This is probably due to the impact of the global economic downturn on demand for Malawi's exports.

As for the future, although Malawi was insulated from the contagion effects of the current global financial crisis, it is likely to suffer from second round effects arising from decline in demand for its commodities, reduced investment inflows as well as overseas development assistance (ODA). GDP growth is therefore likely to slow in the medium future. However, if uranium production reaches the output planned it could partly offset the negative effect of the financial crisis on the Malawian economy.

Macroeconomic Policy

Since coming to power in 2004, the government has prioritised macroeconomic stability. As a result, the macroeconomic environment has been relatively stable as evidenced by declining inflation and narrowing fiscal deficits. Although inflation increased in 2008 because of fuel and food prices, it remains in single figures. The government recently completed its three-year Poverty Reduction and Growth Facility (PRGF), meeting all targets except that for international reserves. A successor programme is being negotiated and is likely to be approved in due course. Donors continue to show confidence in the current government, and as a result are increasing external support.

Fiscal Policy

Tax revenue grew modestly from 16.6 per cent in 2006/07 to 17.6 per cent of GDP in 2007/08. Grants

Table 2 - **Public Finances** (percentage of GDP at current prices)

	1999/2000	2005/06	2006/07	2007/08	2008/09	2009/10(e)	2010/11(p)
Total revenue and grants	**24.1**	**31.2**	**31.7**	**30.1**	**31.3**	**32.1**	**31.4**
Tax revenue	15.6	15.6	16.6	17.6	16.7	16.9	16.7
Grants	6.9	13.7	13.6	10.9	12.6	13.1	12.6
Total expenditure and net lending	**29.7**	**31.2**	**33.0**	**32.8**	**34.3**	**34.2**	**34.2**
Current expenditure	19.2	24.4	21.3	21.1	27.4	27.8	27.9
Excluding interest	*15.5*	*19.7*	*17.8*	*18.9*	*24.8*	*25.4*	*26.1*
Wages and salaries	4.7	5.3	5.1	5.5	5.9	6.0	5.9
Interest	3.7	4.7	3.5	2.3	2.6	2.4	1.8
Capital expenditure	10.4	6.8	11.5	11.7	6.5	6.1	6.3
Primary balance	**-1.9**	**4.7**	**2.2**	**-0.5**	**-0.3**	**0.2**	**-1.0**
Overall balance	**-5.6**	**0.0**	**-1.3**	**-2.7**	**-2.9**	**-2.2**	**-2.9**

Source: Data from local authorities: estimates (e) and projections (p) based on authors' calculations.

StatLink http://*dx.doi.org/10.1787/577438888678*

as a proportion of GDP, however, declined by 2.7 per cent to 10.9 per cent in 2007/08. The decline in grants was due to the delay in disbursement of donor funding due to the failure of the parliament to pass the budget. A number of factors contributed to increased revenue, including better revenue collection efforts, as well as the broadening of the tax base and introduction of incentives to encourage compliance.

On the expenditure side, current expenditure excluding interest rose from 17.8 per cent of GDP in 2006/07 to 18.9 per cent in 2007/08. However, total government expenditure declined marginally by 0.2 per cent to 32.8 per cent of GDP in 2007/08 largely because of reduced interest payment on public debt. Expenditures on goods and services increased from 6.6 per cent of GDP in 2006/07 to 7.7 per cent in 2007/08, driven mainly by USD 70 million (US dollars) of additional costs incurred under the input subsidy programme and higher than budgeted domestic interest payments, which represented 0.2 per cent of GDP. Total development expenditure rose slightly to 11.7 per cent of from 11.5 per cent of GDP in the previous fiscal year. The government has stated its continued commitment toward development, but the 2009 elections may raise pressure to increase social spending and hence push up recurrent expenditure at the expense of development spending.

Given the larger decline in total revenue and grants relative to expenditure, the fiscal deficit widened to 2.7 per cent of GDP in 2007/08 compared to a deficit of 1.3 per cent in the previous fiscal year. This in part was caused by delays in passing the 2008/09 budget, which was not approved by parliament until 28 August because of a political impasse. As a consequence, there were delays in the disbursement of donor inflows while spending continued as programmed. Given the upcoming presidential elections the government may feel compelled to increase social spending and this may lead to a further widening of the fiscal deficit.

Monetary Policy

As with many central banks in Africa, the main objective of the Reserve Bank of Malawi is to control inflation. After falling substantially between the beginning of 2006 and the end of 2007, consumer prices rose in 2008, reaching a year on year rate of over 8.7 per cent by the third quarter. The increase was driven by higher fuel prices which rose by 25 per cent in June 2008. Although world fuel prices have since been declining this has not been the case in Malawi.

The Reserve Bank continued to pursue an expansionary approach to monetary policy. This is probably based on the consideration of the need to promote private sector development. Interest rates have been lowered. The bank rate has declined considerably over the past five years, from 45 per cent in 2004 to 15 per cent in 2008. Similarly, lending rates for commercial borrowers have fallen considerably. As a result, there has been an increase in credit extension to the private sector.

Inflation is expected to ease further to 7.5 per cent in 2009. This projection is largely based on the expectation that global oil and fertiliser prices will remain contained. Furthermore, maize prices, which have a considerable influence on domestic prices, are expected to remain subdued because of good harvests recorded over the past two years. In view of the positive inflation outlook and the government objective of promoting private sector development, it is unlikely that the Reserve Bank of Malawi would tighten monetary policy in the medium-future.

It is also worth noting that the Reserve Bank is limiting the supply of foreign exchange to the currency markets. This shortage is reflected in the increase in rates of exchange being offered by both the foreign exchange bureaux and the parallel markets. Although this policy may be necessitated by the decline in international reserves, it may make it difficult for firms to source imports of capital goods, which may have detrimental effects on growth and development. The challenge for the authorities in the future will be to balance the desired reserve accumulation against much needed development spending and supply of foreign exchange to facilitate private sector development.

External Position

Malawi's exports grew strongly from USD 628 million in 2007 to USD 1.0035 billion in 2008. This represented a growth rate of nearly 60 per cent over the previous period. High commodity prices for Malawi's major exports, including tobacco and tea, coupled with increased production aided by good rainfall across the country as well as government input subsidy contributed to improved export performance. Growth of tobacco export was more robust, growing by 126 per cent to USD 632.4 million in 2008. Import of goods however, grew slowly by 24.1 per cent to USD 1.4364 billion in 2008. Exports of coffee and sugar grew by 12.6 per cent and 17.5 per cent in 2008 respectively. Tea exports, however, contracted by 2.8 per cent in 2008. After declining for two consecutive periods as a result of stiff competition following the end of the Multi-Fibre Agreement (MFA) in January 2005, Malawi's apparel export registered a growth of 21 per cent in 2008.

The faster growth in exports relative to imports led to significant improvement in the trade balance, which declined from 17 per cent in 2007 to 14.6 of GDP in 2008. This was, however, offset by a substantial increase of USD 204.1 million in services deficit because of higher interest payments. As a result, the current account deficit widened from 2.1 per cent of GDP in 2007 to 5.3 per cent of GDP in 2008.

The outlook for 2009 and 2010 does not look positive, given the current global economic downturn,

Table 3 - **Current Account** (percentage of GDP at current prices)

	2000	2005	2006	2007	2008(e)	2009(p)	2010(p)
Trade balance	-4.4	-17.4	-17.7	-17.0	-14.6	-14.2	-15.0
Exports of goods (f.o.b.)	23.0	17.8	17.2	20.5	22.5	21.6	22.0
Imports of goods (f.o.b.)	27.5	35.2	34.9	37.5	37.1	35.8	37.1
Services	-7.7	-7.1	-6.3	-4.7	-5.8	-6.2	-6.3
Factor income	-2.1	-1.5	-1.2	-0.6	-0.5	-1.9	-3.0
Current transfers	8.9	15.9	18.7	20.3	15.6	19.5	18.4
Current account balance	**-5.3**	**-10.1**	**-6.4**	**-2.1**	**-5.3**	**-2.8**	**-5.9**

Source: Data from local sources; estimates (e) and projections (p) based on authors' calculations.

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which is likely to affect Malawi's growth through reduction in demand for its products as well as slumping commodity prices. Growth in import volume is expected to decline by over 5 per cent in the European Union, one of Malawi's largest trading partners after South Africa. The growth slowdown in South Africa may further depress Malawi's export growth in the medium term. Commodity prices have already started to decline and are expected to fall further in the medium future. Tea and sugar prices are forecast to decline to USD 2.1 per kilogram (kg) and USD 0.29 per kg in 2009 respectively. These factors will dampen growth prospects in 2009.

However, uranium production, if the Keyelekera mine operates at full capacity as planned, could provide a much-needed boost to Malawi's exports, partly offsetting the negative effect of the global economic downturn on growth performance. Nonetheless, in 2009 exports are projected to decline by 4.2 per cent and by 2.5 per cent in 2010. As a percentage of GDP, exports are forecast to decline to 21.6 per cent of GDP in 2009 compared with 22.5 per cent in 2008.

The government recognises the vulnerability of the economy to external shocks and therefore attaches great importance to diversifying exports away from traditional products. New products are being promoted, including rice, coffee, fruits and nuts, soya beans, paprika as well as clothing and textiles. The government is eager to exploit the benefits of preferential market access granted to the country under the EU's Everything But Arms (EBA) initiative as well as the US African Growth and Opportunity Act (AGOA). Malawi's sugar will be eligible for access free of quota and duty to the EU market under EBA in 2009.

Malawi has been taking part in the negotiations for the Economic Partnership Agreement (EPA) as part of the Eastern and Southern Africa (ESA) regional configuration. Like most African countries, as well as other member countries within the ESA group, Malawi has refused to sign the EPA. The main reason for the ESA's refusal to sign the agreement was that development issues were not adequately addressed in the Interim EPA.

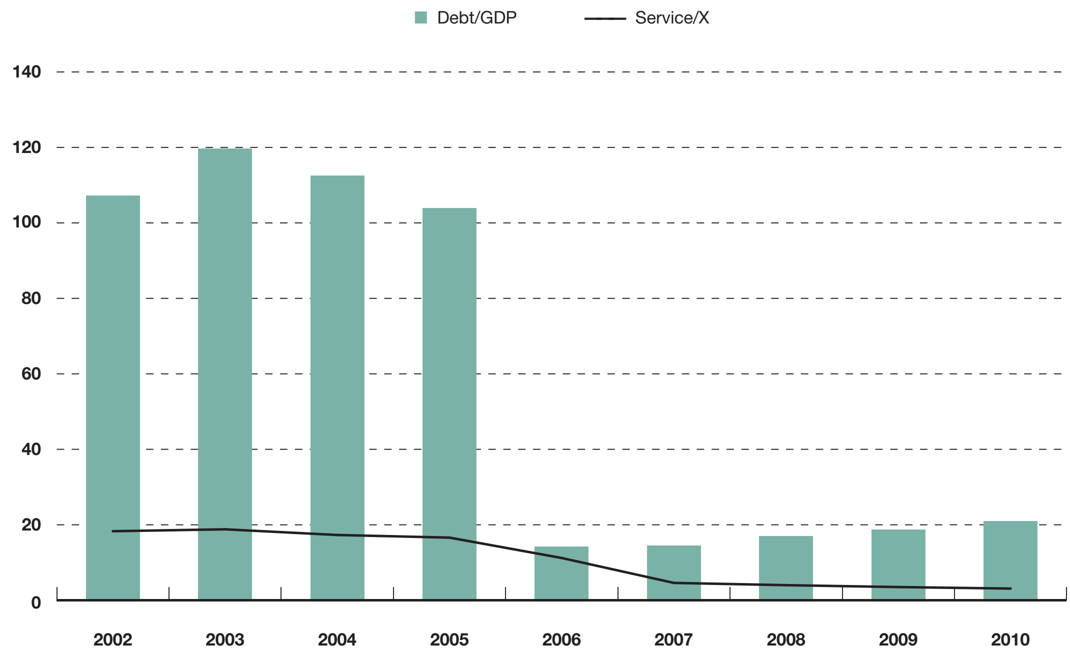
More specifically, Malawi's refusal for signing the Interim EPA was also based on the recognition that the benefits of the EPA are not substantially superior to those it currently enjoys under the European Union's EBA initiative, which provides duty-free and quota-free access for exports from Least Developed Countries (LDCs) to the EU. The only product that has so far been exempted from the EBA, sugar, will be eligible for duty-free and quota-free treatment under the initiative beginning 2009. Furthermore, there are also fears that the signing of an EPA with other ESA countries may erode Malawi's trade preferences with its major trading partner, South Africa.

The Malawi kwacha (MWK) remained relatively stable against the US dollar for most of 2008, something that could be explained by the Reserve Bank's heavy intervention in the foreign exchange market to prevent the kwacha from depreciating against the US dollar. This action, coupled with the increase in fuel and fertiliser prices, has put tremendous pressures on official international reserves, which have declined below the required three months of import cover. Given the low level of international reserves, it is unlikely that the current exchange rate can be sustained in the long term.

Despite substantial increases in tobacco prices and export volumes, Malawi experienced a significant deterioration in its terms of trade in 2008. This was the result of increases in fuel and fertiliser prices. The IMF extended an exogenous shock facility (ESF) loan in December 2008, to help the country rebuild its international reserves and adjust to high food, energy and fertiliser prices.

Even though the terms of trade shock seems now to be lessening, the rapid and sizeable appreciation of the US dollar against the currencies of many of Malawi's trade partners may lead to an appreciation in the real effective exchange rate. This, in turn would make sustaining robust growth and reaching reserve targets all the more difficult. The authorities will have to re-examine the appropriateness of the current exchange rate regime in light of the stated objective of promoting export diversification.

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



Source: IMF.

StatLink http://dx.doi.org/10.1787/573521708524

Because of inadequate domestic resource mobilisation, aid inflows play an important role in financing vital development programmes in Malawi. The authorities indicate that nearly USD 800 million in aid has been committed in 2008. However, disbursement is likely to be affected by the current global financial crisis. Any political crisis after the elections could also affect the disbursement of donor funding.

Like other heavily indebted poor countries, Malawi has benefited considerably from Heavily Indebted Poor Countries (HIPC) and the Multilateral Debt Relief initiatives. Although debt relief has not been additional to ODA, it has freed up resources for development and poverty reduction. The amount of debt relief amounted to MWK 14 billion (Malawi kwacha) for the financial year 2007/08. In line with its commitment to macroeconomic stability, the current government attaches great importance to debt sustainability. To this end, it is preparing a comprehensive debt management strategy, which will guide future domestic and external borrowing.

Structural Issues

Private Sector Development

Although the Malawi Economic Growth Strategy (MEGS) recognises that private sector development is central to economic development, progress so far has been limited. For example, private savings have been negative while private investment averages only 5 per cent of GDP.

Lack of access to finance is one of the major constraints to private sector development in Malawi. Apart from this, the cost of doing business is high because of high transport costs. Consequently, the environment is not conducive to private sector development. It is not surprising that Malawi's ranking on the World Bank's *Doing Business* survey has been steadily declining. It is now ranked 134th out of 181 countries. Some of the areas where Malawi fares poorly include starting a business, registering a property, and obtaining licences.

The government is also moving ahead with the reform of the supervisory and regulatory frameworks for the financial industry. This has become even more important in the context of the current financial crisis which has glaringly exposed the pitfalls of financial deregulation. In this regard, the Reserve Bank of Malawi intends to move towards a risk-based supervision approach to examining bank performance.

Other Recent Developments

Since 2006, the government of Malawi has been implementing the Malawi Growth and Development Strategy (MGDS), which built on and replaced the Malawi Poverty Reduction Strategy. The MGDS provides an overarching policy framework for reducing poverty from 2006-2011. The focus of the strategy is now on achieving sustained growth with social development through increased infrastructure development and strengthened governance.

The first annual progress review of the MGDS reveals that some progress has been made, especially in terms of sustaining economic growth and consolidating macroeconomic stability. Furthermore, government revenue has grown remarkably thanks to improvement in tax administration and tax collection efforts. However, a number of challenges still remain.

The government sees privatisation as an important avenue for promoting greater private sector involvement in the economy. To this end, it is continuing to privatise a number of state assets. However, following the sale of a majority stake in Malawi Telecommunications Ltd in January 2006, few attractive assets remain in state hands. Air Malawi remains in a state of “passive privatisation” and discussions are under way with foreign investors to find potential buyers for the airline.

The government also recognises the benefits of Public Private Partnerships, especially for leveraging private sector finance and expertise in the provision of public sector services and infrastructure.

Another key challenge identified by the Malawi Annual Progress Report on implementation of the Second Poverty Reduction Strategy Paper relates to the weak performance of the public financial management systems. This has been mainly due to capacity constraints. In this regard, there is a need for concerted efforts from the government to further strengthen public financial management system.

The poor state of infrastructure development, especially roads, constitutes a major obstacle to private sector development. For example, transport costs can account for up to 50 per cent of the costs of production in some export sectors, namely tobacco, sugar, tea, cotton and coffee. Furthermore, the energy supply is erratic and unreliable, in spite of the continuing rehabilitation of Malawi’s hydroelectric power plants. According to a recent report by the World Bank, there are on average 63 days of power outages per year, which constitutes a real constraint on growth and development. Under these circumstances the government is moving ahead with plans to build a hydroelectric power station in the north of the country on the Rukuru river with generating capacity of 100 megawatts (MW).

Innovation and ICT

Information and Communication Technology (ICT) plays an important role in economic development. Recognising its benefits for development, the government is making efforts to promote the development of the sector. As a result, the sector has registered impressive growth in the last six years, with its share of GDP rising from 3.7 per cent in 2006 to 4.5 per cent in 2007.

Reliable telecommunications infrastructure is particularly sparse in the northern rural areas where old, often obsolete, microwave equipment is still used. However, foreign investment in the sector is slowly contributing to the improvement of the telecommunications infrastructure in Malawi. The sole fixed-line operator in Malawi, Malawi Telecom Ltd (MTL), is in the process of replacing microwave systems with next-generation networks. MTL has also signed a USD 23 million contract with foreign investors to install a double ring fibre optic cable linking Blantyre, Lilongwe and Mzuzu and the majority of cities in between. There are also plans for a submarine fibre optic cable that will link Maputo in Mozambique to Dar es Salaam in Tanzania and to Malawi.

In respect of ICT services, mobile telephony has registered impressive growth, with the penetration rate doubling from 7 per cent in 2002 to 14 per cent in 2008. Furthermore, mobile lines per 100 inhabitants rose from 0.7 in 2002 to 14 as of 30 June 2008. However, this is considerably below the level for other sub-Saharan African countries. Currently there are two mobile operators in Malawi, TNM and Zain Company, which serve an estimated 1.42 million mobile customers and both operators have experienced rapid customer growth.

For Internet services there are several innovative fixed and roaming wireless technologies being implemented in Malawi. Two Internet providers are using inclined orbit satellite systems. Fixed wireless is for the most part based on Imax technology, allowing relatively high speeds supplying commercial, private and government users and the tourist trade. Mobile wireless is also being developed with the introduction of a new Synchronous Code Multiple Access Code (SCDMA) system.

Another provider is expanding its CDMA platform with the introduction of around 24 new towers in Blantyre, Lilongwe, Zombie and other densely populated areas. A third cellular provider is to enter the market in due course and plans to roll out a completely new state of the art mobile WiMax service in Blantyre and Lilongwe. While wireless data services are still almost exclusively confined to urban areas, a project being funded by the World Bank is under way to introduce wireless technology to rural areas, with the ultimate goal of providing universal access in Malawi.

Before reform, the Malawi Post and Telecommunications Corporation (MPTC) dominated the sector. However, this domination changed with the passing of the 1998 Communications Sector Act. The new law ended the MPTC monopoly as it was split into two companies: the Malawi Telecommunications Limited (MTL) and Malawi Post Corporation (MPC). A new independent regulator, the Malawi Communications Regulatory Authority (MACRA) was also established. It remains the only institution responsible for regulating all aspect of communications. Although technically an independent regulatory body, the board of MACRA is directly appointed by the government.

There has been no competition in the fixed-line service, as MTL remains the sole provider of fixed-line services. However, this situation is likely to change with the imminent entry of a second national fixed-network operator, Access Communications Limited, which is expected to begin business in March 2009. Unlike the fixed-line services, the cellular sub-industry has been relatively competitive, thanks to the government's policy of issuing additional licences to new cellular providers. In July 2008 MACRA awarded Global Advanced Integrated Networks (GAIN) a third mobile licence.

It appears that the government policy of removing import duties on mobile phone handsets and telecommunications equipment in May 2008 has also had a positive impact on attracting new players into the market.

There are a number of innovative applications of ICT in various sectors, including agriculture, finance, health and education.

A good example of ICT application in agriculture is the Initiative for Development and Equity of African Agriculture (IDEAA), a University of Malawi initiative. In 2004 IDEEA installed an agricultural marketing and information system (MIS) with the aim of providing farmers, processors and other stakeholders with relatively up-to-date "text access" market information, enabling them to make confident, informed and competitive market-based decisions.

In the area of finance, although mobile banking is not extensively used because of cellular providers' fears of subjecting their services to banking regulation, banks are considering the option of using ESCOM's fibre optic cable between Blantyre and Lilongwe for mobile banking. At present only the National Bank is able to use mobile banking since it has a high-capacity data link between its branches. Some banks are also looking at the possibility of equipping their Automatic Teller Machines (ATMs) with General Packet Radio Services (GPRS) enabled modems. This would allow the development of a new range of services.

A good example of innovative applications of ICT in the health sector is the electronic data system (EDS) developed for anti-retroviral therapy (ART). The touch-screen based system guides clinical officers in the treatment of their patients. The system is operating in Lilongwe, Blantyre and Dedza. Extending this service to the rural areas, however, would require connectivity.

In the area of education, SMS services are being used by teachers and teacher-trainers to organise meetings and training events in rural parts of Malawi. A small amount of basic computer skills training is under way.

In spite of the growth of the ICT sector, a number of challenges still remain. Perhaps one of the greatest relates to the lack of an up-to-date government policy setting out clear operating parameters for the private sector and more generally the objectives for development within the sector. At present, the department of information systems and technology is drafting such a bill and it is expected to pass through cabinet before the May elections. Furthermore, the shortage of technical skills within the country is also a major factor limiting the development of the sector.

Political Context

The current President Bingu wa Mutharika was elected in May 2004 under the patronage of the United Democratic Front (UDF) party. However, he left the party within a year and established a new Democratic Progressive party (DPP), ostensibly because of UDF opposition to his anti-corruption campaign. Political infighting subsequently led to an impeachment motion being launched by opposition MPs. The motion appeared to have lost momentum until the budget debate in 2007, at which point tensions were reignited and eventually led the budget to be delayed by three months. Similar issues arose in 2008 and once again the passing of the national budget was significantly delayed.

In May 2009 legislative and presidential elections were due to be held. The Malawi Congress Party (MCP) together with the UDF and DPP were the three main political parties in what was expected to be a closely contested race. Bingu wa Mutharika remained the DPP candidate with John Tembo and Bakili Muluzi (former two-term president) running for the MCP and UDF respectively. Each party's candidate had generated a strong support base. However, the electorate was fairly equally divided making it difficult to forecast the outcome of the elections.

Historically the UDF has received most of its support from the southern region, but a large share of the voters that it attracted in 2004 may now support the DPP, which is considered an offshoot of the UDF and also has a stronghold in the south. President Mutharika and the DPP were also likely to benefit from incumbency and from the president's fertiliser subsidy programme which has helped produce bumper harvests in the last few years and been popular with the farming community. More recently, President Mutharika's image had suffered a blow with many allegations being made that he was persecuting Mr. Muluzi and showing contempt for Malawian democracy. Given this political landscape the MCP, which has its stronghold in the central region, may have hoped to benefit from the split between the other two major parties in the south.

Social Context and Human Resources Development

Malawi ranks 164th out of the 177 countries on the UNDP's Human Development Index. However, during the past two decades, there has been progress in reducing income poverty. The poverty rate fell from 54 per cent in 1990 to 45 per cent in 2006, and continued strong economic growth should help this figure fall further. Nonetheless, Malawi remains one of the poorest countries in the world with a highly unequal income distribution.

Adult literacy at the national level was 72 per cent in 2007, but considerably higher among males (79 per cent) than females (65 per cent). The youth literacy rate was higher at 76 per cent and there is not much disparity between the literacy of young females and males.

Malawi also has one of the world's highest prevalence of HIV/AIDS, with almost one million people living with the disease. HIV/AIDS has also led to an increase in the number of people in vulnerable groups, such as households lacking adult labour, those headed by elderly people or children, and households with sick family members unable to maintain food production. Women are in many cases faced with the burdens of agricultural production and caring for HIV/AID victims. Poor nutrition is also widespread, and life expectancy has fallen to about 53.1 years.

Global warming and climate change have been highlighted as significant additional risks for Malawi. It is projected that the country's temperature will rise by 2 to 3°C by 2050, with a decline in rainfall and reduced water availability. This in turn could translate into a marked reduction in soil moisture, potentially affecting the 90 per cent of smallholder farmers who depend on rain-fed agriculture. The frequency of drought has increased in recent years, with the country experiencing two episodes of drought in 2000 and 2005. In 2005 more than 4.7 million people out of a population of over 13 million experienced food shortages. Climate change threatens to reinforce the already powerful cycles of deprivation created by drought and flood.

Recognising this challenge, the government is taking measures aimed at mitigating the effects of climate change on the Malawian economy. With financial support from Department for International Development (DfID), the government is working with the World Bank to develop a weather risk management contract to help the country cope with the risk posed by severe drought. Furthermore, the government has also put measures in place to reduce price variability for local maize markets through pan-territorial buying and selling, and the maintenance of over 300 buying and selling depots around the country. To stabilise the maize supply, the government has invested in a strategic grain reserve. It currently holds 70 000 tonnes of strategic grain stocks, and intends to expand this in the near future. Although Malawi remains vulnerable to climate change the measures being put in place are important in minimising the effects of such change on the economy.

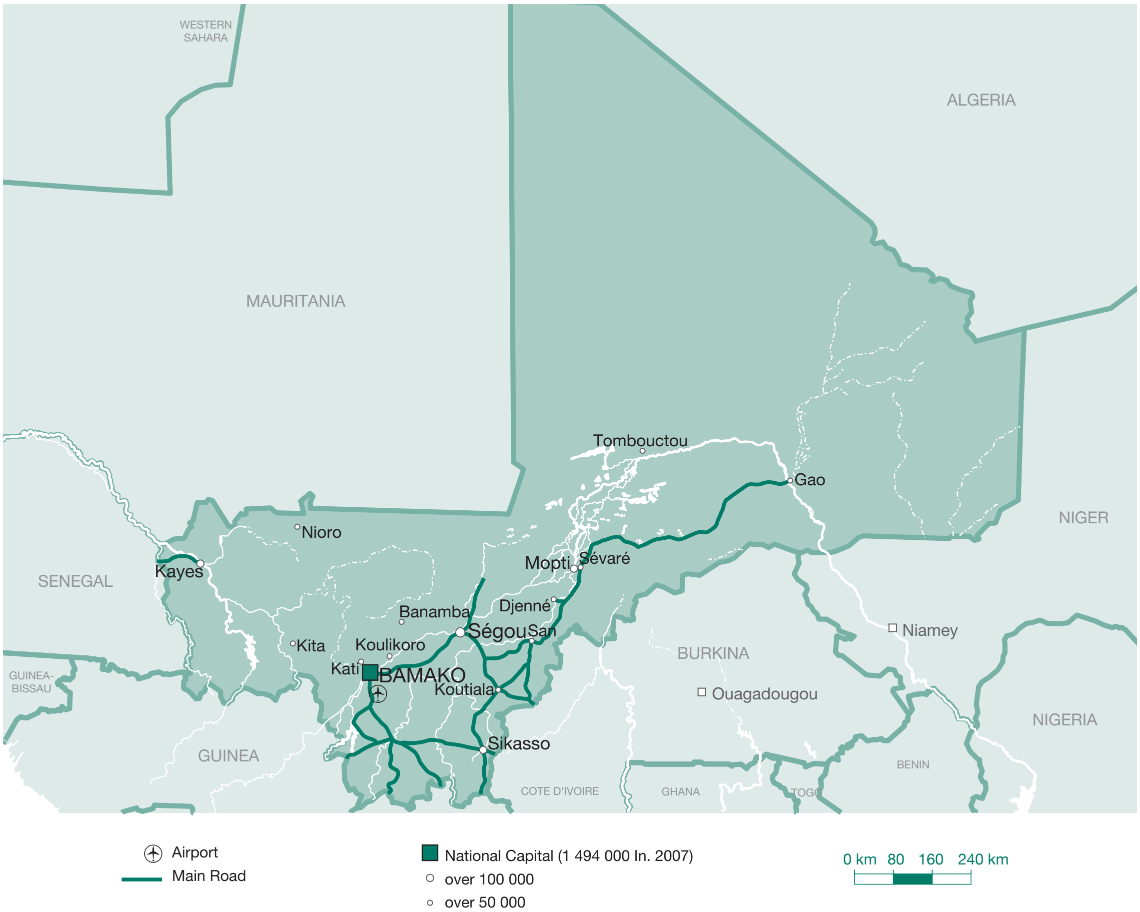
Social provision via welfare transfers may need to be further developed to allow the most vulnerable households to maintain productivity and empower them to manage risk more effectively. The government's fertiliser subsidy has been moderately successful in this context. It is estimated that the programme generated an additional 600 000 to 700 000 tonnes of maize in 2007, independent of rainfall variation. The value of this extra production has been estimated at between USD 100 million and USD160 million at an estimated programme cost of USD 70 million.

Mali

key figures

- Land area, thousands of km²: 1 220
- Population, thousands (2008): 12 706
- GDP per capita, PPP valuation, USD (2008): 1 084
- Life expectancy (2008): 48.5
- Illiteracy rate (2008): 77

Mali


WESTERN SAHARA
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Djenné
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Ouagadougou
GUINEA-BISSAU
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TOGO
Airport
Main Road
National Capital (1 494 000 In. 2007)
over 100 000
over 50 000
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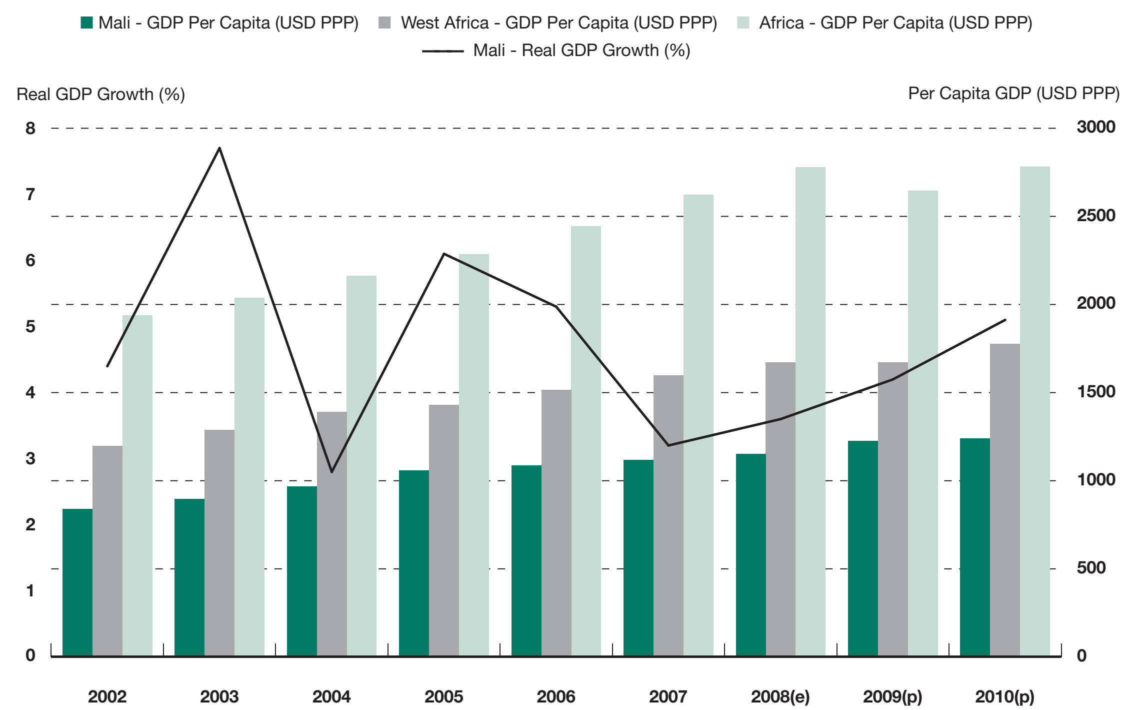
MALI CONTINUED WITH ECONOMIC reforms in 2008 that enabled it to soften the external shocks inflicted by the oil, food and financial crises. Economic growth, which had slowed in 2007 due to difficulties in the mining and cotton sectors, recorded a more pronounced decline in 2008, despite the cushioning effects of the Rice Initiative, a stepped-up privatisation process and budgetary support from technical and financial partners. Real GDP growth was estimated at 3.6 per cent in 2008. Growth is expected to pick up in 2009 and 2010, with GDP increasing by 4.2 and 5.1 per cent respectively.

The continuing pressure on public finances and on the country's external position, despite the government's adjustment efforts, reflects the extent of the impact of these crises, as well as the government's difficulties in reviving and promoting cotton and mining production. The prices of Mali's exports (cotton and gold) increased, but not as much as the price of oil. With the food crisis and with low domestic elasticity of supply, the rise in oil prices pushed domestic prices up sharply. Inflation reached 9.3 per cent at end-December 2008, cutting into domestic purchasing power. The government was obliged to grant reductions in valued added tax and customs duties, increase salaries and subsidies, and reinforce price monitoring, particularly the price of petrol at the pump. The implementation

The economy recorded only moderate growth in 2008 and is struggling to keep imported inflation at bay.

Figure 1 - **Real GDP Growth and Per Capita GDP**
(USD/PPP at current prices)



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

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of the Poverty Reduction and Growth Facility (PRGF) and the acceleration of measures under the Growth and Poverty Reduction Strategy Framework (GPRSF) helped to contain inflationary pressures and enabled the government to address its obligations in terms of the Millennium Development Goals (MDGs) and to pursue its policy of poverty reduction. The government announced its determination to continue the reforms, and the socio-economic situation should improve further over the 2009-11 period.

Recent Economic Developments

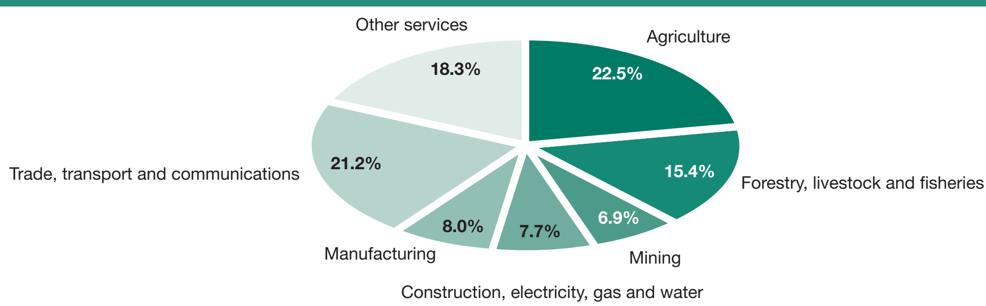
Economic growth slowed in 2008 due to the continued difficulties of certain sectors – cotton (poor rainfall and low prices), gold and agricultural industries (particularly textiles), all of which suffered in 2007 – and to the international oil, food and financial crises. The rate of real GDP growth in 2008 is estimated at 3.6 per cent.

The primary sector accounted for 34 per cent of GDP in 2008 and recorded brisk growth of 4.6 per cent, as against 2.5 per cent in 2007. All components of the agricultural sector grew more or less at the same rate as in 2007, with the exception of cotton, which fell 13.4 per cent as a result of structural problems related to the management of Compagnie Malienne de Développement des Textiles and to farm profitability (higher factor costs and lower producer prices). The secondary sector, which accounts for 19 per cent of GDP, continued to contract (-5.6 per cent), due to the impact of the cotton crisis on textile industries (-32 per cent) and to the strong decline in agro-industrial activity (-20 per cent) and other manufacturing activities (-12.4 per cent). In contrast, the energy sector (up 9 per cent) and construction (up 8 per cent) continued to grow. Malian industry faces structural problems linked to high factor costs, exacerbated by the oil crisis, and to the narrowness of the market. The tertiary sector (including the non-market sector) contributes 40 per cent of GDP. Although its growth has slowed, the sector posted a 7.9 per cent increase in 2008 (as against 10.4 per cent in 2007), driven primarily by the transport and communications sector (up 15 per cent) and trade (up 9.4 per cent). Financial services grew by 5 per cent, as in 2007, while "other services" (tourism, hotels, crafts) slowed from 8 to 5.5 per cent. This performance in the services sector reflects the crisis that affected the agricultural and industrial sectors, and the economic environment in general, in 2008.

GDP growth was driven by domestic demand. Household consumption, which accounts for 75 per cent of GDP, expanded slightly by 3.5 per cent in 2008 (4.5 per cent in 2007). Household spending was allocated primarily to essential items, such as food, energy, social services, transport and communication. Growth in public consumption slowed to 4.5 per cent in 2008 (as against 10.9 per cent in 2007).

Gross fixed capital formation remains the second-largest driver of growth. Growth in both public and private investment slowed sharply in 2008, as the combined effects of the oil and food crises pushed up

Figure 2 - **GDP by Sector in 2007** (percentage)



Source: Authors' estimates based on Direction Nationale de la Statistique et de l'Informatique data.

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factor costs. Private sector firms were obliged to cut back on the growth of their investments (up 5 per cent in 2008 compared with 12.9 per cent in 2007) in the key sectors of mining, construction and tourism. The slowdown was more pronounced in public investment (up 7 per cent in 2008, as against 17.9 per cent in 2007). Exports remained stable due to the cotton and gold crises, while import growth accelerated in 2008 to 4 per cent, compared to just 1.2 per cent in 2007.

The slowdown in growth prompted the government to take stimulatory measures, with support from development partners. A new PRGF was concluded for the 2008-11 period, supported by various programmes of the World Bank, European Union (EU), African Development Bank (AfDB) and key bilateral donors. From 2009, the support provided by development partners will be grouped under a Joint Country Support Strategy (JCSS), in order to increase synergies and improve aid effectiveness. In accordance with the main policy lines of the GPRSF, the government plans to pursue more vigorously the diversification of agriculture and industry, to reduce the dominance of cotton and gold mining. A law setting out the general strategy on agriculture includes measures to address the food crisis: the "Rice Initiative", the national food security programme, and the agricultural mechanisation and fertiliser production programme. The country's competitiveness and industrial base are to be developed through improvement of the business environment, the growth support programme, new investments in mineral and oil prospecting, and the modernisation and privatisation of the cotton sector. The construction sector should rebound with the resumption of large projects (administrative park, Mali Millennium Challenge Account). Lastly, the Côte d'Ivoire-Mali power interconnection and the privatisation of the telecommunications operator Sotelma (Société des Télécommunications du Mali) should reduce factor costs, supporting the provisions of the private sector framework law. Taking all these measures into account, growth is projected at 5.9 per cent in 2009 and 3.3 per cent in 2010.

In 2008 Mali suffered the combined effects of soaring food and oil prices. To cope with the crisis affecting basic food products, the government took measures to reduce price contagion and to stimulate demand through: *i)* tax relief (adjusting the domestic tax on petroleum products, granting exemptions on import customs and duties); *ii)* stimulating supply by selling cereal products and financing two subsidised abattoirs; *iii)* increasing public sector salaries by 5 per cent from 1 January 2008; and *iv)* organising

Table 1 – **Demand Composition**

	Percentage of GDP (current prices)		Percentage changes, volume			Contribution to real GDP growth		
	2000	2007	2008(e)	2009(p)	2010(p)	2008(e)	2009(p)	2010(p)
Gross capital formation	**19.9**	**22.4**	**5.8**	**3.4**	**6.3**	**1.3**	**0.8**	**1.4**
Public	6.6	8.8	7.0	4.0	6.8	0.6	0.4	0.6
Private	13.4	13.6	5.0	3.0	6.0	0.7	0.4	0.8
Consumption	**90.8**	**85.9**	**3.6**	**3.3**	**5.7**	**3.2**	**2.9**	**5.0**
Public	10.0	10.9	4.5	3.0	5.6	0.5	0.3	0.6
Private	80.8	75.0	3.5	3.4	5.7	2.7	2.6	4.4
External demand	**-10.7**	**-8.3**				**-0.8**	**-2.7**	**-1.3**
Exports	24.4	26.4	2.3	3.2	4.0	0.6	0.8	1.0
Imports	-35.1	-34.7	4.0	0.9	6.8	-1.4	-0.3	-2.3
Real GDP growth						**3.6**	**4.2**	**5.1**

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

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consultations on setting up a monitoring framework. These measures, which reduced tax revenue and increased spending on subsidies, affected macroeconomic performance and adherence to convergence criteria, as well as reducing investment and anti-poverty spending. Realising the magnitude of the social and political implications, the government rallied its technical and financial partners in support of a holistic response to the crisis. Since June 2007, most of these partners (including the AfDB) have supported the country through budgetary aid. The first tranche of AfDB support was disbursed at the start of 2009. The government also launched an ambitious programme to encourage irrigation, to which AfDB will contribute XOF 30 billion (CFA Francs BCEAO).

Macroeconomic Policies

Throughout the 1993-2007 adjustment period, the Malian economy recorded average growth of 5 per cent, thanks to support from the international financial community and a generally healthy macroeconomic framework. The latter was characterised by an average inflation rate of 3 per cent, an average public deficit (excluding grants) and current account deficit both below 8 per cent, and a debt level that had become sustainable over the long term. The various governments since 2000 have sought to keep the reform effort on course with the aim of: *i)* raising further resources from development partners; *ii)* streamlining of government functions in order to rationalise expenditure and make better use of public resources; and *iii)* enhancing the participation of all stakeholders (central government, local communities and the private sector) through better resource allocation and exploitation of existing comparative advantages. To achieve these goals, it will be necessary to continue the reform of public finances, strengthen the country's external position, accelerate structural reforms related to decentralisation, improve the business climate and governance, and develop human resources.

The high inflation rate recorded in 2008 (9.3 per cent) was due, in the early months of the year, to the sharp rise in the prices of oil products, and at the end of the second quarter, to the food crisis. The scale and severity of these two effects limited the effectiveness of the government's emergency measures aimed at containing inflation and supporting the population's purchasing power (price controls, tax and budgetary measures). Prices of raw cereals increased substantially; for example, the price of rice, a staple, rose from XOF 286 to XOF 415 per kilogram.

Fiscal Policy

Mali's central budgetary resources are fragile because they stem primarily from indirect taxes charged on

Table 2 - **Public Finances** (percentage of GDP at current prices)

	2000	2005	2006	2007	2008(e)	2009(p)	2010(p)
Total revenue and grants[a]	**19.3**	**21.1**	**56.4**	**21.7**	**20.8**	**19.7**	**20.4**
Tax revenue	13.3	16.7	16.4	16.1	15.4	14.4	14.8
Grants	5.4	3.9	39.2	4.7	4.4	4.4	4.4
Total expenditure and net lending[a]	**22.4**	**24.2**	**24.6**	**25.1**	**26.1**	**23.6**	**24.7**
Current expenditure	12.0	14.3	14.3	13.8	13.6	12.1	12.5
Excluding interest	*11.1*	*13.7*	*13.8*	*13.3*	*13.3*	*11.7*	*12.2*
Wages and salaries	3.9	4.7	4.7	4.8	4.5	4.1	4.2
Interest	0.9	0.7	0.5	0.4	0.4	0.5	0.2
Capital expenditure	10.5	9.1	10.5	12.8	12.4	11.6	12.1
Primary balance	**-2.1**	**-2.5**	**32.3**	**-3.0**	**-5.0**	**-3.2**	**-4.1**
Overall balance	**-3.0**	**-3.1**	**31.8**	**-3.4**	**-5.4**	**-3.9**	**-4.3**

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

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international trade, which in turn is subject to market fluctuations. In 2008, total central government revenue (excluding debt relief) amounted to 20.8 per cent of GDP, slightly down due to the exemptions granted to groups most affected by the crisis. Total expenditure, which represented 26.1 per cent of GDP, continued to rise slowly, driven by a rise in wages and salaries, aimed at supporting employees' purchasing power, and by the growth of net lending. As a result, the overall public deficit (including grants) increased from 3.4 per cent of GDP in 2007 to 5.4 per cent in 2008. The overall deficit should be financed through loans from the banking sector, budgetary aid and privatisation receipts.

Monetary Policy

Mali is a member of the West African Economic and Monetary Union (WAEMU), with seven other countries (Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Niger, Senegal and Togo). Monetary policy instruments are managed by the Central Bank of West African States (BCEAO), which is responsible for issuing the CFA franc and ensuring its stability[1]. Against the background of global turbulence and weak growth, monetary policy in 2008 was primarily aimed at: *i)* combating inflation, while maintaining external coverage of the CFA franc and supporting economic activity; *ii)* maintaining a disciplined budgetary policy in a context of multilateral supervision, while at the same time combating poverty; *iii)* strengthening banking supervision to improve loan quality and continuing to reform and modernise payment systems in the sub-region. The indirect instruments traditionally used to regulate liquidity (legal reserve ratios, leading rates, repo rate, conditions for intervening on the monetary market) remained unchanged.

Over the 2006-08 period, the monetary authorities preserved the stability of institutional variables (velocity of money, money multiplier, credit multiplier). The monetary policy is neutral: the growth of the money supply is converging towards that of external assets, while the increase in credit to the economy is converging towards the GDP growth rate. This stability will be continued during the 2009-10 period, in order to contain the ongoing inflationary pressures stemming from the rise in oil and food prices. In light of the potential effects of the financial crisis, priority has been given to budgetary policy and structural reforms, particularly those that enhance the efficiency of financial intermediation, improve the quality of bank portfolios and enforce compliance with prudential rules (the financial system development project, the action plan for decentralised financing systems and the modernisation of payment systems).

External Position

With the exception of 2002 and 2006, when the cotton and gold sectors performed very well, Mali's

Table 3 - **Current Account** (percentage of GDP at current prices)

	2000	2005	2006	2007	2008(e)	2009(p)	2010(p)
Trade balance	-1.8	-2.6	1.2	-3.5	-2.4	-1.8	-1.3
Exports of goods (f.o.b.)	20.7	19.7	25.5	21.7	22.7	22.5	20.4
Imports of goods (f.o.b.)	22.4	22.3	24.3	25.2	25.1	21.7	21.6
Services	-8.9	-4.6	-5.9	-5.7	-5.3	-3.9	-3.8
Factor income	-3.7	-3.9	-4.2	-4.2	-2.5	-4.1	-3.6
Current transfers	4.8	4.0	5.4	5.6	5.5	5.3	5.1
Current account balance	**-9.6**	**-7.2**	**-3.6**	**-7.9**	**-4.7**	**-0.9**	**-3.7**

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

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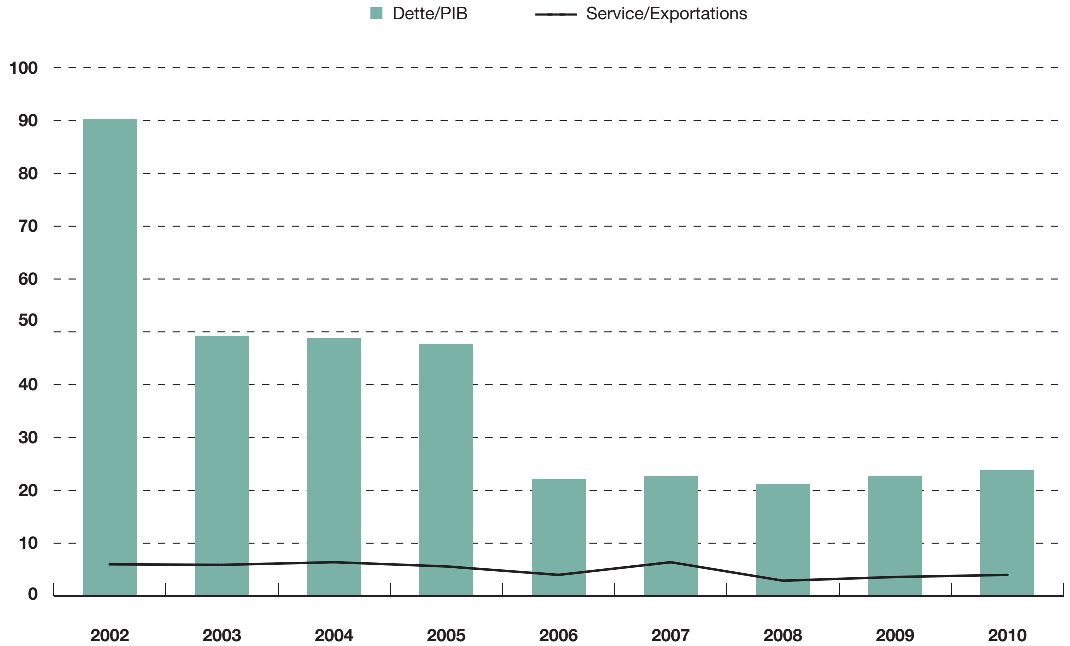
1. The BCEAO is responsible for implementing the monetary policy defined by the WAEMU council of ministers; conducting exchange transactions; holding and managing the foreign exchange reserves of member countries; and ensuring that WAEMU's payment system functions properly.

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



Source: IMF.

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balance of trade is structurally in deficit. In 2008, the trade deficit stabilised at -2.4 per cent of GDP (-3.5 per cent in 2007), with ongoing production difficulties in the cotton, gold and textile industries sectors. The year was also marked by declining real world prices for cotton and gold and by the surge in oil and food prices, with a spill-over effect on the prices of import products (capital goods, chemical and pharmaceutical products, and construction materials). Exports nevertheless rose very slightly (22.7 per cent of GDP versus 21.7 per cent in 2007), while imports remained stable (25.1 per cent in 2008). The services deficit fell slightly (-5.3 per cent of GDP versus -5.7 per cent in 2007), due to the dynamism of the tourism sector, as did the deficit in the factor income account due to large investments in the mining sector. Remittances from overseas Malians decreased slightly (5.5 per cent of GDP) owing to the uncertainty affecting the international environment and to the growing attractiveness of Mali's various regions. As a result, the current account deficit decreased slightly, although it remains large (-4.7 per cent of GDP versus -7.9 per cent in 2007). If the financial crisis persists, projections for 2009 and 2010 indicate that the external position could become worse, in which case the country will have to rely on increased foreign aid if it cannot control imports. In addition, stronger incentives should be offered to attract savings from Malians abroad. Net official reserves stabilised at 7.9 months of import coverage between 2007 and 2008 and will improve to 8 months according to projections for 2009-10.

Since 2002, the public debt has been falling steadily as various debt relief mechanisms have taken effect. The economy's performance has made Mali eligible for resources under the Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI). In 2006, the combined effect of these initiatives reduced the debt stock to just 1.38 billion US dollars (USD), compared with USD 3.02 billion in 2002. The debt to GDP ratio was 22.7 per cent in 2007 and 21.1 per cent in 2008, versus 105 per cent over the 1994-98 period and 49 per cent for 2003-05. It is projected to climb to 22.8 per cent and 23.9 per cent respectively in 2009 and 2010. Debt service represented 4 per cent of exports of goods and services in 2006, 6.4 per cent in 2007 and 4.9 per cent in 2008, and is projected at 3.9 per cent in 2009 and 4 per cent in 2010. Mali's external debt is sustainable over the 2010-26 period.

Structural Issues

Private Sector Development

The private sector is made up of small and medium-sized enterprises (SMEs) in the modern sector and of countless informal businesses. The informal sector accounts for 90 per cent of private sector activity, while the formal private sector employs around 40 000 people. The business environment has improved thanks to support extended to the government over the past decade by development partners[2]. The latter have provided assistance for the design and implementation of various programmes to support competitiveness and promote the private sector, particularly to: *i)* strengthen incentives, improve investment conditions and facilitate trade; *ii)* develop infrastructure and services (transport, water, energy, telecommunications, information and communication technology [ICT], industrial parks and public services); *iii)* restructure the financial sector and strengthen financial intermediation; and *iv)* support productive sectors and high-potential industries. Privatisation operations have also strengthened the sector.

According to the United Nations Conference on Trade and Development indices of investment potential, investment performance and rates of return, Mali is in an average position overall, and ranks relatively high within WAEMU. However, much remains to be done: it takes 42 days to complete 18 procedures for creating a business and 340 days to resolve a business dispute. Mali ranked 162nd in the World Bank's 2008 *Doing Business* report, a substantial decline from 2007 (152nd place). Private sector development thus continues to face many weaknesses and constraints that explain the low level of investment, low shares of foreign markets and lack of impact on growth and poverty reduction.

The principal constraints have been identified by various governance and private sector studies[3]: *i)* the legal and regulatory framework is weak and offers poor support for business, production and exports, despite the existence of a host of institutions mandated with their development; *ii)* the judiciary system is inefficient and has little credibility; *iii)* the tax system remains complex, although it is being simplified and harmonised under WAEMU; *iv)* the financial system is dominated by banks whose performance compares unfavourably with that of banks in other countries in the region; *v)* infrastructure is under-developed, which exacerbates the effects of Mali's landlocked situation and distance from foreign markets; *vi)* business support services are almost non-existent and, where available, are often expensive, adding to already high factor costs; *vii)* qualified labour is scarce; and lastly, *viii)* Mali is a vast, landlocked country in which incomes are too low to allow the development of a vibrant, diversified consumer market. In light of these constraints, the government in 2008 approved a bill (developed through a participatory process) setting out a strategy for the private sector and submitted it to parliament. Its implementation was entrusted to a new ministry solely charged with promoting the private sector, particularly small and medium-sized enterprises/industries. The framework for consultation and co-operation includes: *i)* the Presidential Investment Council, the Private Sector Development Committee, the public/private sector co-operation framework led by the moderator's office; and *ii)* the annual business forum.

2. Key support comes from the United States Agency for International Development (USAID), the International Development Association, the EU and its member states, the Canadian International Development Agency, the African Development Fund and the Millennium Challenge Account.

3. The Private Sector Country Profile (PSCP) has been completed and submitted to the government as a basis and tool for dialogue.

In addition to direct measures aimed at improving the business environment, the government has committed – as part of the revision of the GPRSF and budget bills – to deepening the structural foundations of its economic policies in order to create a better environment for the private sector and to cope with the effects of the energy and financial crises. The structural measures concern the management of public finances, continued privatisation in the cotton sector and public utilities, and monitoring of the financial sector.

The financial sector faces two challenges: anticipating and coping with the effects of the financial crisis, and strengthening financial intermediation and the participation of the banking sector in financing the economy. The second phase of the financial sector development strategy will be carried out with increased attention to prudential ratios, in order to reinforce bank governance, reduce bad loans and continue with the privatisation of banks (Banque de l'Habitat, or the housing bank, is to be privatised once the sale of Banque Internationale du Mali is completed).

The government also intends to launch extensive deliberations over the content and instruments of economic policy, the synergies and sequences required, and attendant institutional reforms, in light of the consequences of global crises. The related Structural Issues concern the government's pace of divestiture.

Other Recent Developments

The development of the public sector is being carried out under a public finance management plan (Plan d'Amélioration pour la Gestion, l'Amélioration et la Modernisation des Finances Publiques – PAGAMFP). The plan aims to render procedures concerning the execution and oversight of public spending more reliable, improve public spending efficiency, predictability, control and secure public revenue according to the WAEMU convergence criteria, and strengthen the institutions in charge of public finances, in line with the objectives of results-based management. The government will have the co-ordinated support of partners under their technical support programmes. A number of other measures complement the PAGAMFP, including: *i)* other measures of the Institutional Development Plan (in particular, reform of republican institutions, the process of transferring responsibility to the grassroot); *ii)* reform of the cotton sector and irrigation; *iii)* revising energy sector tariffs; and *iv)* privatisation in the telecom organisations sector.

For the cotton sector, the measures adopted are aimed at bolstering the sector's financial equilibrium prior to the full privatisation of the main player, Compagnie Malienne pour le Développement des Textiles; monitoring the mechanism for setting producer prices for cottonseed; and strengthening the support fund. The difficulties experienced by the sector have lowered output by more than 40 per cent. Issues related to irrigation and to marketing boards will be addressed under the new law on agriculture. Other privatisation measures will relate to the divestiture of the telecommunications operator Sotelma, which is in the final stages. In the electricity sector, new tariffs are being negotiated after several years of government price intervention in the sector to soften the effects of the energy crisis.

Innovation and ICT

The telecommunications sector has expanded considerably, growing by almost 10 per cent a year; with transportation, it contributes 25 per cent of GDP. The sector is composed primarily of the public operator Sotelma, along with Malitel, its mobile phone subsidiary, and Ikatel, which obtained a mobile network licence in 2004. Telecommunications revenues accounted for 5.2 per cent of GDP in 2006, compared with 4 per cent for low-income countries and 3.2 per cent for sub-Saharan Africa[4]. The sector has been liberalised, and Sotelma and Malitel are being privatised. As elsewhere in the world, the number of ICT users grew strongly between 2002 and 2007, by more than 7 per cent per year. The Malian telephone network (fixed-line and

4. World Bank (2007), *Telecommunications Profile.*

mobile) had 2.2 million subscribers in 2007, or 21.2 subscribers per 100 people, compared with an African average of 30. Urban teledensity is 3.94 lines per 100 people, as against 0.07 lines in rural areas. There are 0.06 Internet subscribers and 0.81 Internet users per 100 people. The reform of the telecommunications sector had a considerable impact on teledensity. Service access rates have improved, raising Mali from 12th to 8th place within Economic Community of West African States (ECOWAS) in this respect, and from 41st to 28th place in sub-Saharan Africa. The economic, financial, social, political and strategic importance of telecommunications is indisputable. For the government of Mali in particular, ICT represents an important means of integrating and reconciling different peoples. The sector's contribution to growth includes the contributions of both labour and physical capital, the latter being a factor of technical progress and innovation. This significance justifies the interest given to the sector by all stakeholders, and particularly by the government, which is concerned with improving competitiveness and diversifying the economy.

With stakeholders, the government has planned on accelerating sector reforms on a sustainable basis, beginning with further liberalisation of the sector and the privatisation of Sotelma. Importance is being placed on low rates for consumers, taking into account the integration of fixed-mobile, mobile-fixed and mobile-mobile systems, and developing competition, governance and security, particularly where critical networks are concerned. Universal access, regarded as a matter of considerable social importance, aims at increasing the availability and accessibility of ICT in rural "economically non-viable" areas. Pending the participation of the AfDB under the 12th replenishment of the African Development Fund, the government has begun co-operating with several development partners (including the World Bank and the EU) as part of a public-private partnership in tandem with a rural electrification project scheduled for 2010-11.

The infrastructure network in Mali was built by Sotelma, Ikatel and Internet service providers. The ICT network infrastructure includes the national network (fixed-line, mobile and Internet access), transmission and switching equipment, the international network (satellite, submarine cable, radio relay systems) and other services. The fixed-line platform, which belongs to Sotelma, is comprised of: (a) national networks with four components: *i)* the national switching nodes, with the National Transit Centres in the capital as the upstream part, to which regional centres and remote subscriber switching units are connected; *ii)* transmission systems, which have a terrestrial component (radio relay systems and fibre-optic cable) and a satellite component (satellite antennae and equipment for connection to terrestrial networks); *iii)* access networks (landlines, involving civil engineering works and cables) and wireless last-mile systems (advanced mobile phone systems [AMPS], personal digital cellular [PDC] and code division multiple access [CDMA] technologies); and *iv)* platforms and systems to provide services other than telephony (telex, X25 communication protocol, data transmission and Internet); (b) the international network, which centres on the international interchange and includes the satellite communications centre and fibre-optic links to neighbouring countries (Senegal, Mauritania, Côte d'Ivoire and Burkina Faso). The national backbone is provided by satellite links using digital radio relays that range from 8 megabit (Mbit) capacity (on eight trunk connections) to 34 Mbit capacity in Bamako (four trunk connections). Mali's total bandwidth capacity is about 19 megabytes (MB) per second (6 MB/second for Sotelma and 13 MB/second for Ikatel). For reasons of higher population density, infrastructure and services are concentrated in urban areas. The primary factor limiting the development of ICT in rural areas is the power grid's low rate of rural electrification and penetration. The government is exploring the possibility of developing renewable energy sources, chiefly solar and wind power. As part of its policy in support of the private sector, the government has given priority to the development of ICT infrastructure to keep up with demand and technological progress. Its strategy focuses on four criteria: availability of equipment and services, geographical coverage, accessibility (possibility of using the service) and affordable cost. Geographical coverage and cost are determining factors for universal access. Given the size of the country and the exigencies of competitiveness, it is advisable first to rationalise the use of existing infrastructure, to develop the convergence and integration of the various platforms, and subsequently to propose new investments to improve profitability and competitiveness. The government aims to build a single, sturdy backbone covering all regions of Mali and interconnected with sub-regional and international networks. It is also considering the creation of a structured framework for co-operation and a platform for harmonisation and arbitration.

The institutional framework for ICT is comprised of: *i)* a supervisory body, the Ministry of Communication and Information Technology, which implements government policy with assistance from its technical departments; *ii)* a regulatory authority, the Technology Regulation Committee, which drafts and proposes regulations as well as supervising and monitoring their implementation and enforcement; and *iii)* a strategic planning body, the Information and Communication Technology Agency (Agetic)[5]. The legal framework is geared towards developing the digital economy and ensuring that systems work properly in order to create a favourable environment for private initiative, and towards the promotion of universal access to ICT. It is quite broad, addressing not just ICT regulators, but also all processes, groups and stakeholders as well as their incentives and behaviours, not only at the level of individual organisations but also at that of network operations and consumer services. The legislative basis for the legal framework consists of the Telecommunications Sector Policy Declaration of 28 June 2000; decree No. 99-043/P-RM of 30 September 1999, along with its implementing orders governing telecommunications in the Republic of Mali; and the digital strategy paper adopted in 2005. These texts have created a favourable environment for the development of telecommunications. However, the legislation does not cover the Internet or other aspects of ICT, which are growing rapidly at the level of the organisation, network operations and consumer services. Given the sector's rapid development, the government intends to strengthen the system and to introduce amendments pertaining to Internet governance, provision of voice over Internet protocol (VoIP) service, the responsibilities of technical intermediaries (including Internet service providers), content and hosting. The government intends as soon as possible to formulate provisions concerning the protection of privacy and personal data, cryptography and respect for intellectual property. Reform of regulations and legislation will be followed automatically by reform of institutions, carriers, ISPs and decentralised or distant units. The 2009-11 period will be crucial, with institutional reform of the sector in connection with the privatisation of Sotelma, but the privatisation operation will not have a great impact on the institutional and regulatory framework. However, the government plans to step up the pace of sector reforms, and in particular to introduce a new regulatory framework guaranteeing the security and sustainability of investments, healthy competition based on transparent and fair incentives, and the promotion of universal access.

The ICT sector requires a diverse range of high-level skills that must constantly be upgraded to keep up with the rapid pace of technological change. In Mali, the sector suffers from a large skills gap, despite the effort invested in modernising Sotelma and the creation of Agetic. Needs identified in the ICT development plan include: highly skilled webmasters, qualified designers, network and systems engineers, auditing and legal firms specialising in ICT, magistrates and judges specialising in cybercrime and cyberterrorism. A plan is currently being developed to identify priorities, upgrade and reassign skills, develop mobility within the ICT sector and between the public and private sectors, and, above all, request regional and international technical assistance

5. Act 05-002 of 10 January 2005 established Agetic as a public scientific and technological body with the status of a legal entity, charged with supervising research, training and development in the field of ICT on behalf of its supervisory ministry. It is to benefit all economic sectors, but particularly the priority sectors such as health, education, trade, farming and herding, preservation of cultural heritage, administration and decentralised management. To this end, and working with public, private, civil society and development partners, Agetic co-ordinates the implementation of national policy papers and the national ICT strategic plan adopted by the government, monitors and evaluates implementation and reports on the state of technological development. Projects currently under way include the government intranet project and the community connection project.

at first, both for production and training. From 2002 to 2007, the AfDB provided assistance that was channelled to the Agetic training department. Other training courses, designed to benefit engineers and senior public officials, are planned to carry on the work of the Good Governance Support Project (completed in 2007). The sector received assistance from a large number of development partners, notably the EU, USAID and the World Bank. Training and technical assistance opportunities are being studied by the International Telecommunications Union, the Global Digital Solidarity Fund and emerging countries such as India. The AfDB intends to continue aid to the sector, in view of its proven synergies with other sectors and its impact on competition, growth and employment. Other ICT-deficient sectors – relating to banking, payment systems, distance education, telemedicine and agriculture – should be explored in order to give better guidance to young graduates and training institutions.

Political Context

The multi-party, democratic general elections of 2007 saw the first-round re-election of the outgoing president, Amadou Toumani Touré, and the formation of a strong presidential majority in parliament. In 2008, this victory was consolidated and the presidential team focused on the commitments given in its Economic and Social Development Programme and in a roadmap known as the Presidential Project. Considerable efforts are being made on the ground – in regional capitals, in rural areas, within various governance bodies (ministers, members of parliament and decentralised authorities) – to complete the Presidential Project at the same time as the GPRSF (2007-11).

The democratic process has made noteworthy progress in recent years. Mali scores well on indicators of politics, democracy and freedom, but further progress is needed in regard to the corruption perception index. This series of elections that passed without incident has strengthened the democratic process and created a political environment ripe for the implementation of deeper economic reforms. It is also a favourable climate for political reforms addressing the status, role and means of the political opposition – an opposition that is currently very quiet. A national consensus has formed against the pockets of conflict in northern Mali, but recent demonstrations, violating the peace agreement, could deter the negotiation process restarted in June 2008. Despite these troubles in the north of the country, the climate of social peace that Mali has experienced for the past 15 years and the peaceful organisation of elections give an indication of the political maturity of the stakeholders concerned (the overall population, social strata, pressure groups and politicians) and their willingness to consider support for the democratic process as a necessary condition for social and economic development. The government is aware of this fact and is expanding its efforts to fight corruption. A forum was held in November 2008, along with other measures to strengthen governance, including an evaluation under the African Peer Review Mechanism. The recommendations will be implemented over the 2009-11 period. A review by rating agencies found that Mali is a good investment destination, without major political risk for foreign investors.

Social Context and Human Resources Development

Mali's population in 2008 is estimated at 12.7 million. With demographic growth of 2.3 per cent a year, due to high fertility rates (6.5 children per woman, compared with an African average of 4.9), it will increase to 14 million by 2011. Women make up 51.7 per cent of the population, and 80 per cent of them live in rural areas. More than 48 per cent of the total population is under 15 years of age and 4 per cent is over 65, leaving 48 per cent of the population active. With rural depopulation, 40 per cent of the population lives in urban areas, most often on the outskirts of the largest cities. With the urban population growing by 5.2 per cent a year, demand for social infrastructure and job creation poses a serious challenge for the government. In response, the government has adopted a holistic approach involving integration of demographics into global and sectoral development strategies and a review of the national population policy.

Over the past ten years, and particularly since 2005, the country has maintained a relatively stable economic growth rate of 5.1 per cent a year, raising per capita income by just under 3 per cent a year. This growth accompanied a six-point reduction in the incidence of poverty, from 64 per cent in 2001 to 58 per cent in 2006. The goal of 34 per cent in 2015 is still far off, but improvements are perceptible in terms of social indicators (coverage, accessibility, service and quality). The findings of the latest demographic and health survey (EDMS IV) and of the local health information system (SLIS), the review of the GPRSF and economic and social reports published in 2008 confirm that social indicators have advanced by one to three percentage points over the past three years. Specifically, maternal mortality is 464 per 100 000, the infant and juvenile mortality rate is 200 per 1 000, infant mortality 128.5 per 1 000, the HIV infection rate 1.7 per cent and the infant chronic malnutrition rate 14.4 per cent, down from 29 per cent in 2000.

Despite this progress, the key indicators of development, social protection and equality remain below desired levels, particularly in terms of education: in 2008, almost 77 per cent of the population over the age of 15 was illiterate (84 per cent for women), double the African average; education spending is rising more slowly than the regional average, and well below the rate of GDP growth. According to national sources, in 2008, the gross primary school enrolment rate was 77 per cent (87 per cent for boys and 67 per cent for girls). The situation is critical in other levels of education, and all these figures are 20 points below the regional average (and even more where girls are concerned). Gender inequality is further aggravated by higher dropout rates among girls, due to strong socio-cultural constraints (child marriage) and chores (heavy dependence on girls for domestic and farming work). The United Nations Development Programme ranks Mali 173rd out of 177 countries in terms of human development, and it seems unlikely that Mali will achieve any of the MDGs except possibly those pertaining to primary education, food security and environmental protection, which are estimated to have a strong probability of success on average.

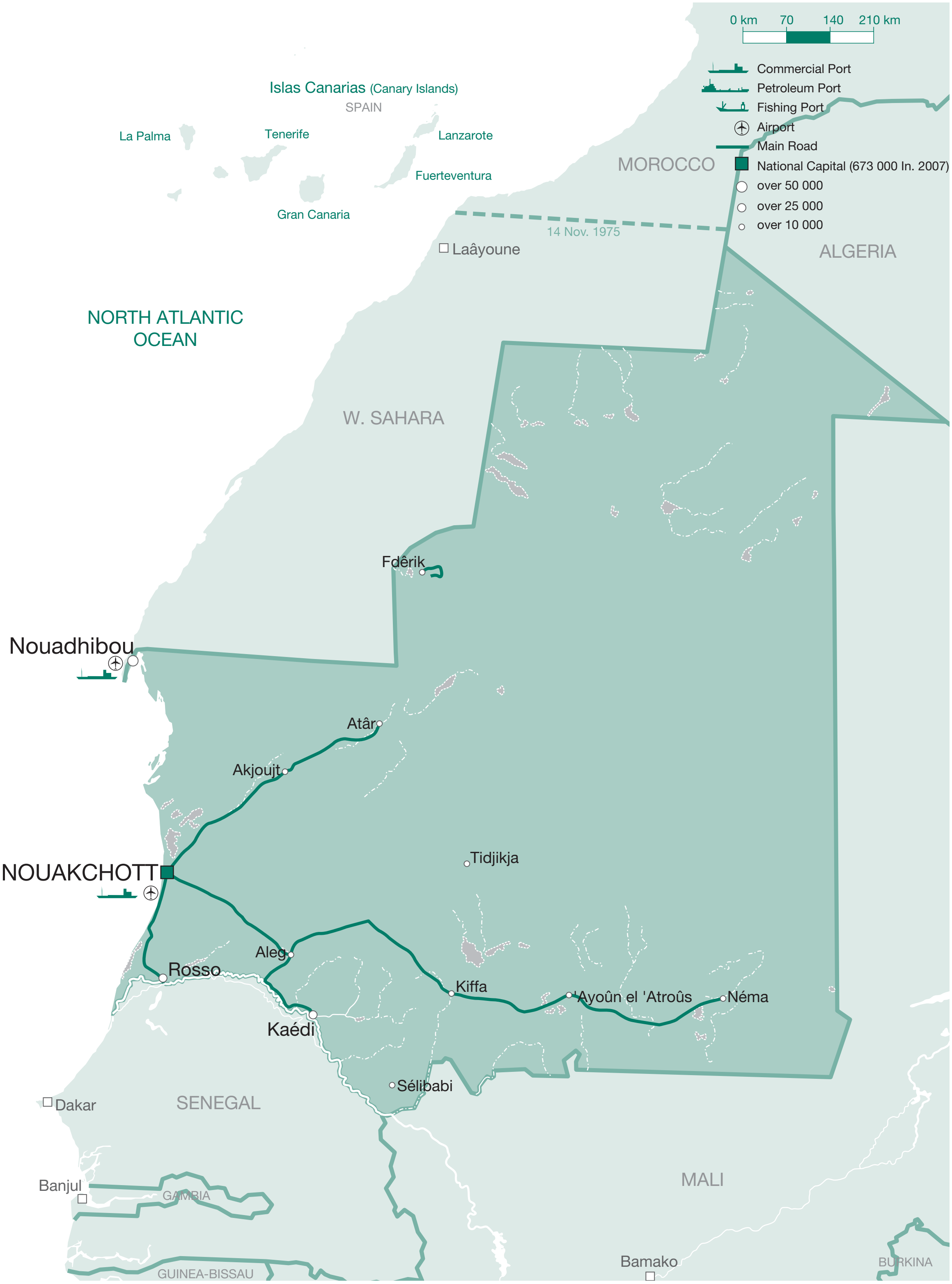
Since 2006, the dialogue opened by development partners under the HIPC Initiative and the MDRI has enabled the government to achieve noticeable improvement in indicators of education, health, public utilities (energy, water and sanitation) and social protection. The dialogue was taken further in 2008 with the launch of the JCSS. The share of the national budget allocated to these sectors has been rising steadily by one percentage point a year. In 2008, new infrastructure projects were launched (water, energy, roads, dams). For the GPRSF and the Economic and Social Development Programme, sector programmes have been reviewed and aid is being provided in the form of sectoral budgetary support. Indicators of the results obtained in these sectors will also provide indications concerning other types of financing. The review of the GPRSF carried out in 2008 enabled the government to refocus its concern about the labour market and jobs as a key objective in the fight against poverty, bearing the same priority as reducing the incidence of poverty. A Youth Employment Agency has been created, and its activities support the development of job pools as part of the decentralisation process.

Mauritania

key figures

- Land area, thousands of km²: 1 031
- Population, thousands (2008): 3 215
- GDP per capita, PPP valuation, USD (2008): 1 928
- Life expectancy (2008): 56.7
- Illiteracy rate (2008): 44

Mauritania



0 km
70
140
210 km
Commercial Port
Petroleum Port
Fishing Port
Airport
Main Road
National Capital (673 000 In. 2007)
over 50 000
over 25 000
over 10 000
Islas Canarias (Canary Islands)
SPAIN
La Palma
Tenerife
Lanzarote
Fuerteventura
Gran Canaria
MOROCCO
14 Nov. 1975
Laâyoune
ALGERIA
NORTH ATLANTIC OCEAN
W. SAHARA
Fdérik
Nouadhibou
Atâr
Akjoujt
Tidjikja
NOUAKCHOTT
Aleg
Rosso
Kiffa
'Ayoûn el 'Atroûs
Néma
Kaédi
Sélibabi
Dakar
SENEGAL
MALI
Banjul
GAMBIA
GUINEA-BISSAU
Bamako
BURKINA

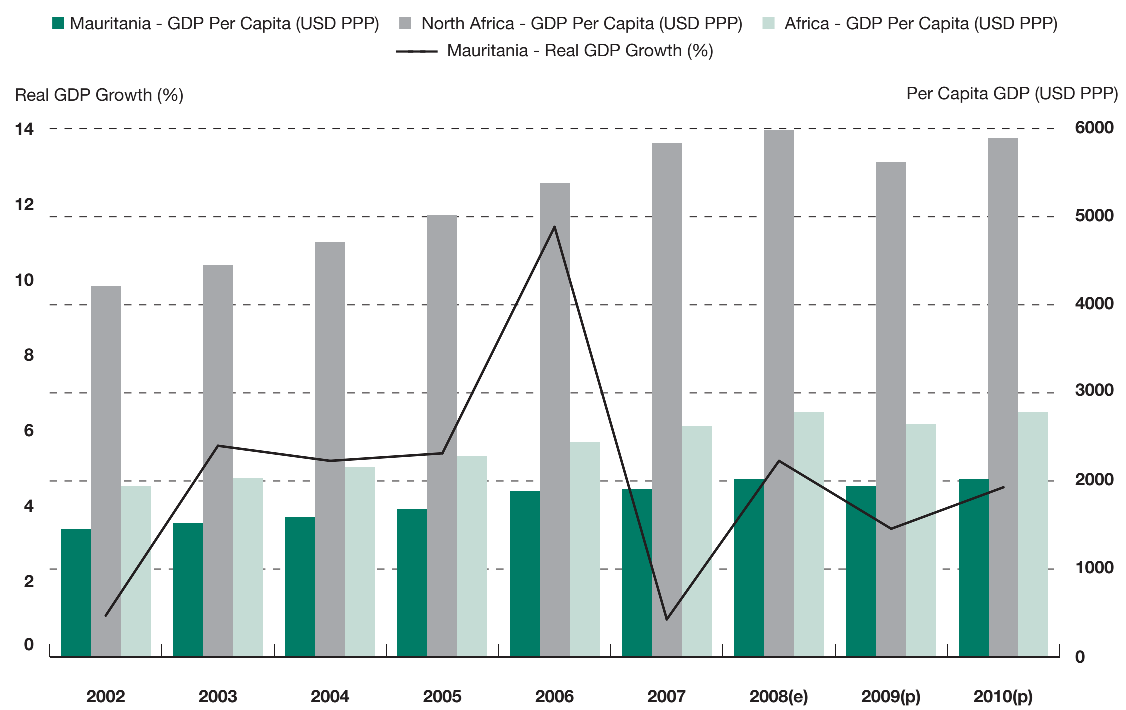
Mauritania

In 2008, real GDP growth was 5.2 per cent, driven mainly by mining (iron, copper and gold), agriculture and construction. Inflation was held at around 7.4 per cent thanks to price cuts generated by the government's Special Intervention Programme (SIP) and cautious monetary policy. The budget deficit widened to 3.7 per cent of GDP because of higher public expenditure under the SIP, but the balance of payments current-account deficit shrank to 9.3 per cent of GDP, mainly due to buoyant exports. This performance led to a successful third review of the 2006-09 Poverty Reduction and Growth Facility (PRGF) by the International Monetary Fund (IMF) in March 2008.

The political crisis since the 6 August 2008 military coup has led the international community – the African Union (AU), the European Union (EU), the World Bank, the IMF, France and the United States – to suspend all, except humanitarian aid to Mauritania. The setting of presidential elections for 6 June 2009, after a "States General on democracy", organised from 27 December 2008 to 6 January 2009, was not considered a step towards the return of constitutional government demanded by the international community. The AU

The political crisis will affect the aid flows on which Mauritania depends, thus compromising growth.

Figure 1 - **Real GDP Growth and Per Capita GDP**
(USD/PPP at current prices)



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

StatLink http://dx.doi.org/10.1787/570457431442

imposed sanctions on the military junta that were to take effect at the end of March 2009 and might also be adopted by the EU.

About half of Mauritanians live in poverty and the government has pledged, as part of the Poverty Reduction Strategy Framework (PRSF), to implement the measures required to meet the Millennium Development Goals (MDGs) by 2015. Social indicators, however, show that not enough progress has been made to do so. The country only scores 0.55 on the United Nations Development Programme (UNDP) Human Development Index (HDI) and ranks 137 out of 177 countries.

Slowing world demand combined with the national political crisis will depress the economy in 2009 and 2010, given its lack of diversification, and make it vulnerable to external shocks. The global recession will curb mining and oil exports, reduce tourism and also government revenue, which in turn will have adverse effects on public finances and the balance of payments. These effects will be worsened by possible international sanctions if the political crisis does not end. The resulting fall in public aid would damage the government's investment programme and thus national growth, which would also be undermined by less foreign direct investment (FDI). Real GDP growth is thus expected to slow down (projected at 3.4 per cent in 2009 and at 4.5 per cent in 2010).

Recent Economic Developments

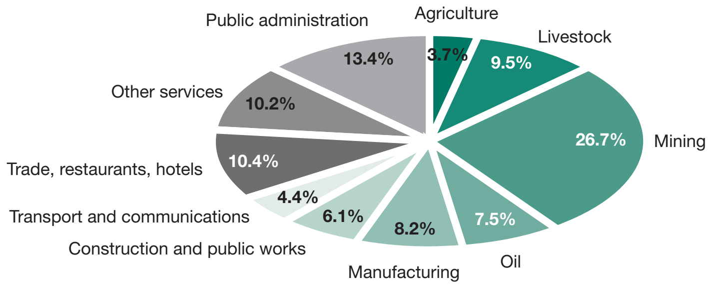
Real GDP growth stood at 5.2 per cent in 2008, up from only 1 per cent in 2007. This was mainly due to mining (iron, copper and gold), which benefited from high world prices, a good agricultural harvest and a thriving construction sector. Continued application of cautious policies under the IMF's PRSF bolstered macroeconomic stability. Inflation was contained at 7.4 per cent in 2008 and should fall to 6.4 per cent in 2009 and 6.2 per cent in 2010 thanks to lower world food and energy prices and government subsidies for these commodities. Public finances deteriorated in 2008, with an estimated budget deficit of 3.7 per cent of GDP (up from 2.7 per cent in 2007), although the current account deficit fell to 9.3 per cent of GDP (from 11.3 per cent in 2007). Compliance with all economic-performance criteria resulted in a positive third PRSF review by the IMF in March 2008. The fourth review, due in September 2008, did not take place because the IMF suspended its aid after the military coup the previous month.

Economic growth is expected to be only 3.4 per cent in 2009 due to the global recession and the national political crisis. Lower world demand will reduce mining (iron, copper and gold) and oil exports and construction will also be sluggish. These sectors were the backbone of growth in 2008. Some projects may be delayed or reconsidered for want of funding. The political crisis has affected the inflow of foreign aid on which the country relies and which accounts for 20 per cent of GDP, 35 per cent of government revenues and 90 per cent of public investment. Mauritania may face a very serious economic and financial crisis in 2009. The improved growth predicted for 2010 will largely depend on the global economy and a solution to the political crisis.

Better growth in recent years has reduced poverty, from affecting 56.5 per cent of the population in 1990 to 46.7 per cent in 2004 according to the most recent Living Standards Measurement Study (LSMS) survey. Inequality, however, has not been reduced and the Gini index rose from 39 per cent in 2000 to 39.3 per cent in 2004, when unemployment was 32.5 per cent. So growth is not yet sufficiently established in the lives of the poor, though the government says it will be a priority in 2008-10.

The agro-livestock sector was 13.2 per cent of GDP in 2008 and growing at roughly 4.5 per cent a year in real terms. The year 2008 was declared "year of agriculture" and the sector was made part of a national effort intended to achieve food self-sufficiency by 2012. This included upgrading facilities, increasing rural credit from MRO 1 billion (Mauritanian ouguiyas) in 2007 to MRO 3 billion in 2008, ensuring timely and adequate supply of fertilisers, using 40 per cent selected seeds for harvests instead of the previous 15 per cent, and reinforcing technical supervision. Livestock provides

Figure 2 - **GDP by Sector in 2008** (percentage)



Source: Authors' estimates based on national data.

StatLink http://dx.doi.org/10.1787/572042073027

more than 80 per cent of the whole sector's value added and about 9.5 per cent of GDP.

Mauritania has one of the world's richest offshore fishing stocks and potential annual production of major species is put at 1.5 million tonnes. The 2008 catch, estimated at 740 474 tonnes, was exported to the EU under a 2008-12 agreement that will earn the country EUR 86 million a year. The sector accounts for 15 per cent of export earnings, 25 per cent of government revenues as per fishing rights, and marketing and export taxes, and employs about 30 000 people. It only provides 5 per cent of GDP, however, in particular because of poor technical capacity to assess stocks and inadequate landing and processing facilities.

The country has substantial mining and oil reserves, and the sector is estimated to have contributed 34.2 per cent of GDP in 2008. Iron-ore production was expected to be 11.83 million tonnes in 2008, up about 8 per cent from 2007 but just short of the 12-million-tonne target of the national mining company, the Société nationale des industries minières (SNIM). Iron exports were 8.5 million tonnes, earning USD 592 million, 44 per cent more than in 2007 due to higher world prices. Copper production was 25 000 tonnes, up 15 per cent from 2007, with exports worth roughly USD 150 million. Gold output was estimated at 78 200 ounces (82 per cent more than in 2007), with exports bringing in USD 128.9 million (up from USD 26.3 million in 2007). This was due to greater

Table 1 – **Demand Composition**

	Percentage of GDP (current prices)		Percentage changes, volume			Contribution to real GDP growth		
	2000	2007	2008(e)	2009(p)	2010(p)	2008(e)	2009(p)	2010(p)
Gross capital formation	**19.4**	**22.3**	**15.4**	**4.1**	**5.3**	**4.2**	**1.2**	**1.6**
Public	4.7	6.0	25.0	4.5	3.5	1.8	0.4	0.3
Private	14.7	16.4	12.0	4.0	6.0	2.4	0.9	1.3
Consumption	**104.9**	**95.4**	**11.9**	**3.6**	**1.7**	**13.8**	**4.4**	**2.1**
Public	23.1	21.7	31.5	-5.9	1.3	8.0	-1.9	0.4
Private	81.8	73.7	6.4	6.9	1.8	5.8	6.3	1.7
External demand	**-24.3**	**-17.8**				**-12.8**	**-2.3**	**0.8**
Exports	49.0	54.5	1.1	0.5	4.9	0.5	0.2	2.3
Imports	-73.3	-72.2	14.3	2.5	1.5	-13.4	-2.5	-1.5
Real GDP growth						**5.2**	**3.4**	**4.5**

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

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volumes extracted and a 35 per cent rise in the average export price. Oil production began in 2006 with extraction from the offshore Chinguetti field, but fell sharply from 75 000 barrels per day (bpd) in 2007 to 11 676 bpd in 2008 because of drilling-related technical problems there. Prospects for 2010 are good, however, with new offshore (Banda, Tevet) and onshore deposits (Taoudeni) slated for drilling.

Domestic demand also boosted GDP growth in 2008: investment contributed to growth at 4.2 percentage points of GDP and consumption 13.8 points (8 for public consumption and 5.8 for private consumption). Net external demand only contributed 0.5 percentage point of GDP to this growth rate. Slower growth is expected in 2009 and 2010 because of smaller contributions from public and private consumption, partially offset by much less negative external demand.

Macroeconomic Policies

Fiscal Policy

Fiscal policy was marked in 2008 by a rise in public expenditure, mainly due to the implementation of an emergency social programme (ESP) to protect poor and vulnerable persons against the effects of the food crisis. A supplementary budget was passed in November 2008 and government spending increased to 31.2 per cent of GDP in 2008 from 29.2 per cent in 2007. Public revenue went up from 26.5 per cent of GDP in 2007 to 27.4 per cent in 2008 thanks to better tax collection through the introduction of a database of taxpayers covering Nouadhibou and Nouakchott, and of a mechanism for VAT repayment. The tax burden was 15.7 per cent of GDP in 2008 and should be 16.1 per cent in 2009. The budget deficit widened, however, to 3.7 per cent of GDP in 2008 from 2.7 per cent in 2007. It was mainly financed by weekly issues of treasury bonds redeemable after 4 to 16 weeks at a weighted average interest rate of 11 per cent. The deficit is expected to increase to 4.7 per cent in 2009 and 5.4 per cent in 2010 due to a projected fall in government revenue (26.2 per cent of GDP in 2009 and 25.2 per cent in 2010) as a result of the global crisis, a domestic economic downturn, and less foreign aid due to the political crisis. Public expenditure, planned at about 31 per cent of GDP in 2009 and 2010, should include reduced current outlay and more capital spending to boost economic activity.

Monetary Policy

According to the January 2007 statutes of the central bank, the Banque centrale de Mauritanie (BCM), the aim of monetary policy is price stability. This did not stop the bank from reducing its key interest rate from

Table 2 - **Public Finances** (percentage of GDP at current prices)

	2000	2005	2006	2007	2008(e)	2009(p)	2010(p)
Total revenue and grants[a]	**24.7**	**26.6**	**64.3**	**26.5**	**27.4**	**26.2**	**25.2**
Tax revenue	20.4	24.5	20.3	16.4	15.7	16.1	16.1
Oil revenue	0.3	0.0	9.2	8.4	8.8	6.9	6.5
Total expenditure and net lending[a]	**30.7**	**33.7**	**28.5**	**29.2**	**31.2**	**30.9**	**30.6**
Current expenditure	22.2	25.7	21.8	21.4	23.0	22.3	22.2
Excluding interest	*19.2*	*22.4*	*19.9*	*19.8*	*21.7*	*20.6*	*20.3*
Wages and salaries	4.6	4.5	7.3	8.6	8.6	8.6	8.4
Interest	3.0	3.3	1.9	1.6	1.3	1.7	1.8
Capital expenditure	8.5	7.4	6.2	7.8	8.1	8.4	8.5
Primary balance	**-3.0**	**-3.8**	**37.7**	**-1.1**	**-2.4**	**-3.0**	**-3.6**
Overall balance	**-6.0**	**-7.1**	**35.9**	**-2.7**	**-3.7**	**-4.7**	**-5.4**

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

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14 to 12 per cent in October 2007 and maintaining it throughout 2008 in an effort to boost economic activity. The legal reserve ratio was also kept at 7 per cent. Bank loans increased by 14.3 per cent and the money supply by 10.6 per cent (as compared with 8.1 per cent in 2007 year-on-year). Weekly treasury-bond auctions and interventions in the exchange market allowed the BCM to mop up excess liquidity in the banking system.

External Position

The balance of payments current-account deficit fell from 11.3 per cent of GDP in 2007 to 9.3 per cent in 2008, mainly thanks to robust mining and fisheries exports. It is expected to increase again in 2009 (to 13.2 per cent of GDP) and 2010 (to 14.5 per cent) because of contraction in exports of goods and services, especially in tourism, and because of fixed energy and food imports. The BCM's reserves, which fell by the equivalent of 1.2 months of goods-and-services imports in 2008, are expected to drop again in 2009 and 2010 due to smaller export earnings caused by global recession, less official aid and the possible use of these earnings and official aid to prop up the ouguiya on the exchange market. Despite the 6.3 per cent appreciation of the ouguiya against the euro and its 8.4 per cent rise against the US dollar in 2008, its exchange rate has remained in line with its equilibrium level. This situation could be reversed in 2009, however, due to uncertainty regarding the resolution of the political crisis, which could undermine the ouguiya. Mauritania's foreign debt (equivalent to 91.1 per cent of non-oil GDP in 2007) was estimated to fall to about 58.3 per cent in 2008, with debt servicing amounting to 3 per cent of export earnings from non-factor goods and services. This improvement in the external debt ratios is due to agreements on the settlement of the passive bilateral debt, estimated at USD 1 billion, with Algeria, Kuwait, Libya and the United Arab Emirates, which agreed on the principle of its conversion into development projects. According to a March 2008 IMF analysis, these ratios ensure the sustainability of Mauritania's debt. The expected deterioration of the external accounts in 2009 and 2010, however, could lead to further external indebtedness. The internal debt was estimated at around MRO 191.8 billion in 2008, mainly constituted by bank-held treasury bonds and BCM loans to the government. FDI was estimated at USD 153 million in 2007 (19 per cent of gross fixed capital formation) and concentrated in oil, mining and telecommunications.

Mauritania grants most favoured nation (MFN) status to all its trading partners, has no export restrictions and very few non-tariff import barriers. Custom duties are the country's main trade-policy instrument. Mauritania is a member of the Arab Maghreb Union (AMU), the Senegal River Development Agency (Organisation pour la mise en valeur du fleuve Sénégal – OMVS) and the Permanent Inter-state Committee for Drought Control in the Sahel (Comité permanent inter-État de lutte contre la sécheresse au Sahel – CILSS). It also has trade agreements with Algeria, Egypt, Gambia, Morocco, Senegal, Mali and Tunisia, and is a signatory of the Cotonou Agreement and an observer at the Economic Partnership Agreement (EPA) negotiations between the EU and the Africa Caribbean

Table 3 - **Current Account** (percentage of GDP at current prices)

	2000	2005	2006	2007	2008(e)	2009(p)	2010(p)
Trade balance	-9.2	-43.2	7.4	0.8	2.2	-2.0	-4.1
Exports of goods (f.o.b.)	32.8	33.7	50.6	51.3	50.5	42.0	40.3
Imports of goods (f.o.b.)	42.0	76.9	43.2	50.4	48.3	44.0	44.3
Services	-9.4	-16.1	-11.8	-15.1	-13.9	-13.6	-14.2
Factor income	1.0	3.5	-2.8	-2.1	-3.6	-4.3	-2.5
Current transfers	7.0	8.7	5.9	5.1	6.0	6.7	6.3
Current account balance	**-10.7**	**-47.2**	**-1.3**	**-11.3**	**-9.3**	**-13.2**	**-14.5**

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

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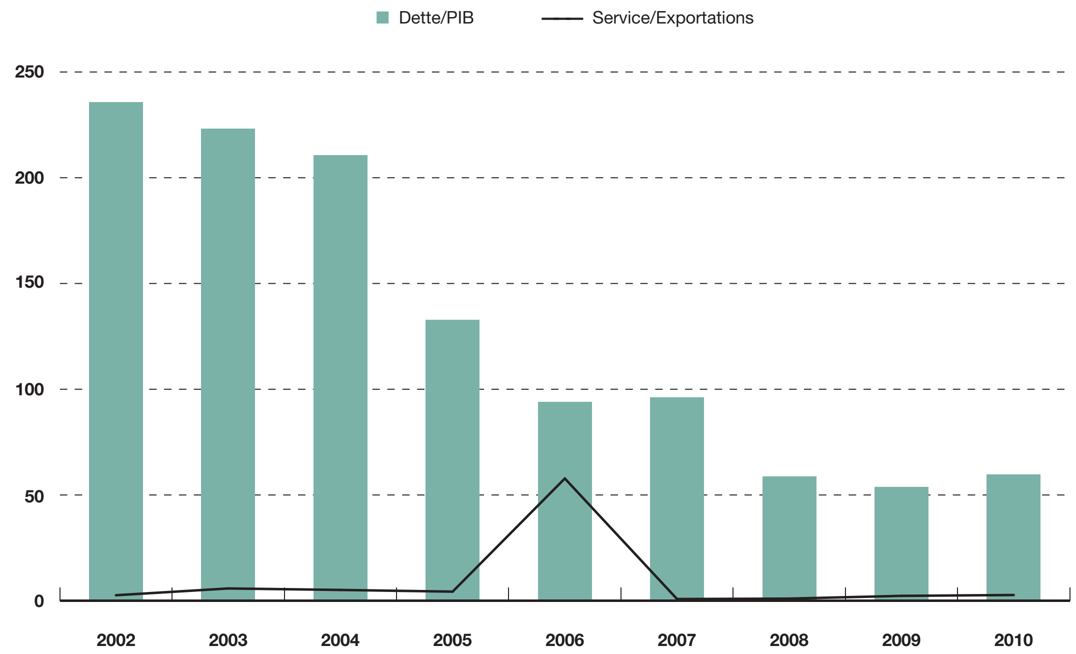
Figure 3 - **Stock of Total External Debt** (percentage of GDP) **and Debt Service** (percentage of exports of goods and services)



Source: IMF.

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Pacific (ACP) countries. Mauritanian exports thus get preferential treatment in the EU market and also under the Everything But Arms (EBA) programme for least developed countries. Mauritania's share of regional trade is still very small, however, and the EU remains its main trading partner, both as client and supplier.

Structural Issues

Private Sector Development

Mauritania ranks 160th out of 181 countries in the 2009 edition of the World Bank's *Doing Business* report, 6 places higher than in 2008. The business climate is nonetheless hampered by, amongst other factors, weak financial and legal institutions, poor electricity, water and road infrastructure, and inadequate vocational training. Steps were taken in 2008 to make up for some of these flaws. The government's private-investment promotion body, the *Délégation générale à la promotion de l'investissement privé* (DGPIP), was renamed a private-sector development agency (Commissariat au développement du secteur privé), and a draft investment law was presented to the government in 2008 that reduces to seven days the administrative procedures needed to set up a business. The new law also allows for the institution of a new one-stop shop and offers attractive tax benefits for foreign investors. Improvement of the business environment is supported by the World Bank to the tune of USD 5 million for 2007-12 in the framework of the country's business-climate improvement project, the Projet d'amélioration du climat de l'activité économique (PACAE).

Reform and modernisation of the banking sector begun in 2007 according to recommendations of the Financial Sector Assessment Program (FSAP) conducted by the World Bank and the IMF continued in 2008. To boost competition and the quality of services, two new banks – the Qatar National Bank and the Ettijari

Wafa Bank group, Morocco's leading privately owned bank – were given operating permits in 2008. Prudential ratios were also strengthened in 2008 with an increase in the risk-division ratio from 10 to 25 per cent of net equity. Despite these efforts to improve the banking system, however, the latter is still not very competitive, contains great risk and 80 per cent of all transactions are still made in cash outside the banking system. Access to bank loans is difficult for firms, most of which cannot provide the required security. Banks are also hesitant to lend because non-performing loans amount to 2.5 per cent of GDP. Nevertheless, the financial system should not suffer from the international crisis because its integration into the global financial system is very limited. Primary banks operate in a closed system with surplus liquidity that mostly serves to fund the government.

Other Recent Developments

Efforts have been made to improve public finance management, reform public administration, fight corruption and increase transparency so as to create a better investment climate. In terms of economic and financial governance, a mid-term budgetary framework (MTBF) for 2008-10 was drawn up in 2007 to link the main priorities of the 2006-10 PRSF and the public investment programme (PIP). Several measures were taken in 2008 to expand the tax base and make the system fairer, in particular by lowering the minimum fixed tax from 3.5 to 3 per cent of turnover, raising the monthly overall tax rebate to MRO 30 000, reducing the marginal tax rate from 35 to 30 per cent and reducing VAT exemptions. Mauritania and the EU issued a Public Expenditure Framework Assessment (PEFA) in June 2008, which showed that despite some progress, budget implementation was still weak, in that amongst others, it lacked full details of expenditure arrears, the budget did not account for all expenditure, especially for industrial and commercial public enterprises, and that the common practice of fragmented public procurement greatly weakened regulation and oversight possibilities. A new public-procurement law in 2009 is expected to improve efficiency and fairness in the allocation of public resources.

Civil-service reform has not yet had tangible results, and public administration is still structurally weak, provides poor service to users, is too complex and bureaucratic, uses staff inefficiently, has poor information and communication systems, no transparency in hiring and promotions, and no forward-looking staff management. The administration had to cope with several changes of government in 2008 that disrupted the organisation charts of the different ministries. All these changes slowed down reforms, especially those initiated under the World Bank-funded Public Sector Capacity Building Program (PSCAP).

Mauritania joined the Extractive Industries Transparency Initiative (EITI) in 2006 and has shown interest in implementing the new EITI++ adopted by the World Bank and the African Development Bank in April 2008. Oil production since 2006 has included setting up a national fund for oil and gas revenue, the Fonds national des revenus des hydrocarbures (FNRH) by decree 2006-08 of 4 April 2006, its incorporation into the budget, and the institution of a national oil and gas council. The FNRH receives all state revenues from oil production and deposits them in a foreign bank. This money is saved or used to finance the national budget through monthly transfers to the treasury's current account at the BCM. These transfers are made only by the BCM governor at the written request of the minister of finance within the limits of the amount set in the general budget law. FNRH reports have been published for 2006 and 2007. Otherwise, a new law requires all senior officials to declare their assets, and a financial transparency committee has been set up, along with a special court to try senior state officials who break this new law. A national anti-corruption strategy, Stratégie nationale de lutte contre la corruption (SNLC) is in its final drafting stages. Despite these efforts, Mauritania remained, in both 2007 and 2008, 115th out of 180 countries in Transparency International's Corruption Perceptions Index (CPI).

The country's 11 066 kilometres of roads are the chief means of transport for people and goods, despite the low ratio of surfaced roads (8.6 kilometres for every 10 000 inhabitants). Other forms of transport are few and are limited to one railway connecting the Zouerate mining centre to port of Nouadhibou (853 kilometres) mainly transporting iron ore, five ports (with a container port in Nouakchott), two ferry boats, twelve landing strips and ten airports, three of them international. A 2008-10 major government investment programme aims to boost regional growth and integration by building several stretches of road, inspecting trucks to see that they are not overloaded, upgrading the Nouadhibou and Nouakchott airports, expanding the ports of Nouakchott (the "Friendship Wharf") and Nouadhibou and building a development hub at the Tanit small-scale fishing port.

Water supply is regulated by a 5 February 2005 law (030-2005) and run by a state-controlled body, the Société nationale de l'eau (SNDE), and electricity is regulated by a 25 January 2001 law (2001-19) and run by another public body, the Société Mauritanienne de l'électricité (Somelec). Both sectors come under an umbrella authority, the Autorité de régulation multisectorielle (ARE), set up on 25 January 2001 (Law 2001-18). In 2007, 32 per cent of households had mains water, but this figure hides a large disparity between the capital, Nouakchott (17 per cent), and provincial towns (58 per cent). Mains electricity reaches 39 per cent of households in Nouakchott and 60 per cent in provincial towns. A little more than 3 per cent of rural households use solar energy. Refined fuel supply meets overall demand, 94 per cent of which is accounted for by the two main cities (Nouadhibou and Nouakchott), in which 40 per cent of the population reside.

Water and sanitation policy follows the goals of the 2006-10 PRSF, which include as their main projects to complete the Aftout Essahli project to supply clean water in Nouakchott, to expand the distribution networks, to improve water quality in the poor parts of the capital, to buy two desalination plants for the city, to increase the clean-water supply in the southern part of the city and a programme to build public-water points. The priority is to upgrade the sanitation network in Nouakchott.

Energy policy aims to increase electricity supply and access, promote rural electrification and renewable energy, and to expand the sector's capacities. The government plans to continue electrification of the main towns in the country's 24 districts (*moughatas*) in 2008-10 (Phase II), electrification of the Senegal River valley with interconnection of the Rosso and Boghé sub-stations, expanding the power station and electricity grid in Nouakchott, expanding the power station in Nouadhibou and increasing its capacity, and building a power station in Atar.

The 2006-10 PRSF targets include incorporating environmental concerns into national policies and strategies and reversing the damage being done to national resources. The state secretariat for the environment attached to the prime minister's office was upgraded to a ministry in 2007 and has adopted a national environmental action plan (PANE) and a national plan for sustainable development (SNDD). A poverty-and-environment project has been launched, rules for environmental impact studies have been amended, and an independent scientific committee for oil and gas production has been set up. Nonetheless, cross-sector integration of sustainable development is still insufficient. Biodiversity is protected in special areas (a stable 1.7 per cent of the country). The desert is advancing at a worrying rate: about 70 000 hectares of land are deforested each year and less than 5 000 replanted.

Agro-livestock production is vulnerable to the weather and the country has a cereals deficit. So food and nutrition insufficiency is almost a structural constant, worsened by successive years of drought, locust invasions and flooding. Soaring world food prices, especially of cereals, since 2007 have hit hard in Mauritania, which imports 70 per cent of its food. Wheat and sorghum prices rose 40 per cent between 2007 and 2008 and millet and rice more than 50 per cent. Food insecurity has increased 30 per cent as a result and 24 per cent of children under 5 are malnourished.

To ease the burden of high food prices on the poor and vulnerable, the government launched an MRO 39.8 billion SIP in April 2008. Its emergency measures mainly involved buying up large stocks of staples, boosting the storage and distribution capacity of the national import-export body, Sonimex, abolishing the tax on rice, increasing subsidies for bread and butane and for Somelec, subsidising the SNDE, boosting the value of the salary scale index point by 10 per cent, free distribution of food, implementing food-for-work programmes, a national network of village food-security stocks, and income-generating activities. Structural measures involved opening up some 30 000 hectares of irrigated land for development, government backing for MRO 6 billion in crop loans, improving and protecting livestock production, training and assimilation of 4 000 young unemployed and strengthening the youth-job-promotion fund. These measures brought down the prices of food staples – by 40 per cent for some products such as rice, millet, sorghum and oilseeds – and of fuel and butane. The government announced in November 2008 that it was setting up an MRO 16 billion national solidarity fund to further help the poorest.

Innovation and ICT

Mauritania has pledged to use new information and communication technology (NICT) as a development tool. Major NICT reforms have been started since the policy statement of 22 March 1998 on the posts and telecommunications sector, which included separating postal services from telecommunications, opening up telecommunications and NICT to competition, allowing private investors, setting up a ministry department to handle NICT, an independent watchdog for posts and telecommunications, and an office providing all services. The reforms have been implemented progressively and continuously, step by step, as planned.

Mauritania has international-standard digital infrastructure equipment of the latest generations. It has used Very Small Aperture Terminal (VSAT) satellite equipment, and optical-fibre and Asymmetric Digital Subscriber Line (ADSL) cables for Internet access since 2006. This infrastructure is shared by operators under a 2000 decree (2000-163) on interconnection and a March 2007 agreement signed amongst the operators. The country has no submarine cable linking it to the rest of the world, but an optical ground wire (OPGW) connects it with Senegal, where the submarine SAT-3 cable has a landing point.

Telecommunications infrastructure in general has improved in recent years with the spectacular growth of mobile phones (Global System for Mobile communications – GSM) and increasing demand for Internet connections. The penetration rate of computer equipment, however, is small compared with demand, despite import-tax and duties exemptions on computer equipment and an agreement with Microsoft Afrique du Nord to buy office software and server applications, and provide a range of training courses. Otherwise, the Internet-access bandwidth is small for the growing number of users, so connections are slow.

Telecommunications coverage rose from 14 to 57 towns between 1999 and 2007 and teledensity from less than 1 per cent to 36.2 per cent during the same period. With this sharp improvement, the cost of access and service rates also fell. The market is dominated by mobile phones (97 per cent of the estimated total of 1 509 870 subscribers) and mobile-phone penetration reached 50 per cent in 2007. Communications network traffic is also dominated by mobile phones (93 per cent).

The government gave the sector a new legal framework on 11 July 1999 (Law 99-019), which spells out the job of the ministry in charge of telecommunications and of the regulatory body, as well as rules of competition amongst operators. Decree 2000-163 set the general network interconnection rules. The new legal framework made the separation of regulations and operations the main tool of reform. A regulatory body (ARE) was created by Law 99-019 and transformed on 25 January 2001 (Law 2001-018) into a multi-sector regulation authority including the water and electricity sectors as well. The job of ARE is to ensure compliance with the laws and regulations of the sector, ensure uninterrupted service and protect the public interest, promote efficient growth of the sector in line with government policy, implement consultation for users and operators as required by laws and regulations, grant authorisations and issue licences and franchises transparently and competitively, and see that operators fulfil their obligations. Law 99-019 (Art. 59) also sets up a fund for universal access to NICT and an agency, the Agence pour la promotion de l'accès universel aux services (APAUS), was set up in 2002 to provide it. The postal and telecommunications services of the Office des postes et des télécommunications (OPT) were separated in December 1999 into two bodies, the Société Mauritanienne des télécommunications (Mauritel) and the Société Mauritanienne des postes (Mauripost). Mauritel was privatised in 2001, when 54 per cent of its assets were sold to Maroc Telecom.

The Société mauritano-tunisienne des télécommunications (Mattel) and the Société Mauritanienne des télécommunications mobiles (Mauritel Mobiles, a subsidiary of Mauritel) responded to ARE's call for bids and obtained the first two GSM operating licences in 2000. A third licence went to Mauritel in April 2001 to run the fixed-line network. ARE launched the second stage of opening up the sector in 2006 by granting a global licence to a new operator, Chinguitel (GSM, fixed lines, international, the Internet and other 3G and 3.5G services), and a 3G and 3.5G licence to Mauritel. By 2008, four firms were providing service – the original operator Mauritel (fixed lines), two mobile operators (Mauritel Mobiles and Mattel) and Chinguitel (with a universal licence).

The law obliges licensed operators to provide interconnection data including technical and commercial details as well as rates. ARE checks and approves these on the basis of information it gathers and documents provided by the operators. If operators do not respond to its recommendations after assessment, ARE can impose rates it considers suitable. The operators' 2007-08 proposals were thoroughly examined by ARE, which set the termination rate for mobile operators at MRO 13 a minute for incoming fixed and mobile calls, 41 per cent less than the rate in force since 2004, and MRO 5 for text messages. This cut and the many promotional offers by operators reduced the latter's retail rates.

The government set up a state secretariat attached to the prime minister's office in September 2000 to modernise the civil service and the information and communication technology sector (Sematic), and it produced a national strategy to boost NICT between 2002 and 2006. The plan included expanding the access of all to the information society, using human resources better, modernising the state apparatus with computers and digital technology, adapting the legal and institutional framework to the new technologies, encouraging the private sector to use the new technologies, developing digital content and expanding the country's online presence, technological support per sector, and overall governance of the NICT sector (its key project line). The strategy's action plan was based on strengthening and expanding the e-government project, e-business, e-education, e-tijara (Islamic business), telemedicine and setting up ICT companies.

Several parts of the strategy have been applied to different degrees, mainly setting up a portal to government websites and services as well as to public services and to a government directory, setting up a website to handle government job applications and recognition of diplomas, computerising all government correspondence, developing an information system to manage the SIP, upgrading the government's intranet to broadband and setting up a platform for dialogue with development partners. Action in health and education has included getting six hospitals online as part of the telemedicine project, as well as six secondary schools through the Nouakchott University science and technology department, providing ICT courses for the public, training 43 education inspectors to use computers, introducing distance education by the Agence universitaire de la francophonie (AUF) through the Campus numérique francophone de Nouakchott (CNFN), the Cisco academic network of France's École nationale d'administration (ENA) and Nouakchott University's information centre, the Centre d'accès à l'information (CAI). The Centre has 453 students and researchers, all using the Internet to find scientific and technical information. Mauritanian civil society also uses the Internet through an online forum founded in 2000 which now brings together 450 not-for-profit organisations, NGOs and women's co-operatives, 45 independent newspapers and 35 towns and villages.

The partnership agreement signed with Microsoft in 2003 was extended in 2008 for five years and, along with expert Microsoft support, licences and training of civil servants, will include long-term elements such as developing an integrated system to manage government personnel, a system to manage state property and archiving contracts, ICT training for secondary- and higher-education students, and setting up online services to bring the government closer to citizens.

Political Context

The transition to democracy begun in 2005 resulted in parliamentary and presidential elections in 2007 that observers said were free and honest. Democracy was undermined, however, as President Sidi Mohamed Ould Cheikh Abdallahi became unpopular within the first year of his term, largely due to consumer price rises, and the prime minister and government resigned in May 2008.

The political crisis led to the armed forces' overthrowing the government on 6 August 2008 and setting up a High Council of State. The coup was roundly condemned by the international community, the AU suspended Mauritania's membership, France and the United States cut all but humanitarian aid, and the EU froze all new operations and threatened to impose sanctions under Article 96 of the Cotonou Agreement. The World Bank and the IMF also suspended their Mauritanian operations and the World Bank refused to approve new ones. Under strong pressure from the international community, President Abdallahi, who had been arrested after the military coup, was released on 21 December 2008. A "States General on democracy" was organised from 27 December 2008 to 6 January 2009, and new presidential elections were set for 6 June 2009.

Social Context and Human Resources Development

Mauritanians live in great poverty, which affected 46.3 per cent of the population in 2000, and the situation may be made worse by the global food and financial crises. Reaching the MDGs is the government's declared priority. The education sector has made progress, with the gross enrolment rate at 103.2 per cent in 2007 and net enrolment rate (an MDG indicator) at 80 per cent (up from 72.2 per cent in 2006). The primary-school repetition rate fell by 6.8 percentage points, and the retention rate rose significantly, by nearly 3 percentage points, but was still quite low (49.3 per cent in 2007). The country has managed to narrow and then reverse the gender gap, and the gross enrolment rate of girls in basic education in 2007 was 106.3 per cent (100.4 per cent for boys).

The health situation is still precarious, however, with under-5 child mortality higher than in other countries in the region.This decreased from 123 in 2004 to 92 in 2007. Maternal mortality fell from 747 per 100 000 live births in 2000 to 686 in 2007 thanks to more women giving birth with qualified help (61 per cent in 2007, versus 57 per cent in 2001) and to better access to professional prenatal care (80 per cent of women were able to get it). HIV/AIDS prevalence is low, at less than 0.7 per cent in 2007. Nonetheless, to keep the epidemic under control, the government set up a national HIV/AIDS council in 2002 headed by the prime minister, which adopted a multi-sector strategy framework to fight against the disease.

The latest UNDP report (July 2008) on MDG progress said that of eleven chosen targets to be reached by 2015, two (universal primary education, improving the living conditions of the poorly housed) will be probably reached, and four (reducing poverty and hunger, gender equality and access to clean water) might be reached if present trends continued. The five out of reach were the four health targets and those related to environment and sustainable development. The 2007 UNDP Human Development Index (HDI) gives Mauritania a score of 0.55 in 2005 and ranks it 137th out of 177 countries.

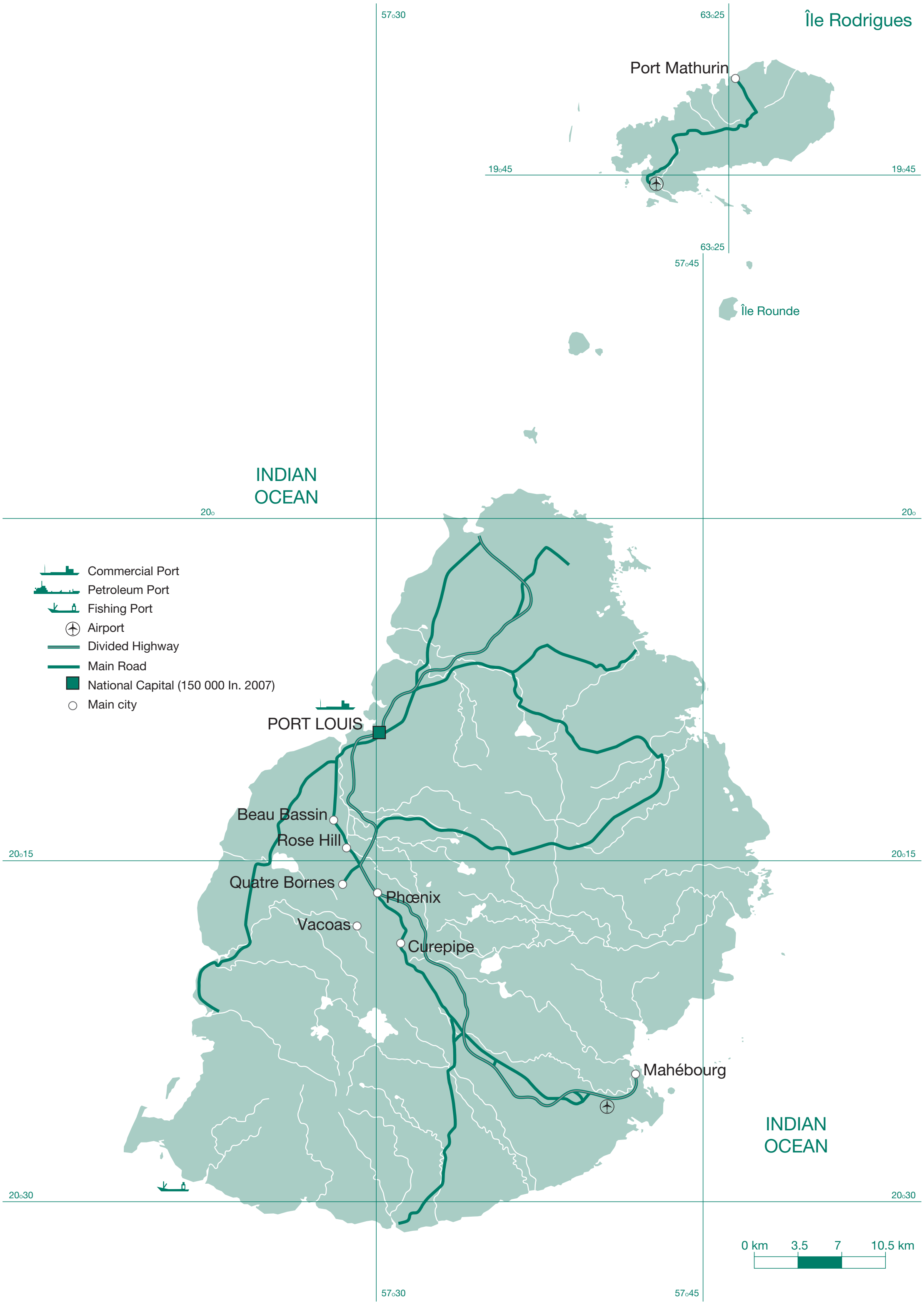
A strategy to fight the consequences of slavery was drawn up after slavery practices were outlawed in February 2008 and a programme to integrate 24 000 refugees returning from Senegal and Mali into the economy and society.

Mauritius

key figures

• Land area, thousands of km²:	2
• Population, thousands (2008):	1 280
• GDP per capita, PPP valuation, USD (2008):	11 278
• Life expectancy (2008):	72.1
• Illiteracy rate (2008):	13

Mauritius



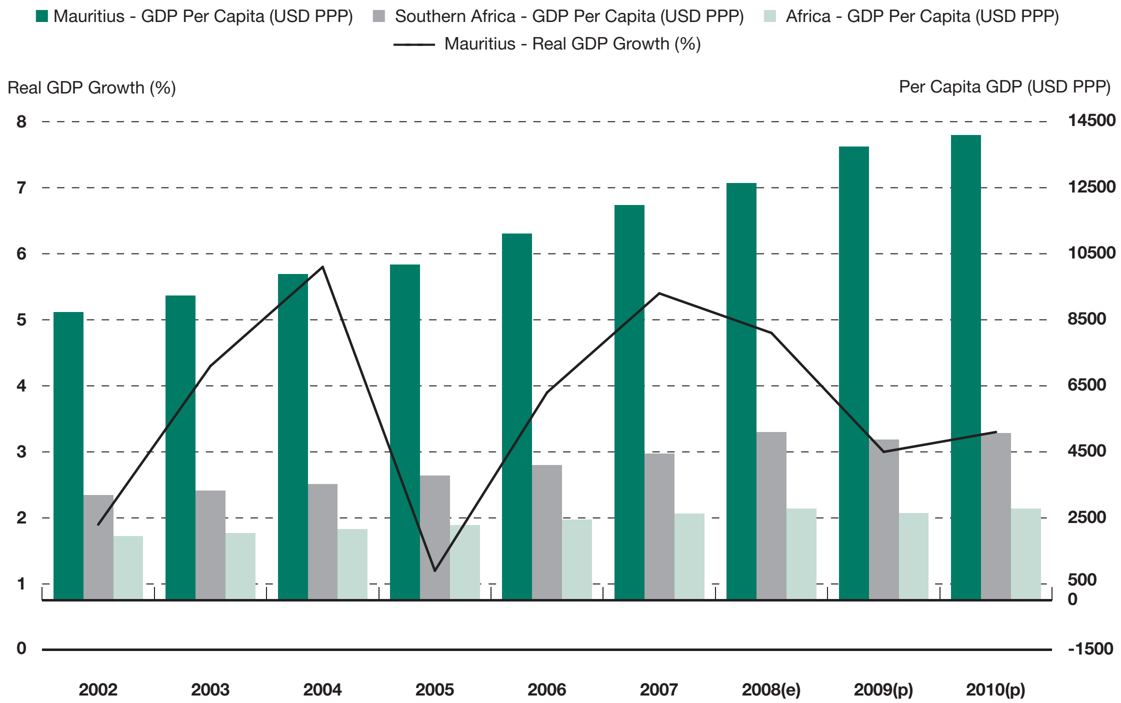
Île Rodrigues
Port Mathurin
Île Rounde
INDIAN OCEAN
Commercial Port
Petroleum Port
Fishing Port
Airport
Divided Highway
Main Road
National Capital (150 000 In. 2007)
Main city
PORT LOUIS
Beau Bassin
Rose Hill
Quatre Bornes
Phœnix
Vacoas
Curepipe
Mahébourg
INDIAN OCEAN
0 km
3.5
7
10.5 km
57°30
63°25
19°45
57°45
20°
20°15
20°30

As a small open economy fully integrated into world markets, Mauritius is vulnerable to external shocks. In the recent past it has had to deal with a sharp reduction in the preferential price of its sugar exports to the European market, as well as high food and oil prices. In spite of those three shocks, the Mauritian economy has been very resilient. However, it is now facing another external shock, namely the global slowdown arising from the financial crisis. As a result, the Mauritian economy grew by 4.8 per cent in 2008, a lower rate than expected, something that can be attributed to the lacklustre performance of the textile and tourism sectors, especially towards the end of the year.

The global economic recession is likely to continue to hold back the island's economic growth in 2009. It is expected that gross domestic product (GDP) will grow by 3 per cent in 2009 as the textile and tourism sectors are forecast to contract further. The government recently announced a countercyclical package to try to stimulate the economy. In the coming years, the main challenges will be to continue to diversify the economy from its traditional sources of growth, ensure effective public sector investment, and address growing labour and infrastructural bottlenecks. One principal objective should be to increase the resilience

The political crisis will affect the aid flows on which Mauritania depends, thus compromising growth.

Figure 1 - **Real GDP Growth and Per Capita GDP**
(USD/PPP at current prices)



Source: IMF and Central Statistical Office data; estimates (e) and projections (p) based on authors' calculations.

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of the economy to shocks and improve competitiveness in world markets by promoting a shift towards a more service-oriented economy through the creation of a regional banking and services hub. To reduce its dependence on trade preferences for its sugar and textile exports, the government is expected to continue to pursue its supply-side and growth-promoting policies, characterised by low taxes, deregulation and fiscal prudence.

The Mauritian economy could rebound in 2010. The likelihood of such a rebound happening sooner rather than later hinges crucially on the length and depth of the global economic downturn, a factor over which Mauritius has no control. Other key determinants of economic recovery include the ability of the government to pursue reforms to modernise the economy, the capacity of the private sector to improve its competitiveness and, last but not least, the efficacy of the government's stimulus package. There are also signs that measures are being taken to ensure effective public investment and reverse the downward trend in public capital formation observed in the recent past.

Recent Economic Developments

The Mauritian economy got off to a strong start in 2008 in spite of facing challenges on the external side due to high oil and food prices. However, as the global financial crisis began to affect European countries and the United States, two of the traditional engines of Mauritian growth, tourism and textiles, started to sputter.

The secondary sector suffered from the consequences of the global financial turmoil and registered growth of 4.1 per cent in 2008, down from 5 per cent in 2007. In 2008, critical slowdowns in textile and food production and the activities of export-oriented enterprises were partially offset by increased production in sugar milling. As a consequence, manufacturing growth slowed from 2.2 per cent in 2007 to 1.8 per cent in 2008. Since the end of the Multi-Fibre Agreement (MFA) in 2005, the textile and garment sector has contracted. It is estimated that 23 000 jobs were lost between 2002 and 2006 as many firms closed. Production picked up in 2006 and 2007 but employment remained almost constant. Manufacturing has shifted from pullovers, T-shirts and trousers to shirts, yarns and fabrics. More recently, some textile firms have closed as exports have been affected by higher energy costs and the appreciation of the rupee (MUR).

Two types of textile firms are poised to withstand the current difficult times. First, producers who have been able to reduce their costs and turnaround time through vertical integration are still producing profitably. However, local producers report that spinning and weaving in Mauritius is actually more expensive than in India and the Far East. Its added value lies not in being competitive in costs, but in response time. The second type of garment firms are small factories, many of them small and medium-sized enterprises (SMEs), which produce small quantities of high-quality products in niche markets such as lingerie and swimwear. Their competitive advantage is flexibility and attention to the requirements of smaller customers placing smaller orders. Firms that fall between those two types are vulnerable. They are too small to benefit from economies of scale generated by vertical integration, and too large to be able to pay detailed attention to individual customer requirements. As a consequence, output growth in the textile manufacturing industry declined dramatically last year, from a growth rate of 8.5 per cent in 2007 to 0.2 per cent in 2008. The textile sector is not expected to recover in 2009.

The Mauritian economy is mainly driven by the tertiary sector which generates close to 70 per cent of GDP. That sector grew by 6 per cent in 2008, slightly lower than the 6.7 per cent rate for 2007. Tourism has been an important engine of the country's sustained economic growth. However, the picture of the Mauritian tourism industry in 2008 is quite different from that of previous years. By all accounts, the upward trend in tourist arrivals has experienced a setback. After having grown by an impressive 14 per cent in 2007, the number of tourist arrivals grew by only 3.1 per cent in 2008 to reach 935 000. There are two main explanations for this poor performance: the global slowdown and, to a lesser extent, the appreciation of the Mauritian rupee vis-à-vis the currencies of the main tourism markets. The effects of the global slowdown in 2009 will undoubtedly reduce the number of tourist arrivals from traditional markets. Of particular concern is the prospect of a prolonged recession in France and the UK, the two largest tourist markets for Mauritius.

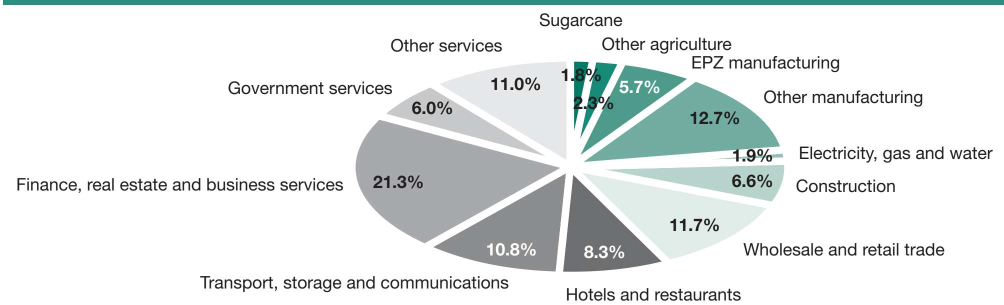
For the last 25 years or so Mauritius has experienced a steady increase in the number of visitors each year. In 2009, this trend is expected to stop or even be reversed if the global economic slowdown worsens. Notably, tourist numbers fell by 6.1 per cent year-on-year in December, taking growth for 2008 as a whole down to only 2.6 per cent. A further fall in the number of tourist arrivals would have negative multiplier effects on the Mauritian economy as the tourism sector is labour intensive. Hotels, in particular, employ a large number of unskilled workers. Low expectations for the number of tourist arrivals and subsequent earnings will in turn have a negative impact on the number of hotel projects. It is forecast that three hotel projects, out of an expected ten, will go forward in 2009. Moreover, almost all Integrated Resorts Schemes (IRS) projects are stalled because of both a drop in the purchasing power of potential buyers and their inability to obtain long-term financing because of the credit crunch.

Critical slowdowns in the tourism sector were offset by the high growth rates of financial intermediation activities and public social spending. Financial intermediation activities grew by 10.1 per cent in 2008 compared with 7.5 per cent in 2007. The strong growth in this sector is mainly attributable to the performance of the banks; the banking industry grew by 12.9 per cent in 2008. The offshore financial sector, founded by global business licence firms, has grown rapidly in Mauritius. Registered in Mauritius, these firms funnel investment into other countries, primarily India. However, the worsening of the global financial environment, especially the forecast slowdown of the Indian economy, will threaten financial intermediation activities in 2009.

In recent years, construction has been an important contributor to growth. After growing by 15.2 per cent in 2007, construction grew by an additional 11 per cent in 2008. The double-digit growth rates are mainly attributable to the construction of commercial and office buildings, hotels and projects under the IRS. However the number of building permits was lower in each quarter of 2008 than in any corresponding quarter since the first quarter of 2005. The numbers of both residential and non-residential permits are down. In 2009, the construction boom will be threatened by tighter access to international financing resulting from increased uncertainty about the returns to investment in tourism and international trade.

Good weather in 2008 contributed to a strong 5.2 per cent increase in agricultural output in 2008 compared with a decline of 7.5 per cent in 2007. The output of the sugarcane/sugar milling sector grew by 5.5 per cent in 2008, after declining by 13.4 per cent in 2007. However, the total of 460 000 tonnes of sugar produced in 2008 was still below the government's long-term target for the industry. The EU will continue

Figure 2 - **GDP by Sector in 2007** (percentage)



Source: Authors' calculations based on Central Statistical Office data.

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to provide Mauritius with assistance for restructuring the sugar industry and the government's recent steps to modernise and restructure it should lead to increased sugar production in 2009. In addition, the effects of the EU decision to phase out its guaranteed sugar price should be mitigated by historically high world prices for sugar in 2009/10 because of increasing demand for biofuels.

To diversify its economy, Mauritius has set itself the objective of becoming a seafood hub. Tuna fishing and processing as well as aquaculture have rapidly increased their contributions to GDP. The value of exports has more than tripled since 2003 and reached more than MUR 6 billion (Mauritian rupees) in 2007. The seafood sector is now the second largest contributor to manufactured exports and still has potential for further growth. The interim Economic Partnership Agreement (EPA) includes a derogation, which allows a significant amount of canned tuna and tuna loins to be exported to the European Union (EU). Aquaculture is regarded as a future growth sector for Mauritius. The Board of Investment has prepared an investors' guide, identifying several sites for on-shore, off-shore, and inland aquaculture sites. The government's long-term objective is for the sector to employ 5 000 persons and produce 30 000 tonnes of fish per year. Mauritius benefits from exporting at concessionary duty rates to the EU, as most fishing vessels are European. There are, however, a number of risks for the development of the sector. The first is increased competition from ASEAN countries should they gain equal access to the EU market. Second, the export of seafood is subject to stringent standards and controls. The image of a supplier can be easily tarnished if a consignment does not meet such standards. Finally, there are environmental concerns related to the intensive production of seafood in enclosed areas.

Domestic demand lost momentum in 2008 and is forecast to slow further in 2009 and 2010. This decrease is mainly attributable to the global economic slowdown and inflationary pressures generated by sharp increases in world food and oil prices. Thanks to an increase in after-tax income generated by tax reforms and a rise in public sector wages, private consumption grew by 4.9 per cent in 2008, up from 4 per cent in 2007. It was the main driver of the Mauritian economy in 2008 and contributed 3.5 percentage points to total GDP growth. However, this trend may not be sustainable given the bleak global economic outlook and rising inflationary pressures in Mauritius. Private consumption

Table 1 – **Demand Composition**

	Percentage of GDP (current prices)		Percentage changes, volume			Contribution to real GDP growth		
	2000	2007	2008(e)	2009(p)	2010(p)	2008(e)	2009(p)	2010(p)
Gross capital formation	**26.1**	**26.9**	**3.0**	**0.9**	**3.4**	**0.9**	**0.2**	**0.9**
Public	6.4	5.5	-19.2	0.5	3.0	-1.1	0.0	0.1
Private	19.7	21.4	9.2	1.0	3.5	2.0	0.2	0.8
Consumption	**74.4**	**83.5**	**4.1**	**2.9**	**2.5**	**3.5**	**2.6**	**2.2**
Public	14.1	13.1	-0.1	2.1	3.0	0.0	0.3	0.4
Private	60.3	70.4	4.9	3.1	2.4	3.5	2.3	1.8
External demand	**-0.6**	**-10.3**				**0.4**	**0.2**	**0.3**
Exports	61.4	58.8	4.4	-0.2	2.7	2.6	-0.1	1.5
Imports	-61.9	-69.2	3.1	-0.5	1.8	-2.2	0.3	-1.2
Real GDP growth						**4.8**	**3.0**	**3.3**

Source: Data from the Central Statistical Office; estimates (e) and projections (p) based on authors' calculations.

StatLink http://dx.doi.org/10.1787/576018361176

is therefore forecast to further contract to 3.1 per cent growth in 2009 and to 2.4 per cent in 2010. As part of the fiscal reform, the authorities have reduced government spending. Public consumption declined at an 0.1 per cent rate in 2008 and is supposed to start recovering in 2009 and 2010. Overall, the consumption is expected to further slowdown over the two coming years, from 4.1 per cent growth rate in 2008 to 2.9 per cent in 2009 and 2.5 per cent in 2010.

Investment growth slowed to 3 per cent in 2008, compared with 4.2 per cent in 2007. The investment slowdown is mostly due to the large and continued downward trend in public sector investment. Growth in private investment also slowed in 2008 and has mainly been concentrated in commercial and office buildings, hotels and IRS projects. Looking ahead, the expected contraction of public investment could be offset by the stimulus package announced by the government on 20 December 2008. The package is worth about 3 per cent of GDP. It includes fast-tracking already earmarked public expenditure projects, beginning new infrastructure programmes, accelerating private sector investment and cutting prices for flour, bread and gas. However, given the challenges that the government faced in meeting its capital expenditure targets for 2008, accelerating the disbursement rate will require significant efforts to streamline the process.

Macroeconomic Policies

Fiscal Policy

The reform of the tax system aimed to reduce taxes as a means of stimulating business, investment, employment and economic growth. It resulted in a significant rate reduction in income taxes, company taxes and custom duties that brought the country's overall rate of taxation to one of the lowest levels in the world. Among the main achievements are the following: 36 000 individual income earners were excluded from owing taxes, close to 25 000 people saw their tax burden lowered and the maximum personal income tax rate was reduced from 30 per cent to 15 per cent. Thanks to strong GDP growth, the government still managed to narrow the fiscal deficit to 3.4 per cent of GDP in 2007/08 and it is expected to fall to 3.2 per cent of GDP in 2008/09. For the year 2007/08, the main sources of revenue are taxes on incomes, profits and capital gains, goods and services, and property income. For 2008/09, total revenue and grants could decrease slightly because of the global economic slowdown.

The value of public expenditure expressed as a share of GDP has been decreasing since 2006/07. For 2007/08, total public expenditures and net lending amounted to 24.8 per cent of GDP. Because of the fiscal reforms, total public expenditure and net lending

Table 2 - **Public Finances** (percentage of GDP at current prices)

	1999/2000	2004/05	2005/06	2006/07	2007/08	2008/09(e)	2009/10(p)
Total revenue and grants[a]	**20.7**	**19.9**	**20.0**	**19.2**	**21.5**	**20.1**	**20.5**
Tax revenue	18.1	18.1	18.1	17.4	19.3	17.9	18.4
Grants	0.1	0.2	0.2	0.1	0.2	0.1	0.1
Total expenditure and net lending[a]	**24.0**	**24.9**	**25.3**	**23.5**	**24.8**	**23.4**	**22.6**
Current expenditure	20.6	21.0	21.4	20.1	19.5	18.0	17.8
Excluding interest	*17.2*	*17.1*	*17.7*	*16.1*	*15.2*	*14.1*	*14.0*
Wages and salaries	6.7	6.5	6.3	5.6	5.1	4.8	4.7
Interest	3.4	4.0	3.8	4.1	4.3	3.9	3.9
Capital expenditure	3.2	3.5	3.6	3.2	4.7	4.4	4.2
Primary balance	**0.1**	**-1.0**	**-1.5**	**-0.3**	**0.9**	**0.6**	**1.8**
Overall balance	**-3.3**	**-5.0**	**-5.3**	**-4.3**	**-3.4**	**-3.2**	**-2.1**

a. Only major items are reported.
Source: Data from the Ministry of Finance; estimates (e) and projections (p) based on authors' calculations.

StatLink http://dx.doi.org/10.1787/577464258015

is supposed to contract further to reach 23.4 per cent of GDP in 2008/09 and 22.4 per cent of GDP in 2009/10.

The Public Management Act of 2008 sets out the strategic objectives of debt management in Mauritius: *"(a) to meet the borrowing needs of Government in a manner that avoids market disruption; (b) to minimise the cost of debt portfolio within an acceptable level of risk; and (c) to support the development of a well-functioning market for Government securities."* In recent years public sector debt has been declining as a share of GDP, a trend that continued in 2008. As of June 2008, total public sector debt represented 57.7 per cent of GDP, compared to 63 per cent in June 2007. The contraction of public sector debt is the result of a decline in total government debt from 57.1 per cent of GDP in June 2005 to 49.5 per cent in June 2008, coupled with a decrease in public enterprise debt from 12.4 per cent of the GDP in June 2005 to 8.2 per cent in June 2008.

The first objective of the debt management strategy is to lengthen and smooth the maturity profile of the domestic debt portfolio. In June 2008, the domestic debt of the public sector totalled MUR 122.6 billion. The share of instruments maturing in the coming year represented 45 per cent of the total. In order to minimise refinancing risk, the goal is to reduce this share to 30 per cent in 2009 and to 20 per cent by 2013. In June 2008, the public sector's external debt amounted to MUR 20.3 billion. The debt management strategy aims to keep foreign debt at a manageable level. To reach this goal, the government plans to limit its external debt service to no more than 10 per cent of export income. In June 2008, the ratio of external debt stock to export earnings was 4.2 per cent, leaving ample space for the government to increase its external debt portfolio.

The debt management strategy also recommends aligning the currency composition of the external public sector debt with the currency composition of reserves and export earnings. In June 2008, the currency mix of the government's external debt was dominated by the euro and the US dollar accounting, respectively, for 47 per cent and 35 per cent of the total portfolio. In respect of interest rate risk, the current interest rate composition of the country's external debt portfolio reflects a neutral position. As of June 2008, 56.3 per cent of the instruments in the public sector external debt portfolio had fixed interest rates, the share with variable interest rates was 40.5 per cent, and 3.2 per cent of the instruments were interest free.

Monetary Policy

The Mauritius Exchange Rate Index (MERI) is a summary measure of the rupee's movements against the currencies of its important trading partners that is produced by the Bank of Mauritius. The MERI started 2008 at 93.4 which translates into a 10 per cent appreciation of the rupee compared with January 2007 when the MERI was at 104.1. It appreciated by an additional 7 per cent until April 2008, and then depreciated towards the end of the year, closing 2008 at 98.8. It is important to note that the MERI masks important disparities in bilateral exchange rate movements. Over the 12 months spanning December 2007 to November 2008, the rupee appreciated by over 26 per cent against the South African rand and by 3.2 per cent against the euro.

The reasons for the appreciation were mainly inflows of capital for the purchase of luxury villas in the IRS and the record number of tourists in 2007 and early 2008. However, textile exporters and, to a lesser extent, the tourism sector argued in 2008 that the high value of the rupee made it difficult for them to compete in world markets. The appreciation is not expected to continue in 2009. One reason is that capital inflows to purchase villas in IRS are expected to peter out because of the global slowdown. In addition, lower world prices for food and oil are expected to reduce inflation so it is unlikely that the Bank of Mauritius will have to increase its key interest rate, the repo rate.

Inflation increased in 2008, from a headline rate of 8.9 per cent in January to 9.7 per cent in December. Inflation has mainly been driven by supply-side factors, led by the global rise in energy and food prices in the first half of 2008. However, commodity prices have plummeted from their record levels in June and July

2008. Given the global outlook for commodity prices, inflation is expected to decline in 2009. The lower price of oil in world markets may have limited immediate pass-through in some sectors of the Mauritian economy because of hedging contracts signed at higher prices that span 2009. Nonetheless, in view of both an anticipated slowdown in inflation and the global economic and financial downturn, the Mauritian Policy Committee (MPC) decided to ease its monetary policy at the end of 2008. On 8 December 2008, the MPC announced a reduction of the key repo rate by 100 basis points to 6.75 per cent.

External Position

Given its high degree of openness, Mauritius is vulnerable to external shocks. In 2008 the poor performance of textile exports and a high import bill

Table 3 - **Current Account** (percentage of GDP at current prices)

	2000	2005	2006	2007	2008(e)	2009(p)	2010(p)
Trade balance	-7.3	-12.7	-16.7	-18.8	-21.7	-17.0	-17.1
Exports of goods (f.o.b.)	38.0	34.1	35.9	29.5	26.0	24.8	24.4
Imports of goods (f.o.b.)	45.3	46.8	52.6	48.3	47.8	41.9	41.5
Services	6.7	6.7	5.4	8.7	7.4	7.0	6.8
Factor income	-0.4	-0.1	0.8	3.2	2.3	1.7	1.7
Current transfers	1.4	1.0	1.1	1.6	2.1	2.2	2.2
Current account balance	**0.4**	**-5.2**	**-9.4**	**-5.3**	**-9.9**	**-6.1**	**-6.4**

Source: Data from the Central Statistical Office; estimates (e) and projections (p) based on authors' calculations.

StatLink http://dx.doi.org/10.1787/578860804366

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

Source: IMF.

StatLink http://dx.doi.org/10.1787/573555853804

caused by the rise in food and oil prices translated into a record current account deficit of 9.9 per cent of GDP. Imports of goods and services for 2008 are estimated at MUR 176 billion compared with MUR 163 billion in 2007, representing an increase of 8.3 per cent in nominal terms and 3.1 per cent in real terms. After falling by 1.3 per cent in 2007, imports of goods grew by 3.2 per cent in 2008 mostly because of higher imports of food and petroleum products. Imports of services, including insurance and freight for imported goods, grew by 3.1 per cent compared to 10.9 per cent in 2007. The value of imports of refined petroleum products reached an all-time peak of MUR 7.35 billion in the second quarter of 2008, equivalent to almost 3 per cent of the country's GDP. Fortunately the oil bill fell to MUR 6.38 billion in the third quarter of 2008 thanks to lower oil prices on world markets. Exports of goods and services increased by 4.2 per cent in 2008. After falling by 10.6 per cent in 2007, exports of goods grew by 3.8 per cent in 2008, because of higher export volumes of sugar, fish products and other non-textile manufactured goods. Exports of services grew by only 5 per cent in 2008 compared to 23.1 per cent in 2007, mainly because of the slow growth in tourist earnings.

Structural Issues

Private Sector Development

Mauritius is recognised as a business-friendly destination. It ranked first among African economies in the 2009 World Bank *Doing Business* report and 24th worldwide, ahead of countries like Germany and the Netherlands. The World Economic Forum Global Competitiveness Index value for Mauritius also improved from 4.16 in 2007 to 4.25 in 2008. Mauritius was the 56th most competitive economy in the world in 2008, having gained four positions since 2007, and the fourth most competitive African economy after Tunisia, South Africa and Botswana. These gains in 2008 reflect improvements in the "getting credit" dimension. The government has implemented measures to alleviate financing constraints faced by small and medium-sized enterprises (SMEs) and contributed MUR 500 million (approximately EUR 12 million) towards the creation of a manufacturing and SME Fund. The fund will allow SMEs to obtain loans from commercial banks with no more than 10 per cent equity, compared to at least 40 per cent now. For start-ups, the government will guarantee up to 75 per cent of the loan provided the SME mobilises at least 5 per cent equity. The SME Partnership Fund provides financial assistance to SMEs and has raised its equity participation in SMEs from MUR 3 million to MUR 10 million. Finally, the government has decided to give preference to small domestic enterprises in their own procurement of services.

The global financial crisis has not generated a liquidity crisis in the domestic Mauritian financial market. Since March 2008, Mauritian banks must comply with the Basel II capital adequacy ratios. By all measures, banks in Mauritius are adequately capitalised and the adverse effects of the global turmoil in financial markets have been on investment funds. The main index of the Stock Exchange of Mauritius (the SEMDEX) fell by 42 per cent over the course of 2008. Market capitalisation also declined. The negative economic outlook for Mauritius's main export markets has dampened investors' confidence and fuelled the sharp downturn in the SEMDEX.

Other Recent Developments

The recently created Competition Commission is a parastatal body that aims to create a framework dedicated to controlling restrictive business practices and enhancing competition in order to broaden consumer choice at more competitive prices. To this end, the commission will be granted the power to investigate and control monopolies and restrictive agreements. It will be composed of five members appointed by the president of Mauritius on the advice of the prime minister after consultation with the leader of the opposition. The executive director of the commission was appointed in November 2008.

The State Trading Corporation (STC) is also a parastatal company that imports four products the prices of which are government regulated. First, STC imports all petroleum products, including fuel oil for sale to the state-owned power-generating company, the Central Electricity Board. Petroleum product imports have stabilised at around 1 million tonnes annually and are expected to stay at that level in 2009. Until 2004, the retail price of petroleum products was directly regulated by the government. On the recommendation of the World Bank, an Automatic Pricing Mechanism (APM) was adopted and implemented on April 2004. The APM permits the calculation and fixing of the prices of petroleum products on a monthly basis. Until November 2008, the APM decision on retail prices of petroleum was made quarterly but it is now made monthly. Second, STC imports "ration" rice, which is 25 per cent broken rice that is sold at a subsidised price to households. While ration rice imports reached a low of 14 000 tonnes in 2006/07, they increased to 15 000 tonnes in 2007/08 and are expected to reach approximately 20 000 tonnes in 2008/09. The increased imports of ration rice mirror increased demand as consumers reacted to a price increase for basmati rice of more than 50 per cent in 2008. Third, the STC is mandated to tender internationally for all flour consumed in Mauritius. In practice, half of all flour consumed has been imported while the remainder is purchased from the sole flour mill in Mauritius. Finally, the STC imports half of the country's cement requirements.

In line with its policy of developing its services sector and service exports, Mauritius adopted the International Arbitration Act in November 2008. With the adoption into law of this act, Mauritius aims to position itself as the regional centre for international arbitration. It has all the necessary ingredients for this centre to work well – an independent judicial system, political and institutional stability, and a bilingual (sometimes trilingual), well-qualified and skilled workforce in the legal sector. In addition, Mauritius will be the first country to have a permanent representative on The Hague Permanent Arbitration Court. Both the expertise of foreign consultants in legal matters and foreign legal practitioners will be required to establish successfully this centre in Mauritius. Towards this end, the Law Practitioners Act will have to be amended to allow foreign legal practitioners to work in Mauritius.

In respect of natural resource management and environment, the prime minister has announced an ambitious vision to promote energy efficiency and tap into renewable energy resources under the project "Maurice Ile Durable". This project was set up to find an ecologically sustainable response to both global warming and the island's heavy dependence on oil by creating an integrated system of energy production, distribution and saving using a mix of renewable resources such as waves, sun, wind and biomass. The project's goal is to create the basis for the island's energy autonomy and has been allocated MUR 1 billion in funding. The target is to increase the country's level of energy autonomy by 65 per cent by 2028. "Maurice Ile Durable" aims to be a model project for Small Islands Development States and the rest of the world. It is also expected to contribute to a new "branding" of Mauritius in the tourism sector as a sustainable green island. The project plans to create an eco-park to showcase integrated ecological systems. Mauritius also plans to organise and host a World Ecological Forum in 2011.

Innovation and ICTs

Telephone service was first introduced in Mauritius in 1883. In 1992, Overseas Telecommunication Services Ltd. (OTS) and Mauritius Telecommunications Services Ltd. (MTS) merged to become Mauritius Telecom. This new state-owned monopoly was responsible for providing telecom services at both the national and international levels. The Telecommunications Act of 1998 laid the foundations for liberalising the telecommunications sector. However it was not until after the Information and Communication Technologies (ICT) Act of 2001 that liberalisation began in earnest. The telecommunications sector was liberalised partially in 2001 and fully by 2003. In 2001 private corporations were allowed to enter the Internet service provider market. The procedures for licensing telephony operators started in 2003. By the end of 2004, two companies were licensed to provide telephony services[1]. A Convergence Act was supposed to be introduced in December 2004 to promote a contemporary and

1. By the end of 2008, there were two fixed line telephone operators and three mobile phone operators.

integrated approach to combining information technologies, media and telecommunications. However, this act has not yet been passed and the convergence of licensing has not yet occurred.

The Ministry of Information and Communication Technology is responsible for formulating telecommunications policy, administering programmes to improve telecommunications services and ensuring access to affordable info-communication services in Mauritius. The Information and Communications Technologies Authority (ICTA) is the national regulator for the ICT sector and postal services in Mauritius. Its key role is to implement and promote the government's national policy objectives for the telecommunications sector. This regulatory body is not completely independent from political influence. As prescribed by the ICT Act of 2001, the ICTA is administered and managed by the ICT Board which consists of seven members: a chairperson appointed by the prime minister after consultation with the leader of the opposition, the secretary of home affairs or their representative, and five other members appointed by the minister of information technology and telecommunications after consultation with the ICT advisory council. The ICTA derives its income from charges and fees, sums appropriated from the Consolidated Fund and other sources as may be approved by the minister of information technology and telecommunications.

The ICTA is mandated to promote affordable and adequate access to quality ICT services through functional market-driven competition and regulatory principles. For mobile telephony and Internet, the operators normally indicate their intended tariffs to the ICTA. The ICTA makes its own recommendations based on cost based access charges and long range incremental cost models. Both parties then discuss and agree on prices. The ICTA regulates prices in the sector with the aim of avoiding both predatory pricing and exploitation of customers. The privatisation of the sector has resulted in a drastic fall in prices for international long distance calls and Internet connections.

Direct Peering Interconnection between mobile operators has been in place since May 2003 and led to a cut of more than 50 per cent in tariffs. As far as taxation is concerned, imported telephones for cellular networks or other wireless networks are not subject to custom duties. However, when they are sold internally, a 15 per cent value added tax is levied. A 15 per cent tax is also imposed on the usage of mobile phones (calls and texts) and fixed-line telephones.

The state of the existing telecom infrastructure equipment in Mauritius is excellent in terms of both the fixed-line network and the radio network. Copper wire infrastructure provides universal access to fixed-line telephones facility throughout the country. In terms of radio network infrastructure, the country mainly uses mobile networks relying on Global System for Mobiles (GSM) and to a lesser extent Code Division Multiple Access (CDMA) technology. Mauritius already has a broadband network that can support converged services. Mauritius Telecom provides a service called My-T that supports converged services. However, this service is not yet accessible to everyone, as capacity and infrastructure are still limited. Infrastructure sharing between utility companies does not exist in Mauritius and there is no antenna sharing between telecommunication operators.

Given that almost all households in Mauritius are already connected to the fixed-line network (361.2 per 1 000 inhabitants in 2007) and that almost everyone already uses a mobile phone (928.6 per 1 000 inhabitants in 2007), the country does not face any demographic pressure to develop further the telecom infrastructure. Mauritius is connected to the South Africa Far East (SAFE) network, a technologically-advanced cable system that offers a fast, cheap and efficient connection to the world. In order to increase its access to the international gateway and to acquire additional international bandwidth capacity, Mauritius is currently investing in the Eastern Africa Submarine System (EASSy) network and the SEACOM network.

Developments in ICT have been very fruitful for businesses and individuals in Mauritius. The textile and tourism sectors use ICT extensively. Between 2000 and 2005 most firms in the textile and clothing sector shifted from traditional phones and faxes for tracking orders to an Internet-based order-tracking system. In the tourism sector, tourists can book their hotels through the Internet. Bank account holders can track their balances through short message service (SMS) and Internet banking is readily available.

Advances in ICT have enabled the expansion of business process outsourcing (BPO) in Mauritius. In 2003 there were around 20 BPO firms, employing around 1 000 workers. The number of firms had increased to 185 by March 2007 and employment had risen to around 7 000 workers. Companies providing BPO (45 per cent), software development (20 per cent) and call centres (18 per cent) dominate the Information Technology Enabled Services (ITES)-BPO sector. The good quality of the country's telecommunications has enabled the expansion of the BPO sector in Mauritius.

The public sector has been transformed to some extent by the use of ICT for services offered by the state to the general public. Each ministry has its own website and every senior government officer has an email address in order to improve communication between ministries, government departments and the public. Since September 2008, taxpayers can file their tax returns online and even make tax payments through Internet banking.

In September 2007 the Ministry of Information and Communication Technology issued the country's first national ICT policy paper. The government's vision is to make the ICT sector the fifth pillar of the economy and transform Mauritius into a regional ICT hub.

Political Context

Mauritius is a multiparty democracy characterised by strong social, political and institutional stability. In 2008, its topped the Ibrahim Index of African Governance for the second year running, scoring 85.1 out of a possible 100 and retaining the highest score out of 48 sub-Saharan countries. The independence of the judicial system in Mauritius was reaffirmed in 2008 when the election of a parliamentarian was invalidated and rendered null and void. The Supreme Court of Mauritius and the Privy Council found Ashok Jugnauth guilty of electoral fraud in the previous election and he lost his seat in the parliament.

At the international level, the main objective of the government's foreign policy for 2009 should be to continue to negotiate favourable access for its exports and promote foreign investment. The interim Economic Partnership Agreement (EPA) signed in 2007 by the Common Market for Eastern and Southern Africa (COMESA) and the EU will have to be complemented by a final EPA. To this end, Mauritius and the other members of COMESA will be involved in bilateral trade negotiations with the EU. Mauritius will also continue negotiations with India for a Comprehensive Economic Co-operation and Partnership Agreement that, when completed, will further the two countries' close ties. In addition, Mauritius expects China to spend over USD700 million to develop offices, houses and factories north of Port Louis for their companies with export markets in Africa. The project would generate thousands of jobs and up to MUR 7 billion of annual exports. During a visit to Mauritius in February 2009, Chinese President Hu Jintao agreed to lend Mauritius USD 260 million to expand the airport.

Social Context and Human Resources Development

In the recent past, Mauritius has made major progress in promoting social equality and reducing poverty. It has been given the highest ranking among sub-Saharan African countries by the United Nations Development Programme in its 2007/08 edition of the *Human Development Report*. In 2007 the Mauritian population grew by 0.65 per cent, bringing the estimated resident population of Mauritius to 1 227 075 (606 307 males and 620 768 females). In 2008 the average fertility rate was 1.8 per women and the crude birth rate was 13.2 per thousand compared with a rate of 17.4 in 1997. Life expectancy at birth was estimated to be 69.1 for males and 75.9 for females, compared to 66.4 and 74.3 respectively in 1997. The infant mortality rate (IMR) was estimated at 14.4 per thousand live births in Mauritius.

The government set up an ambitious package of social measures for 2008/09 to mitigate any negative impacts of the current global financial crisis on the vulnerable segment of the population. It includes large increases in subsidies for rice, flour and cooking gas of up to a total of MUR 1.3 billion, income support for close to 100 000 beneficiaries, the restoration of a universal old-age pension and a 9 per cent increase in social assistance.

Further measures aim to promote inclusive growth and full employment. Some 9 300 small entrepreneurs such as planters, breeders, fishermen, retailers and hawkers who experience difficulties in repaying their loans are targeted to receive support. For loans less than MUR 50 000, 50 per cent of the principal and 100 per cent of the unpaid interest and penalties will be eliminated. Loans between MUR 50 000 and MUR 200 000 will be rescheduled and 100 per cent of the associated unpaid interests and penalties will be forgiven. With government funding of MUR 1 billion, the Eradication of Absolute Poverty (EAP) programme plans to help 7 157 families living in extreme poverty with school fees and health spending. It will also build public housing and provide training to the unemployed. The 2008/09 budget contains provisions to address the problem of female unemployment. In 2007, women made up only 20 per cent of the paid workforce. The government plans to encourage female employment through its Training Placement Programme. The Empowerment Programme will target women over 45 and contribute 75 per cent of their wages as opposed to 50 per cent for men. In addition, a new credit scheme will be created to meet 100 per cent of the financing requirements of projects implemented by women.

Other programmes target access to education and infrastructure improvements. In 2008 the School Certificate (SC) and Higher School Certificate (HSC) examination fees were covered for 9 000 students from low-income families, 6 600 students were provided with free school materials and all students (as well as pensioners) have benefited from free transportation. The Human Resource Development, Knowledge and Art Fund will be created and funded by MUR 1 billion to increase access to tertiary education. In addition, massive infrastructure investments will be undertaken to support the 2 million tourists who are expected by 2012 and to help Mauritius become a modern business centre in the region. In particular MUR 1 billion will be invested in the extension of the airport and MUR 750 million will be used to modernise the seaport.

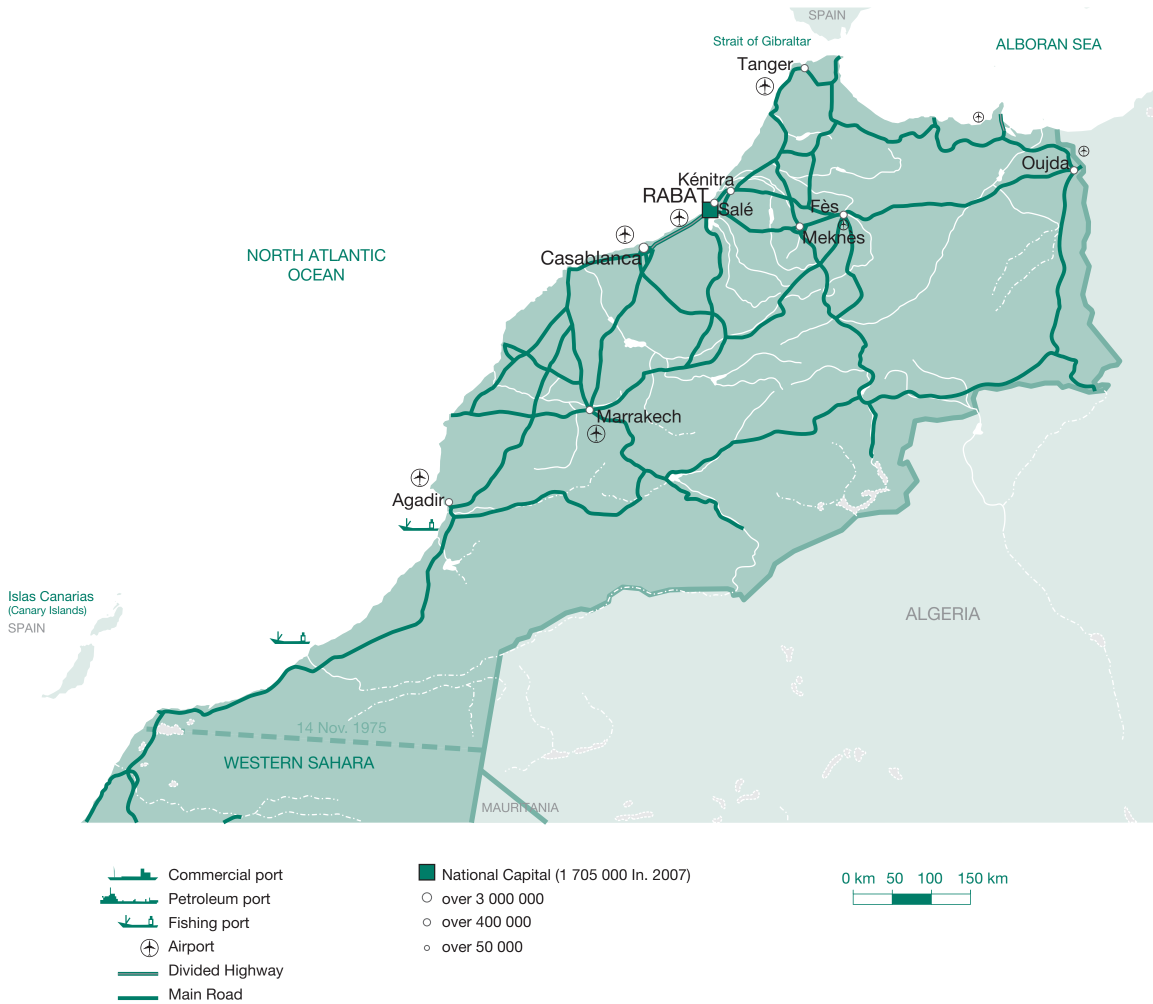
ICT aims to become the fifth pillar of the Mauritian economy. The Cyber Caravan project was initiated in 2000 with the aim of making IT facilities available to the community. The national computer board (NCB) presently operates two Cyber Caravans, which are equipped with PCs and broadband Internet connections. In 2006, the government introduced a universal ICT education programme (UIEP), which aims to teach computer proficiency skills to students, workers, the unemployed and the population at large. This project will continue until 2010, with the objective of providing training on the Internet and computer core certification (IC3) to 400 000 people (33 per cent of the population). In 2007, ICT literacy, IC3 and ICT awareness courses were provided to women across Mauritius. In the same year the curriculum for primary education was updated to include ICT literacy; pupils now learn to use ICT tools to find, explore, analyse, exchange and present information responsibly.

Morocco

key figures

• Land area, thousands of km²:	446
• Population, thousands (2008):	31 606
• GDP per capita, PPP valuation, USD (2008):	4 063
• Life expectancy (2008):	71.3
• Illiteracy rate (2008):	44

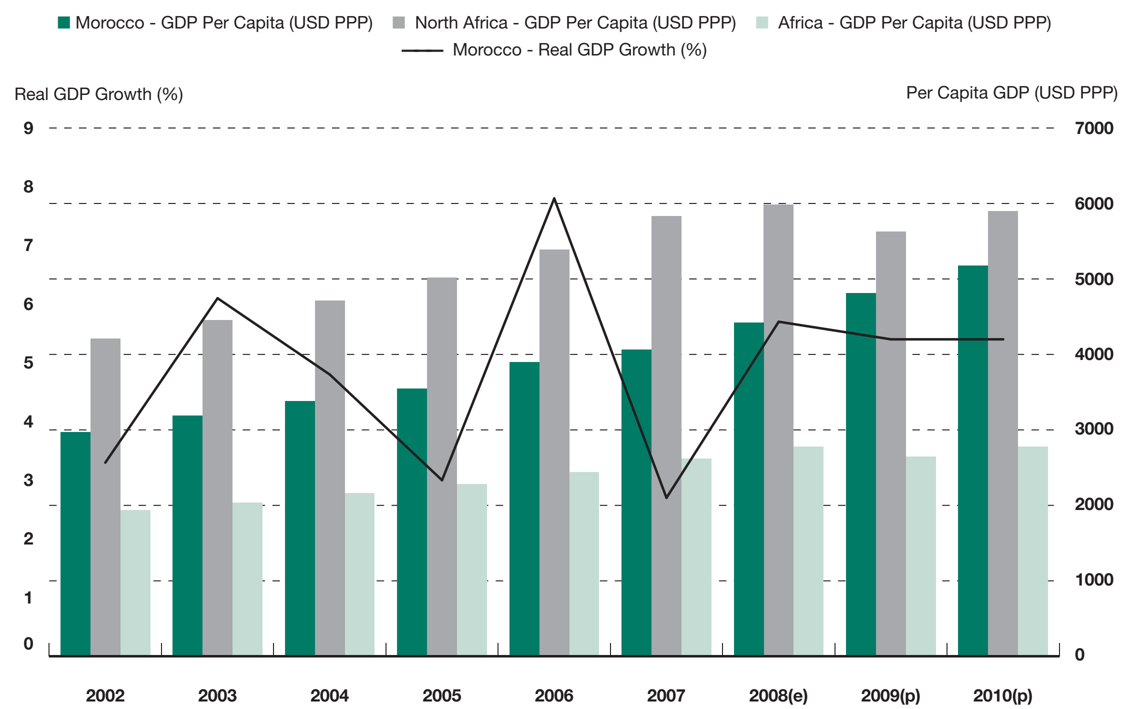
Morocco


SPAIN
Strait of Gibraltar
ALBORAN SEA
Tanger
Oujda
Kénitra
RABAT
Salé
Fès
Meknès
Casablanca
NORTH ATLANTIC
OCEAN
Marrakech
Agadir
Islas Canarias
(Canary Islands)
SPAIN
ALGERIA
14 Nov. 1975
WESTERN SAHARA
MAURITANIA
Commercial port
Petroleum port
Fishing port
Airport
Divided Highway
Main Road
National Capital (1 705 000 In. 2007)
over 3 000 000
over 400 000
over 50 000
0 km 50 100 150 km

In an increasingly difficult international economic context, Morocco retains its confidence in the extensive reform programmes introduced in recent years. The financial and economic crisis is expected to affect four pillars of the country's economy – exports, foreign direct investment (FDI), remittances from Moroccans residing abroad and tourism – but the authorities are counting on buoyant domestic demand and strong performance by the agricultural sector owing to abundant rainfall. A strong financial sector and the sectoral development programmes in progress should enable the Moroccan economy to weather the international crisis without too much damage, although there will probably be considerable repercussions from the recession in the European countries, Morocco's main trade partners. Despite the crisis, the economy grew at a rate of 5.7 per cent in 2008, driven by 13.1 per cent growth of primary sector value added. Agricultural GDP expanded by 6.1 per cent over the same period. Morocco's growth rate is projected to decline slightly to 5.4 per cent in 2009 and 2010.

The country is holding up well against the global crisis, and modernisation of the business environment continues.

Figure 1 - **Real GDP Growth and Per Capita GDP**
(USD/PPP at current prices)



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

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Recent Economic Developments

Morocco's economy grew by 5.7 per cent in 2008, although the end of the year was difficult owing to the international context. This recovery after the modest growth performance in 2007 (2.7 per cent), was due to a generally satisfactory harvest, attributable in turn to more abundant rainfall than in the previous year. Given the uncertain international situation, growth is projected to be slightly lower in 2009 and 2010, at 5.4 per cent.

Although the primary sector remains the mainstay of the economy, the secondary and tertiary sectors are making increasingly large contributions to GDP. Non-agricultural GDP grew 6.5 per cent in 2007 and 6.1 per cent in 2008, in line with the recent trend, driven by the good performance of industry, construction and public works, transport and telecommunications. In 2009, it is projected to hold steady at 6.1 per cent.

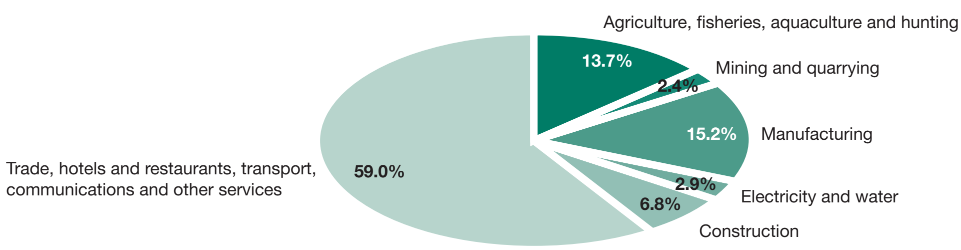
In 2007, total value added in the primary sector fell by 20 per cent owing to insufficient and uneven rainfall, and the sector's GDP contribution declined by three percentage points of growth. Cereal production in 2007 was estimated at 24.4 million quintals, as against 92 million in 2006, a year-on-year drop of 73 per cent. In 2008, however, national average rainfall was five times the normal level, reversing this trend and giving new buoyancy to agricultural sector value added (up 12.8 per cent). In 2009, assuming an average grain harvest, good performance by industrial and horticultural crops and a pickup in the livestock sub-sector, agricultural value added is projected to increase by 3.2 per cent over 2008.

During the first three quarters of 2008, output of early fruit and vegetables increased sharply (by nearly 13 per cent) with respect to the previous year. Growth in citrus fruit production was somewhat sluggish as a result of the scant water reserves in the Souss-Massa-Draa region, the main citrus-producing area, and of higher prices for potash fertilisers. In the first six months of the year, citrus fruit exports increased by only 1.4 per cent with respect to the same period in 2007. Exports of early fruit and vegetables fell by 20.5 per cent over the same period.

Livestock farming was sustained by the continued strong performance of the poultry sector (up 27.3 per cent and 60 per cent for production of meat chicks and turkey poults respectively). Sheep production fell off, however, as a result of higher feed prices, relatively poor grazing and ovine plague, which struck 133 locations in 29 different provinces.

The fisheries and seafood processing sector started the year well, but had supply problems due to the increasing scarcity of fish, despite strong measures introducing periods of biological rest to allow fish stocks to recover. The output of inshore and traditional fishing improved in late 2008, however, due to increased catches of pelagic fish and landings of cephalopods. Landings had increased by 17.7 per cent in volume (25.8 per

Figure 2 - **GDP by Sector in 2007** (percentage)



Source: Authors' estimates based on Directorate of Statistics data.

StatLink http://dx.doi.org/10.1787/572027558658

cent in value) in the first 11 months of 2008 with respect to the same period in 2007. Seafood exports rose as well (up 13.8 per cent in value during the first ten months of 2008 compared to the same period in 2007), fuelled by a rise in the value of exports of crustaceans, molluscs, shellfish, tinned fish and fresh fish.

The mining sector benefited from the rise in international phosphate prices. Exports by the Office chérifien des phosphates (OCP) surged by over 167 per cent in value over the first ten months of 2008. In the last two quarters of the year, however, growth in mining value added stagnated at about 0.8 per cent, according to official estimates. To bolster its positioning on the international market, the OCP announced a seven-year investment programme having a total cost of MAD 20 billion (Moroccan dirhams). The programme will modernise production infrastructure, open new mines, upgrade port facilities and develop means of transport for phosphates and by-products.

Non-agricultural activities held up well in 2008, with value added rising by 6 per cent in both the secondary sector (6.6 per cent in 2007) and the tertiary sector. These two sectors contributed 1.6 and 3 percentage points of GDP growth respectively in 2007. Processing industries consolidated their gains in 2008, confirming the resumption of growth recorded in 2007. Buoyed by the strong performance of the food industry (up 5 per cent), clothing (4.7 per cent), rubber and plastics (16.2 per cent), and automobiles (10.2 per cent), the industrial production index rose 4.9 per cent in the first half of 2008. However, exports of textile products declined by 6.6 per cent for ready-made clothing and by 15.4 per cent for hosiery as of November 2008, with respect to the same period in 2007, entailing a loss of market share in most of Morocco's target markets. The latest surveys of industry conducted by the Bank Al-Maghrib indicate that the sector's prospects for 2009 remain generally positive, despite the slowdown in industrial activity in late 2008.

The energy sector continued its growth in 2008, pushed by steadily increasing domestic demand. Electric power generation, for example, grew by 7.8 per cent in the year to September over the same period in 2007, on the strength of a 25.2 per cent rise in thermal generation. The main indicators for construction continued their steady improvement, thanks to large-scale infrastructure projects around the country and easier access to credit. Cement sales increased by 11.9 per cent year-on-year during the first ten months of 2008.

The tertiary sector, which contributed 59 per cent of GDP in 2007, is primarily driven by trade, tourism, transport, telecommunications and financial services. Despite the difficult international climate, it should continue to perform well in 2009, with projected growth of 5.9 per cent in value added.

The effects of the financial crisis and recession on the main tourist-emitting markets started to be felt in Morocco in late 2008. From January to October, tourist arrivals increased by 6.3 per cent year-on-year, for a total of 6.7 million visitors. This growth resulted from renewed interest in Morocco on the part of the Spanish (+12.6 per cent), French (+5.1 per cent), Dutch (+6.8 per cent), Belgians (+5.7 per cent) and Germans (+4.9 per cent). The number of visits by Moroccan nationals residing abroad increased by 8.2 per cent to 3.1 million over the same period. However, the number of declared bed-nights in rated hotels fell by 2.4 per cent year-on-year during the first ten months of 2008, resulting in a 1.5 per cent drop in tourism revenue with respect to the same period in 2007. Air traffic increased by 9.9 per cent in the first ten months of 2008 compared to the same period in 2007. The start-up of a new low-cost airline in partnership with Air Arabia in 2009 should help to boost the number of arrivals. Prospects for the tourism sector in 2009 remain positive on the whole. The development and opening of seaside resorts under the "Azure Plan", as well as programmes to develop domestic tourism in Morocco, such as the "Biladi" and "Mada'in" plans, should offset any decline in foreign tourist numbers resulting from the international crisis. In addition, the tourism ministry announced a new plan in late 2008, dubbed "Cap 2009", aimed at anticipating and limiting the impact of the international economic crisis so as to keep Morocco on track to meet the target of 10 million tourists annually, as laid down in its "Vision 2010" policy.

Table 1 – **Demand Composition**

	Percentage of GDP (current prices)		Percentage changes, volume			Contribution to real GDP growth		
	2000	2007	2008(e)	2009(p)	2010(p)	2008(e)	2009(p)	2010(p)
Gross capital formation	**25.5**	**32.5**	**5.8**	**7.2**	**7.4**	**1.7**	**2.2**	**2.3**
Public	3.3	2.8	9.0	9.5	8.0	0.2	0.3	0.2
Private	22.2	29.7	5.5	7.0	7.3	1.5	1.9	2.0
Consumption	**79.9**	**76.6**	**7.0**	**6.8**	**4.4**	**5.1**	**5.0**	**3.3**
Public	18.4	18.2	4.5	5.2	3.4	0.7	0.8	0.5
Private	61.5	58.4	7.7	7.2	4.7	4.5	4.3	2.8
External demand	**-5.4**	**-9.1**				**-1.2**	**-1.9**	**-0.2**
Exports	27.9	35.8	4.0	4.3	8.6	1.4	1.5	2.9
Imports	-33.3	-44.9	6.8	8.6	7.8	-2.6	-3.3	-3.1
Real GDP growth						**5.7**	**5.4**	**5.4**

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

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Domestic demand remains the main growth driver, buoyed by the strong performance of the primary sector, employment – the unemployment rate stayed under the 10 per cent mark – and consumer credit (up 32 per cent as of end October 2008). Consumption should continue its upward trend in 2009, rising by 6.8 per cent in real terms (7 per cent in 2008). Strong measures were taken to support household purchasing power: the minimum wage was raised in July 2008, and public and private sector wages and salaries, family allowances and minimum old-age pensions were all readjusted to support the growth of household consumption.

Investment continued to benefit from the dynamism of firms in the private sector. Credit for capital goods purchases increased by 34.1 per cent in the first ten months of 2008. The reduction in import duties for capital goods, the elimination of such duties in 2007 for imports from the European Union (EU), and improvements in the business climate all worked in favour of domestic investment, which rose to 34.8 per cent of GDP in 2008 (32.5 per cent in 2007). Investment should expand further in 2009 with the projected acceleration of growth in construction and increased purchases of durable goods due to rising household incomes. Gross fixed capital formation is therefore projected to grow by 7.2 per cent in 2009, as against 5.8 per cent in 2008.

Macroeconomic Policies

Fiscal Policy

Efforts to improve public finance management continued in 2008. The tax reform policy had two objectives: avoiding increased tax pressure, so as not to undermine private sector competitiveness, and making the distribution of the tax burden more equitable. A good tax take enabled the authorities to cover the cost of subsidies – no easy matter in a context of rising commodity and food prices.

The main provisions of the 2008 budget act related to continuation of the reform of value added tax (VAT) initiated in 2005. These measures were aimed at broadening the tax base and unifying VAT rates in order to eliminate situations in which rate differentials give rise to structural tax credits. Tax revenue rose by 26.4 per cent in 2008 to MAD 145.3 billion, or 99.4 per cent of the initial projections for the 2008 budget. This rise was primarily due to proceeds from company tax, which rose by 62.8 per cent. Income tax receipts

Table 2 - **Public Finances** (percentage of GDP at current prices)

	2000	2005	2006	2007	2008(e)	2009(p)	2010(p)
Total revenue and grants[a]	**23.6**	**23.9**	**23.0**	**25.0**	**24.2**	**23.9**	**24.1**
Tax revenue	21.7	21.5	19.7	22.0	21.4	20.9	21.1
Grants	0.0	0.5	0.5	0.5	0.3	0.5	0.6
Total expenditure and net lending[a]	**29.1**	**29.7**	**25.0**	**24.8**	**23.4**	**23.5**	**23.5**
Current expenditure	23.8	25.9	22.1	23.3	22.3	21.5	21.3
Excluding interest	*19.0*	*22.6*	*18.8*	*20.1*	*19.7*	*18.8*	*18.6*
Wages and salaries	10.7	11.7	10.9	10.7	10.2	9.9	9.8
Interest	4.7	3.3	3.2	3.1	2.7	2.7	2.7
Capital expenditure	5.4	3.9	4.1	4.6	4.6	4.6	4.7
Primary balance	**-0.8**	**-2.5**	**1.3**	**3.3**	**3.5**	**3.1**	**3.3**
Overall balance	**-5.5**	**-5.8**	**-2.0**	**0.2**	**0.8**	**0.4**	**0.6**

a. Only major items are reported.
Source: Ministry of Economy and Finance data; estimates (e) and projections (p) based on authors' calculations.

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amounted to MAD 24.2 billion, up 14.3 per cent. Non-fiscal revenue (excluding proceeds from privatisations) fell 2.9 per cent to MAD 11.3 billion. VAT receipts accounted for 23.2 per cent of indirect taxes collected in 2008, rising by 16.1 per cent with respect to 2007.

Budgetary outlays increased by 20.4 per cent year-on-year in the first nine months of 2008, rising from MAD 123 billion to MAD 148.1 billion. Subsidies aimed at protecting the poor from rising international prices for oil and certain commodities rose from MAD 10.9 billion in 2007 to MAD 24.8 billion in 2008, putting a considerable strain on the budget. Ordinary expenditure, whose execution rate was 82.5 per cent, thus increased by 16.7 per cent to MAD 114.6 billion. Personnel expenditure grew by 6.3 per cent in 2008 and is projected to rise by a further 9 per cent in 2009. Interest on the debt fell to MAD 13.7 billion, an overall decline of 4.2 per cent; this breaks down as a 6 per cent drop in interest on domestic debt and a 5.4 per cent rise in interest on external debt.

The public finance situation deteriorated somewhat in 2008 due to the increase in subsidies and the elimination of customs duties on wheat imports, aimed at containing domestic inflation. Nevertheless, the overall budget balance should show a small surplus in 2008, at 0.7 per cent of GDP, before dipping to 0.4 per cent in 2009.

In the area of debt management, in 2007 the Moroccan authorities set up a mechanism to optimise public cash management by introducing new provisions authorising the Treasury to conduct buybacks and exchanges of treasury bills, as well as operations involving borrowing and investment of current account surpluses. The positive effects of this mechanism have begun to be felt, as the ratio of debt to public revenue fell from 193 in 2007 to 179 in 2008.

Monetary Policy

Under a cautious monetary policy aimed at keeping inflation low, the growth of the money supply slowed from 13.3 per cent at end-October 2007 to 6.7 per cent at end-October 2008. The easing of monetary growth was due to the slight slowdown in credit growth (19.2 per cent at end-October 2008 versus 21.6 per cent at end-October 2007) and to a 4.2 per cent drop in net foreign assets, resulting from the sizeable trade deficit and declining tourism revenue and remittances from expatriate Moroccans. The average inflation rate rose to 3.9 per cent in 2008, mainly as a result of the rise in food prices (+6.8 per cent).

The dirham, which is pegged to a basket of currencies dominated by the euro, appreciated against the euro by an average of 1.45 per cent over the first ten months of 2008. In year-on-year terms, the dirham rose on average by 1.29 per cent against the euro, while depreciating by 5.83 per cent against the US dollar. In the medium term, the authorities intend to adopt a more flexible exchange rate regime by gradually widening the currency's fluctuation band.

External Position

The EU is Morocco's main trade partner, accounting in 2007 for 58 per cent of Morocco's foreign trade in volume terms (over 73 per cent of exports and 52 per cent of imports). Asia came second, with 28.2 per cent, while Africa accounted in 2007 for only 5.6 per cent of total foreign trade transactions.

Imports of goods shot up 30.3 per cent in 2008, following 22.4 per cent growth in 2007. This trend basically reflects the 46.9 per cent rise in the energy bill from January to September 2008 compared to the same period in 2007, resulting from the surge in oil prices. Food imports also rose strongly (+26.1 per cent in September 2008 compared to the same period in 2007), primarily as a result of the higher cost of wheat, maize and butter on the international market. Exports of goods and services rose 32.8 per cent year-on-year from January to end-October 2008, following 11.6 per cent growth from 2006 to 2007, owing to higher export prices for phosphates and phosphate by-products. Excluding phosphates, exports by value increased by 3.4 per cent with respect to end-October 2007, mainly as a result of the recovery in the value of exports of seafood products (up 13.8 per cent), tinned vegetables (35.3 per cent) and citrus fruits (14.8 per cent).

The trade deficit amounted to 18.9 per cent of GDP in 2008, down slightly from 2007 (19.3 per cent), and should fall again slightly in 2009. Remittances from expatriate Moroccans (MAD 48 billion in 2008) and tourism revenue held up well, however, offsetting the negative trade balance. Owing to substantial FDI-related capital flows that brought in MAD 13.9 billion in net terms during the first ten months of 2008, external reserves are estimated at 6.8 months of import coverage. A good cereal crop in 2008 should improve the food trade balance and help to stabilise the country's external position in 2009. The current account deficit swelled from 0.1 per cent of GDP in 2007 to 4 per cent in 2008, and is projected at 2 per cent in 2009 and 3.1 per cent in 2010.

Morocco's trade with the other countries of the Arab Maghreb Union, though small, is growing steadily: from just over 1 billion US dollars (USD) in 2004, it was estimated at USD 2 billion in 2008. The bilateral agreement with the United States (US), which came into force in January 2006, boosted trade between the two countries, making the US the fourth-largest supplier of Morocco in 2007 (up from eighth place in 2000). Morocco has also signed bilateral and regional free trade agreements with a number of other trade partners. One example of this is the Agadir Agreement between Morocco, Tunisia, Egypt and Jordan, in effect since

Table 3 - **Current Account** (percentage of GDP at current prices)

	2000	2005	2006	2007	2008(e)	2009(p)	2010(p)
Trade balance	-8.7	-13.8	-15.0	-19.3	-18.9	-15.4	-15.1
Exports of goods (f.o.b.)	20.0	18.0	18.1	19.4	21.7	19.0	19.2
Imports of goods (f.o.b.)	28.7	31.8	33.1	38.7	40.6	34.4	34.4
Services	3.1	7.2	8.1	9.3	9.5	10.0	9.0
Factor income	-2.3	-0.5	-0.6	-0.5	-0.5	-0.6	-0.6
Current transfers	6.7	9.1	9.6	9.7	6.2	3.9	3.6
Current account balance	**-1.3**	**2.0**	**2.1**	**-0.1**	**-4.0**	**-2.0**	**-3.1**

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

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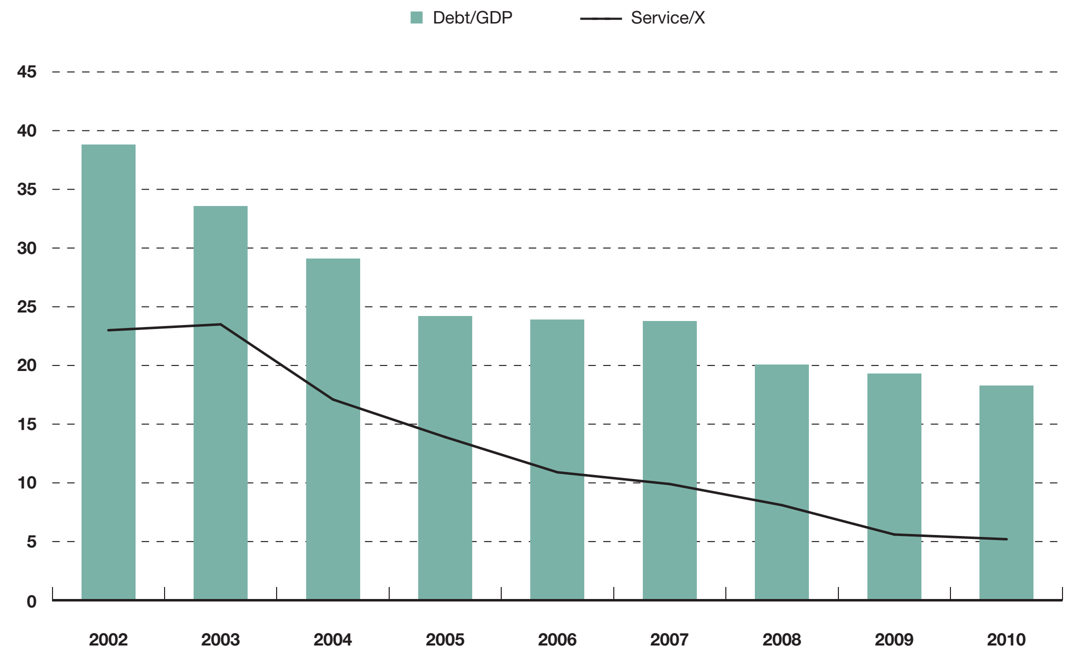
Figure 3 - **Stock of Total External Debt** (percentage of GDP) **and Debt Service** (percentage of exports of goods and services)



Source: IMF.

StatLink http://dx.doi.org/10.1787/573552812664

March 2007, which was concluded to quicken the South-South integration process by eliminating tariff and non-tariff barriers to trade. Other possibilities for integration into world trade are offered by the EU association agreement and the change in Morocco's status to that of a special partner of the EU, and by Morocco's membership in the Union for the Mediterranean, which was founded at the Paris summit of July 2008.

Structural Issues

Private Sector Development

The government has embarked on major structural reforms aimed at ensuring macroeconomic and financial stability and improving the business environment. Morocco's growth performance for the last several years is linked to these reforms, which were undertaken to make the economy as a whole more competitive. This was the context for the 2005 launch of the Emergence Plan, a proactive industrial strategy aimed at developing seven mainsprings for export growth and targeted at high-value-added sectors. In July 2008, the Moroccan authorities initiated a programme to establish "integrated industrial platforms of excellence" to support the development of productive activities. These platforms, covering 200 to 400 hectares each, are scattered around the country and offer economic agents access to land at highly competitive prices, while at the same time providing an appropriate package of services (administrative services, telecommunications, logistics, housing, catering).

Considerable progress has been made in improving the business environment, in terms of the number of procedures required to start a business, freedom of trade and property rights. According the World Bank's 2008 *Doing Business* report on the international business climate, these efforts focused on streamlining business creation and import-export procedures. Far-reaching reforms in labour legislation, investment facilitation and the business climate have improved conditions on the ground and attracted increased FDI to Morocco. According to the United Nations Conference on Trade and Development (UNCTAD), inward FDI totalled nearly MAD 38 billion in 2007, making Morocco the second FDI-receiving country in Africa, after Egypt and ahead of South Africa.

Progress is still needed in some areas: the 2009 *Doing Business* report ranks Morocco 128th out of 181 countries. The Moroccan authorities are aware that considerable reforms are needed to improve the legal system, fight corruption, facilitate access to credit for small and medium-sized enterprises and promote innovation by supporting research and development.

Modernisation of Morocco's financial sector continued in 2008, with the emphasis placed on continual adjustment of its legal and regulatory framework to keep it up to international standards. The year 2008 was marked by: *i)* an overhaul of the accounting framework applicable to banks, with the introduction of new accounting standards to improve the quality and transparency of financial information, and *ii)* the beginning of work on a new monetary and financial code.

Bank supervision complies with the basic principles of the Basle I Agreement, and in 2007 Morocco began to implement the Basle II prudential rules in order to encourage banks to manage their own funds more effectively, with a view to improving risk management and measurement procedures. This encouraged the banking regulatory framework to adhere more closely to international standards. According to the International Monetary Fund (IMF), Morocco's banking system is well capitalised and healthy. Moroccan banks have few or no "toxic" loans on their balance sheets and very low ratios of foreign assets to own funds. The sector therefore stood up well to the shocks generated by the international financial crisis.

Other Recent Developments

Two of the main constraints on the private sector are the weak judiciary system and corruption, which persists in particular in the context of citizens' access to government. To address this problem, the authorities decided to set up a central anti-corruption authority. The members of this body were appointed in December 2008 and charged with improving relations between government and the citizenry by raising morality in public affairs.

Substantial progress has been made in implementing the public administration reform support programme (PARAP), whose second phase covers the period 2008-09. This programme, funded by the African Development Bank (AfDB), the World Bank and the European Commission, has improved management of the civil service workforce, introduced multi-year budget planning through a moving three-year medium-term expenditure plan (CDMT) that gives a better view of resource allocation, and stepped up the devolution process.

To cope with the constraints facing Morocco's energy sector and reduce the country's vulnerability to fluctuations in the world oil situation, the authorities launched a national priority action plan (PNAP) in 2008 with the aim of meeting rising demand for energy while diversifying the energy sources used (reverting to coal, increased use of natural gas, development of renewable energies and encouragement of oil prospecting). In 2009, Morocco plans to set up a USD 1 billion energy development fund for the construction of thermal power plants in several cities.

Recognising the country's logistical problems and the need for upgrading in this area, the authorities have taken several measures to reduce the gaps between the existing logistical situation and the country's needs. Where road transport of goods is concerned, the reforms undertaken since 2003 have abolished the monopoly of the national bureau of transport (ONT), reduced the share of the informal transport fleet and created several new transport firms. The port system is also seeing major changes: the Tangier-Mediterranean port complex, positioned as a major regional port with a capacity of 8 million containers, started to come into service in late 2007.

Morocco's network of motorways now stretches over 856 kilometres and should reach 1 420 kilometres by 2010 as the Marrakech-Agadir and Fez-Oujda segments are opened. With an overall planned investment of MAD 36 billion over the 2008-15 period, the network should total 1 803 kilometres in 2015 and connect all the regions of Morocco. In 2008, the company Autoroutes du Maroc signed a programme contract with the government that provides for raising the pace of motorway construction to 384 kilometres a year. The total budget allocation for this purpose amounts to about MAD 15 billion, of which MAD 8 billion will come directly from the central government budget. In January 2009, work began on widening the Rabat-Casablanca motorway to three lanes in each direction; construction work is scheduled for completion by the summer of 2012.

Morocco has ratified the major international conventions on the environment, including the Kyoto Protocol. In 2006, it adopted a strategy concerning the United Nations' Clean Development Mechanism, which provides for delivery of "carbon credits" to developing countries that reduce greenhouse gas emissions. The government has also introduced a MAD 40 billion waste treatment programme that will cover the entire country by 2015. Morocco adheres to the principle of integrated management of the Mediterranean Coast and is a member country of the regional project to protect that coast. In 2008, Morocco adopted a new policy on management of fish stocks in order to combat overfishing and pollution of the sea-coast.

The water sector faces three major problems: the increasing scarcity, overuse and degradation of water resources. Although considerable progress has been made in this sector, access to safe drinking water and sanitation is still unequally distributed over the country's territory. To address this situation, Morocco has undertaken large-scale reforms with support from the World Bank and the AfDB. The measures taken are focused on completing the reform on integrated management of water resources, increasing the sustainability of investments in irrigated areas and extending access to safe drinking water supply to cover the entire country, including peri-urban and rural areas.

The importance of the agricultural sector and the challenges it faces led the authorities to launch a new agricultural strategy in 2008, the Green Morocco Plan. This development approach seeks to ensure a balanced development process for the sector and realise its full potential, while at the same time maintaining social and economic equilibria.

The strategy is based on two pillars. The first concerns the development of high-value-added, high-productivity agriculture, geared primarily towards export, entailing an estimated total investment of nearly MAD 120 billion over the 2009-20 period. The target sectors are citrus fruits, olives, market gardening, horticulture, cereals, milk, poultry and lamb/mutton. The second component, which affects 800 000 farmers, involves upgrading the productive fabric with a view to promoting social solidarity, through conversion from cereal crops to orchards, particularly of almond and olive trees, and through development of local farming activities. These actions will be accompanied by strategic measures to streamline the management of public and collectively owned land and to introduce rational, sustainable water management in a country that suffers from frequent droughts.

The Green Morocco Plan is expected to have a positive impact on economic growth, job creation and exports. According to projections, financing 1 000 to 1 500 projects country-wide should raise agricultural sector output by between USD 9 and 13 billion. The plan should have a considerable impact on food security and hence on poverty reduction, particularly in rural areas.

Innovation and ICT

The joint report of the International Telecommunication Union and UNCTAD, "World Information Society Report 2007: Beyond WSIS" (World Summit on the Information Society), published in May 2007, applauded Morocco's progress in the field of new information and communication technologies (ICT). Liberalisation of the telecommunications market, along with the ensuing competition and increased attractiveness to FDI, has led to rapid development of the sector. This reflects the determination of the Moroccan authorities to promote ICT as a factor favouring social cohesion, equality of opportunity and access to knowledge.

In terms of infrastructure, Morocco has devoted considerable effort to modernising and extending its telecommunications networks. In the fixed-line telephony segment, new-generation telecommunications licences have been granted to two operators, Méditel and Wana. The data on fixed-line telephony published by the national telecommunications regulator ANRT in March 2008 indicate a fixed-line penetration rate of about 13.3 per cent, with the number of subscribers rising from 1.62 million in March 2007 to over 2.71 million in March 2008 (up about 68 per cent).

The mobile telephony segment comprises three operators: Maroc Telecom (65.6 per cent of the market), Méditel (33.2 per cent) and, since April 2007, Wana (1.2 per cent). Mobile telephony is growing rapidly, at a rate of about 16 per cent, the number of subscribers rising from 19.2 million in September 2007 to 22.3 million in September 2008. In 2008, over 64 per cent of the population had more than one mobile phone in their households, compared to 48 per cent in 2005. The introduction of customer loyalty plans, the downward trend in prices and the enhancement of service offerings over the last two years have further boosted mobile telephony. As of June 2008, the mobile penetration rate had risen to 69.4 per cent, as against 57.8 per cent in June 2007.

Where the Internet is concerned, the available infrastructure allows for an unlimited number of Internet addresses, with throughput ranging from 2.5 to 10 gigabits per second. There were 866 subscribers in the first quarter of 2008, up 34.3 per cent with respect to 2007. Subscriptions to a high-speed Asymmetric Digital Subscriber Line (ADSL) service are increasing steadily and posted a one-year growth rate of 14.9 per cent. ADSL is the dominant form of Internet access, with 83.8 per cent of the Moroccan market. This is followed by third-generation (3G) wireless Internet access, which arrived on the market in April 2007 and has over 160 000 subscribers. These results are attributable to three factors: the policy of promoting widespread Internet use through the launch of an unlimited ADSL service, the continued fall in prices and the proliferation of public access points (estimated at about 8 000 at year-end 2008).

However, ICT use in Morocco varies widely with income, background and sex. Men have greater access to ICT than women, as a result of the concentration of basic and telecommunications infrastructures in urban areas, the high female illiteracy rate (46.8 per cent, as against 31.4 per cent for men) and the female poverty rate (25.3 per cent in rural areas). The digital divide is also found in business, particularly the small and medium-sized enterprises that generate 60 per cent of private-salaried employment and 31 per cent of exports. Only 42 per cent of businesses have websites, while 12 per cent engage in e-purchasing and less than 5 per cent in e-commerce.

The authorities' proactive policy is designed to remove the barriers to the development and spread of ICT. The "e-Morocco 2010" strategy formulated in 2005 pursues this objective through two channels: digital inclusion and ICT sector competitiveness. Two initiatives based on public-private partnership – the 2006-12 Progress Contract and an action plan for 2007-11, known as the PACT (Programme for Spreading Access to Telecommunications) – were concluded in 2006. The PACT set a number of strategic goals: creating 33 000 jobs in the sector over the period, doubling its contribution to GDP from 5 per cent to 10 per cent by 2012 and increasing the use of ICT, with a target of 50 000 businesses using ICT equipment and 1.8 million Internet subscribers by 2012.

The creation of the ANRT in 1997, under the prime minister's office, marked a turning point in ICT development. The ANRT is responsible for strengthening the regulatory and legal framework governing the sector, approving technical and price offerings for interconnections, and setting technical and administrative specifications for the certification of terminal equipment. Law 55-01, promulgated in November 2004, expanded the ANRT's role by assigning it responsibility for fair trading and related dispute resolution.

Part of the funding for the universal telecommunications service comes from the Special Allocation Fund, which disbursed over MAD 900 million in 2007. Other sources of financing for ICT are: the Research Development Fund, to which carriers contribute 0.75 per cent of their revenue; local authorities; the Hassan II Fund for Economic and Social Development; several development partners (the AfDB, the World Bank, the European Commission); and the "e-Gov" project (as part of PARAP).

Simultaneously with the Génie programme, Morocco launched a reform of higher education affecting all tertiary institutions: universities, colleges, training institutes, etc. As part of the "10 000 engineers" per year by 2010 initiative, taken in conjunction with the training institutions concerned, the government plans to invest MAD 700 million and to train some 450 teachers. Vocational training in ICT is provided by the office for vocational training and the promotion of labour (OFPPT) through the "Skilled Morocco" ("Maroc des compétences") programme, which aims to train some 22 000 highly skilled technicians for the public and private sectors. The specialisations provided by this training programme are software development, network systems and multimedia.

School Modernisation Programme

The 2005-09 "Génie" programme (for *Généralisation des technologies de l'information et de la communication dans l'enseignement* – spreading the use of information and communication technology in education) aims to bring ICT to 8 600 schools, benefiting 6 million pupils and 223 000 teachers. Génie's action plan calls for the purchase of 104 000 microcomputers, 8 600 servers, 17 000 printers and other hardware such as overhead projectors, cabling and Internet connection equipment for school multimedia rooms.

Génie had achieved solid results by the end of 2007: 2 824 schools were provided with computer equipment, 6 400 teachers trained and 2 016 multimedia rooms established in all 16 regional education authorities. By the end of 2009, all schools should have their own ICT equipment, which means the programme will have reached all pupils in the country, or about 20 per cent of the total population. A virtual library has been provided for pupils and teachers, thanks to the 30 000 personal computers delivered in the first phase; it includes digital content produced by 600 innovative teachers. In addition, 32 ICT training centres have been set up around the country. Ultimately, Génie will help to build a "Virtual Knowledge Space" offering free access to basic digital resources and allowing free utilisation of available content for educational purposes. The total cost of the programme is estimated at MAD 1.04 billion.

Political Context

The political situation in Morocco is stable, with the authority of King Mohammed VI remaining uncontested. After the September 2007 parliamentary elections, which led to a change of government, Morocco is preparing for the district and local elections scheduled for 12 June 2009. These elections constitute an important step in the process of renovating and upgrading local and regional governance, undertaken as part of the reform of public administration. The authorities are working to promote local governance by strengthening financial autonomy, the decision-making process and delegation of powers. The resulting budgetary decentralisation is intended to make the local level attentive to concerns about performance, transparency and accountability, in accordance with the results-based management approach adopted in 2003. The government's commitment to devolution and decentralisation is also reflected by the creation of

Provincial Technical Committees and Regional Investment Centres in 2007 to support regional and local follow-up to actions taken by the central authorities.

Social Context and Human Resources Development

As part of the National Human Development Initiative (INDH) launched in 2005, Morocco's budgetary policies emphasise redistribution of wealth in order to fight against poverty, insecure employment and social exclusion. Over the 2005-07 period, more than 4 070 projects were financed, benefiting over a million people, for a total budget of approximately MAD 1.3 billion. The budget allocation for the programme to fight against social exclusion amounted to MAD 2.2 billion. In addition, a dialogue was initiated between the authorities on one hand, and management and labour on the other, leading in 2008 to wage adjustments and social transfers.

To address the vulnerability of women and increase their participation in economic activity, the authorities have made promotion of gender equality a national priority. A prime minister's order issued in 2007 requires all ministerial departments to use the national strategy for gender equity and equality as the frame of reference for their sector plans. This commitment guided the budget reform, leading in 2008 to the institutionalisation of gender-sensitive budgeting. In 2007, the government drafted a strategic action plan for 2008-12, aimed at achieving complete gender equality in the design and implementation of development policies and programmes.

Efforts to reduce poverty have brought results: the relative poverty rate fell by 6.3 percentage points between 2001 and 2007, from 15.3 per cent to 9 per cent. As a result, 1.7 million Moroccans have emerged from poverty, and 1.2 million from vulnerability. This improvement in living standards is observed in all living environments. The rural poverty rate fell from 7.6 per cent in 2001 to 4.8 per cent in 2007, while in urban areas the decline was faster, from 25.1 to 14.5 per cent over the same period. The vulnerability rate declined by 5.3 percentage points, but it remains high in rural areas at 23.6 per cent, compared to 12.7 per cent in urban areas.

In the health sector, a strategic action plan for 2008-12 was introduced in 2007 to quicken the pace of reform, make the health system more equitable and enable it to provide high-quality services. The national public health policy is supported by the medical coverage reform support programme (PARCOUM), with funding from the AfDB and the European Union. The PARCOUM, in its second phase at the time of writing, has helped to raise the proportion of the population covered by health insurance from 16.4 per cent in 2003 to 31 per cent in 2008. A medical assistance scheme for the economically disadvantaged (RAMED) came into effect in November 2008, with the long-term objective of raising the coverage rate to 80 per cent of the population. The number of people eligible for this scheme is estimated at 8.5 million. The rate of HIV/AIDS prevalence in the overall population is very low (0.08 per cent in 2008) and virtually unchanged since 2000, indicating that the government's preventive education and awareness-raising policy has been effective.

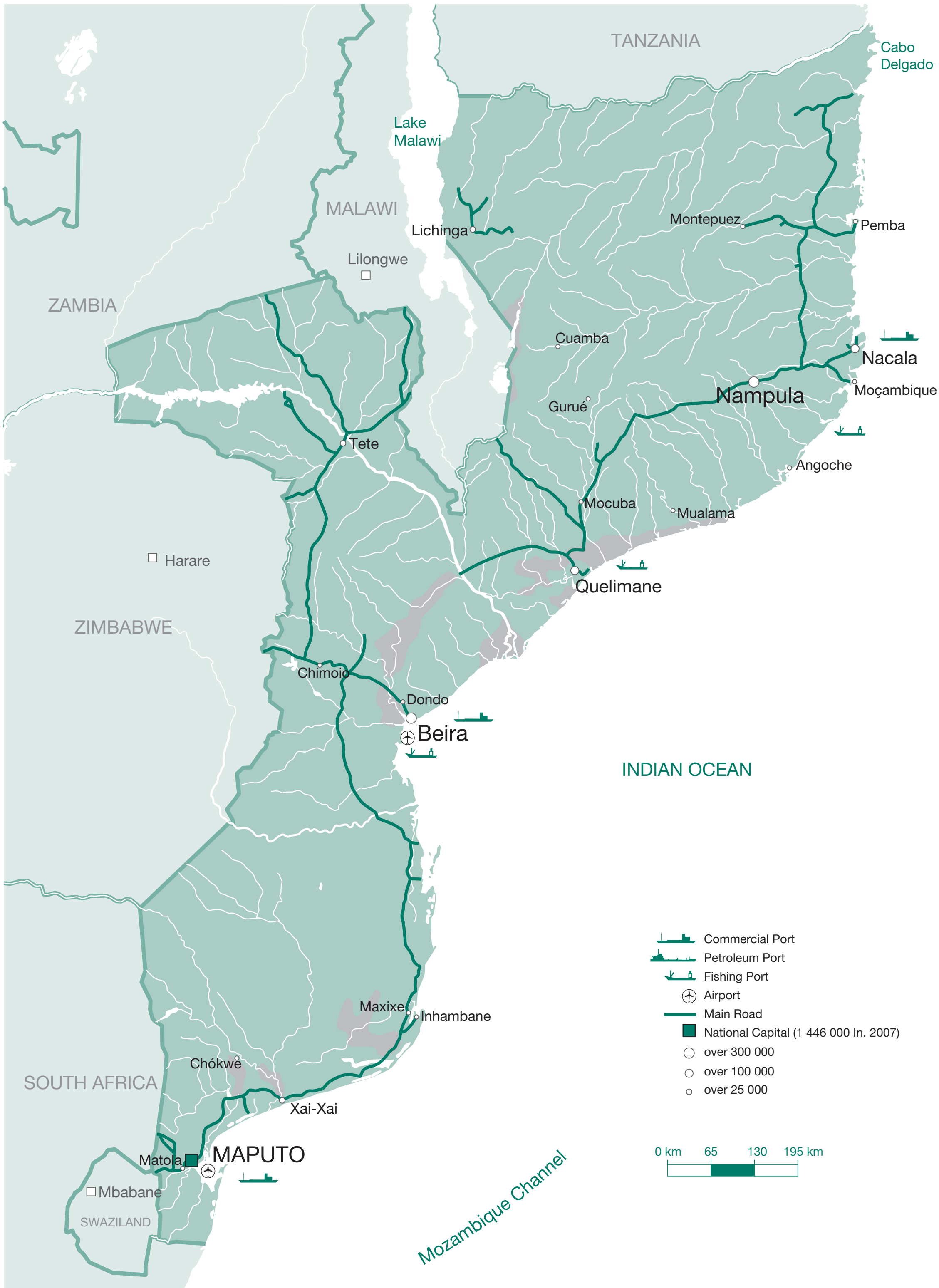
In education, the implementation of the National Education and Training Charter is still consuming a large share of the central government budget. The education budget has increased by an annual average of 5 per cent since 2005, reaching MAD 152 billion in 2008. At back-to-school time in 2008, an initiative for the benefit of disadvantaged children called "One Million Schoolbags" was launched, in order to boost progress towards universal basic education and reduce the proportion of children out of school in rural and peri-urban areas. In addition, an emergency plan for the 2009-12 period, called "Najah", has been adopted to accelerate the reform of education and training. The plan is supported by the AfDB, the World Bank, the European Union, the French Development Agency and the European Investment Bank. The plan provides for 23 projects to strengthen: *i)* decentralisation and human resources management; *ii)* results-based management; *iii)* the initial and in-service teacher training system; and *iv)* pre-school and primary school education, with increased emphasis on equity and girls' education, particularly in rural areas. Also, several literacy and non-formal education programmes have been implemented for out-of-school children (including school dropouts) and adults, the goal of the authorities being to meet the needs of a labour market that is changing radically due to the growth of the working population and women's increased involvement in economic activity. Lastly, in 2008 the OFPPT continued its training programmes for youth, with a long-term target of training 650 000 young people to meet demand from emerging sectors such as tourism, construction and ICT.

Mozambique

key figures

• Land area, thousands of km^2:	786
• Population, thousands (2008):	22 383
• GDP per capita, PPP valuation, USD (2008):	796
• Life expectancy (2008):	47.9
• Illiteracy rate (2008):	56

Mozambique



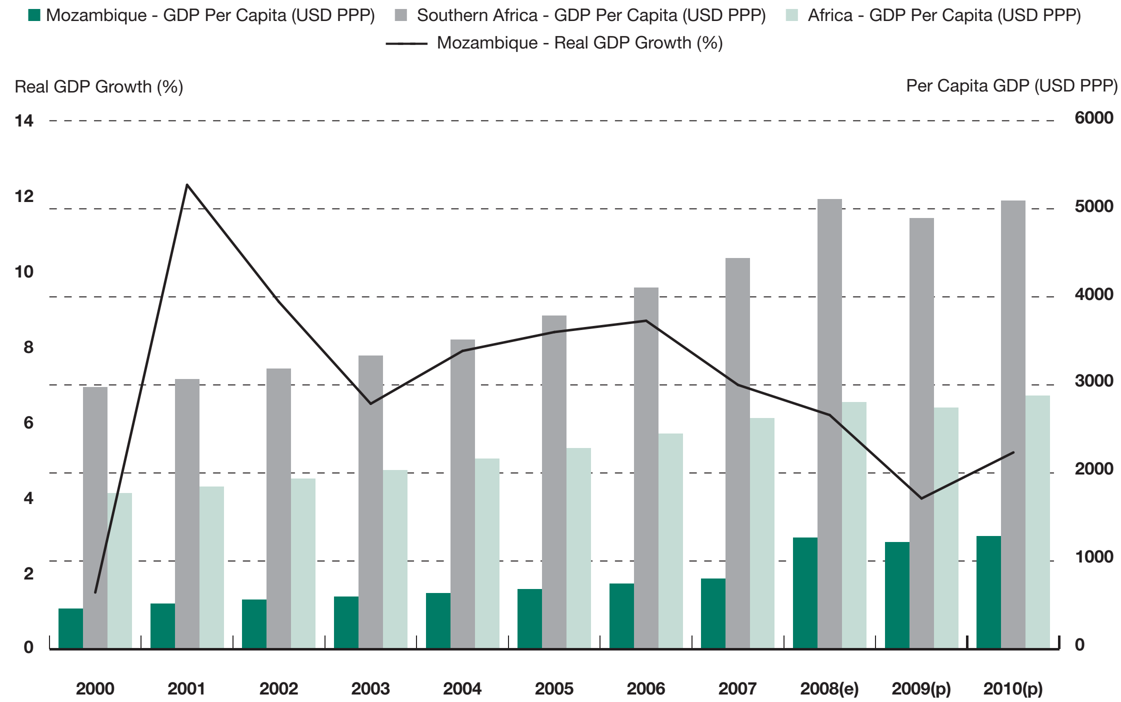
TANZANIA
Cabo Delgado
Lake Malawi
MALAWI
Lichinga
Lilongwe
ZAMBIA
Montepuez
Pemba
Cuamba
Nacala
Nampula
Moçambique
Gurué
Tete
Angoche
Mocuba
Mualama
Harare
Quelimane
ZIMBABWE
Chimoio
Dondo
Beira
INDIAN OCEAN
Maxixe
Inhambane
Chókwè
SOUTH AFRICA
Xai-Xai
Matola
MAPUTO
Mbabane
SWAZILAND
Mozambique Channel
Commercial Port
Petroleum Port
Fishing Port
Airport
Main Road
National Capital (1 446 000 In. 2007)
over 300 000
over 100 000
over 25 000
0 km
65
130
195 km

AFTER AVERAGING 8.6 PER CENT SINCE the beginning of the decade, growth in Mozambique fell to 6.2 per cent in 2008 because of disruptive floods and energy shortages. The economy is likely to be relatively shielded from the direct impacts of the current world financial crisis because its financial system is poorly integrated into world capital markets. However, growth is expected to slow in 2009 to 4 per cent as a consequence of falling world demand for commodities, foreign direct investment (FDI) flows and public investment financed with external assistance. It will rebound to 5.2 per cent in 2010, assuming a partial recovery of the international economy and further expansion of agriculture. Inflation rose to 10.4 per cent in 2008 because of high food and fuel prices but it is expected to fall in 2009 following the decline in international prices.

The economic structure of the country has changed, following a period of post-conflict economic catch-up that was driven by strong agricultural growth. A long track record of sound economic policies and reforms induced large inflows of FDI into Mozambique's natural resource sectors as well as strong donor support. Today large foreign investment projects in mining and aluminium smelters have become the major drivers of growth. These projects

After years of high growth, now threatened by falling exports, the country is looking to boost the private sector.

Figure 1 - **Real GDP Growth and Per Capita GDP**
(USD/PPP at current prices)



Source: Data from IMF and local sources; estimates (e) and projections (p) based on authors' calculations

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have produced some trickle-down effects in services and construction.

However, Mozambique has also increased its dependence on external factors and, by doing so, increased its vulnerability to the current international slowdown. Moreover, the foreign-owned mega-projects consume most of the energy produced in the country, benefit from generous tax exemptions and have limited labour-creation capacities, preventing growth from being broad-based.

The government is struggling to generate domestic drivers of growth and reduce its dependence on official development assistance (ODA) by expanding its fiscal base and revising its tax policies, investing in infrastructure development and pushing forward a second generation of reforms to improve the domestic business environment. Nevertheless, domestic businesses continue to encounter difficulties in accessing electricity, procuring credit and licences, and dealing with high taxes.

In spite of huge capital inflows, poverty reduction has stalled. In 2008 Mozambique experienced social unrest caused by rising inflation from high global food and fuel prices. Social stability will be further tested in 2009, a presidential election year.

Recent Economic Developments

In 2008 gross domestic product (GDP) growth slowed to 6.2 per cent. Disruptive floods in the first half of the year had an impact on agricultural production, while the energy shortage that affected neighbouring South Africa spread to the Mozal aluminium smelters. Growth in 2009 is expected to slow further, because of the decrease in global demand for Mozambican commodities, particularly aluminium. Credit rationing and declining commodity prices are causing cuts in production and the cancellation of several investment projects in the private and public sectors. The situation is expected partially to normalise in 2010, when the first results of a new agricultural development strategy could bring a boost in production.

Capital-intensive export sectors, dominated by the mega-projects, are still driving growth. However, economic activity in the rest of the private sector remains stagnant. This reflects the difficult business environment: domestic investors are faced with stifling regulation, corruption and poorly functioning public monopolies, all of which raise the cost of doing business. There are concerns that the country is exhausting the benefits of rapid post-conflict catch-up growth and that economic expansion and poverty reduction are in danger of losing momentum without an improved policy environment.

The agricultural sector contracted in the first half of 2008 because of floods and cyclones that hit the south and north of the country. The situation improved in the second half of 2008, but the year ended with growth in agriculture below 6 per cent, short of the 7 per cent expected at the beginning of the year.

To prevent a new food crisis, the government has developed a plan to increase crop production for both export and domestic consumption. The project, worth MZN 503 million (Mozambican meticais), or USD 14.46 million (US dollars), will start in 2009 and aims to raise production by 2014 of wheat, rice, cassava, corn and potatoes. The strategy includes distributing subsidised inputs to small landholders and establishing storage silos. However, it pays inadequate attention to transport infrastructure, which is essential for producers to reach both the silos and markets. Opaque land regulations, poor access to credit and poor administrative capacity are other obstacles to the effective implementation of the new strategy.

The government aims to make Mozambique a major biofuel producer and, by doing so, both reduce its dependence on imported fuel and increase exports. It is estimated that the country has the capacity to produce 40 million litres of biodiesel and 21 million litres of ethanol per year. Two big projects for ethanol production were approved in 2008 and other foreign-owned projects are awaiting approval. However, bio-ethanol production has large land requirements, which raises questions about the appropriateness of this strategy for a country like Mozambique where food insecurity remains an issue. According to the ministry of agriculture, 450 000 Mozambicans will suffer from food shortages in 2009.

The industrial sector accounted for 55 per cent of the value added produced in Mozambique in 2007. Much of that production comes from foreign-owned mega-projects launched at the beginning of the decade, the most important of which are the South African Mozal aluminium smelters. In 2008, aluminium output and exports at the Mozal smelters fell because of both an energy shortage caused by maintenance work at South Africa's Eskom plant and a fall in prices and demand in the last quarter of the year. The energy shortage also affected the manufacturing sector and, as a result, overall industrial production fell by 5.1 per cent for the year. Prospects for 2009 remain bleak because of the continuing international economic crisis.

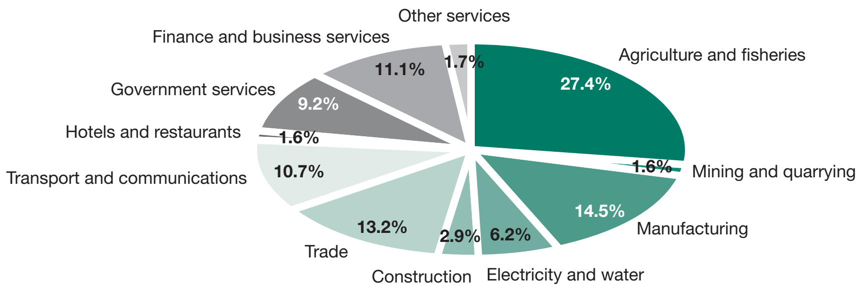
The mining sector holds great potential. There are plans for further investment in coal, gas and hydropower, which would make Mozambique a major electricity producer and an exporter of coal. Several foreign companies which hold exploration licences for oil and gas and minerals, such as titanium, uranium and gold, are prospecting in the mineral-rich Tete and Sofala provinces. The Malaysian oil company, Petronas, has been granted a licence for oil exploration in the Rovuma basin in Cabo Delgado province. Several other foreign companies including Anadarko (United States), Artumas (Canada), ENI (Italy) and Norsk Hydro (Norway) are already searching for oil there. Oilmoz has signed an agreement with Shell Global Solutions to carry out a feasibility study for the refinery it plans to build in Matutuine by 2014. Millions of tonnes of coal are expected to be mined in Tete province by 2010 by the Australian-South African mining company, BHP-Billiton, and the Industrial Development Corporation of South Africa. The Delta Group will be extracting gold in the Manica province by 2009. Titanium will be mined in the Gaza province as soon as electricity supply problems are solved.

In 2008, the national authorities applied for membership in the Extractive Industry Transparency Initiative (EITI), which will help ensure the transparent management of natural resources and accelerate reforms to reduce the cost of doing business.

However, several mining projects are under threat. The ten-year-long negotiated Corridor Sands titanium project, a USD 500 million project led by an Australian company involving the construction of a titanium mine near Chibuto in Gaza province and processing and port facilities in the Maputo suburb of Matola, was postponed in early 2008 in response to doubts over its commercial viability. In addition, the Brazilian-owned Moatize coal mega-project, which is due to begin exports in 2011, was delayed because of the freeze in international credit markets.

The most viable mining projects are those that are already under construction or have secured financing. These include the development of a fuel pipeline from

Figure 2 - **GDP by Sector in 2007** (percentage)



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

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Table 1 – **Demand Composition**

	Percentage of GDP (current prices)		Percentage changes, volume			Contribution to real GDP growth		
	2000	2007	2008(e)	2009(p)	2010(p)	2008(e)	2009(p)	2010(p)
Gross capital formation	**31.0**	**18.0**	**27.3**	**13.5**	**7.8**	**5.9**	**3.5**	**2.2**
Public	9.2	11.7	35.0	15.0	6.0	4.9	2.7	1.2
Private	21.7	6.3	13.0	10.0	12.0	1.0	0.8	1.0
Consumption	**89.1**	**89.9**	**4.5**	**4.1**	**4.6**	**5.0**	**4.5**	**5.1**
Public	8.9	11.8	8.6	2.7	5.0	0.9	0.3	0.6
Private	80.2	78.1	4.0	4.3	4.5	4.1	4.2	4.5
External demand	**-20.1**	**-7.9**				**-4.7**	**-4.0**	**-2.1**
Exports	17.5	37.6	2.6	1.4	3.7	0.4	0.2	0.5
Imports	-37.6	-45.5	10.5	8.3	4.9	-5.1	-4.2	-2.6
Real GDP growth						**6.2**	**4.0**	**5.2**

Source: IMF and National Institute of Statistics data; estimates (e) and projections (p) based on authors' calculations.

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Maputo harbour to South Africa, destined to supply the South African market, and the expansion of the natural gas pipeline mega-project, owned by the South African petrochemical company Sasol, which is planning to invest USD 225 million to increase output from the Pande and Temane gas fields for export to South Africa.

The construction sector has been one of the most dynamic of the economy, spurred by the mega-projects and donor-funded infrastructure rehabilitation. It grew by 6 per cent in 2008 and is expected to expand further in 2009 as road rehabilitation and construction in the remaining mining projects continue.

Services accounted for 49 per cent of GDP in 2007. This sector developed in tandem with the mega-projects but certain sub-sectors such as tourism, financial services and retail sales are expected to benefit from robust domestic demand.

Domestic demand remains strong, fuelled by investment. Private investment contributed strongly to growth in 2008 and is expected to continue to do so over the forecasting period. However, international credit constraints are likely to reduce the level of FDI, especially for projects in a very early stage of development. Donor-supported public investment in infrastructure, also a driver of growth in 2008, is expected to continue in the areas of energy and electrification although probably at a slower pace. Government consumption grew in 2008 and should continue growing in 2009 as a new agricultural development strategy is implemented, public sector wage reforms are put in place and the run-up to the elections takes place. Private consumption, the largest component of GDP, grew by 4 per cent in 2008.

A fall in aluminium exports and a high import bill for oil and food dampened GDP growth in 2008. Export volumes are expected to stagnate in 2009, reflecting falling global demand and metal prices, but lower food and oil prices should restrain the growth in imports. In 2010 the implementation of postponed investment projects will raise the import bill, but will be offset by an increase in exports.

Macroeconomic Policies

A policy support instrument (PSI) from the IMF was issued this year to replace the three-year poverty reduction and growth facility (PRGF) that expired in July 2007. The main priorities of the PSI are to *i)* maintain macroeconomic stability, *ii)* implement a second wave of structural reforms and *iii)* implement the second national poverty reduction action plan (PARPA II).

Fiscal Policy

The key goals of fiscal policy are to increase the domestic revenue/GDP ratio by 0.5 percentage points per year and to direct 65 per cent of spending to priority areas (basic infrastructure, agriculture, water sanitation, education and health) in line with PARPA II.

Tax revenues increased from 12.2 per cent of GDP in 2005 to 14 per cent in 2007. In 2008, however, the targeted increase was not met because of tax exemptions introduced to mitigate the impact of the rise in food and oil prices. Revenue is expected to rise to 18.6 per cent of GDP by 2011 as a result of the planned phasing out of tax exemptions and improvements in tax administration and tax policy.

On the expenditure side, large increases in fiscal spending over the past two years were accommodated by inflows of external resources and big debt relief operations in 2006/07 that freed up additional fiscal resources. After increasing 31 per cent in 2006 and 22 per cent in 2007, social spending increased in 2008 and constituted two-thirds of total expenditure. The latter rose by 30 per cent and reached MZN 79.7 billion (USD 3.3 billion), equivalent to 33.1 per cent of GDP. The execution rate for capital projects remains at around 60 per cent because of delays in grant disbursements and capacity constraints. At the end of the third quarter of 2008 only half of committed grants were available for budgetary operations.

Fuel subsidies to transport operators in urban areas, tax exemptions on fuel imports for strategic sectors and targeted food subsidies put pressure on the budget. In addition, there were one-off costs associated with the municipal elections. As a result, the fiscal year closed with an overall deficit of 4.4 per cent of GDP, financed through new external and domestic borrowing.

The 2009 budget was approved in December 2008. It includes two major new spending items: a national food production plan and comprehensive reform of the civil service, including public sector wage reform. The timing of their implementation will depend on the impact of the international economic crisis on fiscal revenue. The overall deficit will increase as a share of GDP in 2009, because of elections-related expenditures, and remain stable in 2010.

In line with PARPA II and the mid-term expenditure framework 2009-11 (*Cénario Fiscal de Médio Prazo*), spending on poverty-alleviation projects is expected to continue in 2009/10. More than half of this spending

Table 2 - **Public Finances** (percentage of GDP at current prices)

	2000	2005	2006	2007	2008(e)	2009(p)	2010(p)
Total revenue and grants[a]	**18.5**	**20.7**	**25.6**	**25.3**	**28.7**	**30.3**	**28.8**
Tax revenue	10.5	12.2	12.9	14.0	14.4	15.0	15.7
Grants	7.0	6.6	10.6	9.3	11.9	13.0	10.9
Total expenditure and net lending[a]	**23.7**	**23.0**	**27.2**	**28.2**	**33.1**	**35.5**	**34.1**
Current expenditure	11.8	14.2	14.4	15.5	16.2	16.4	16.2
Excluding interest	*11.6*	*13.3*	*13.7*	*14.9*	*15.7*	*15.8*	*15.6*
Wages and salaries	5.8	7.0	7.2	7.8	8.2	8.3	8.3
Interest	0.2	0.8	0.8	0.6	0.6	0.6	0.6
Capital expenditure	9.2	8.4	11.8	11.7	14.8	16.7	16.5
Primary balance	**-5.1**	**-1.5**	**-0.9**	**-2.3**	**-3.8**	**-4.6**	**-4.7**
Overall balance	**-5.3**	**-2.4**	**-1.6**	**-2.9**	**-4.4**	**-5.2**	**-5.2**

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

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is expected to be financed by grants and loans, and donor countries have confirmed pledges worth USD 774 million for 2009. The outlook for additional funding in 2010 will be contingent on Mozambique's progress in improving governance, as well as the length and severity of the current international economic slowdown.

Donor support reflects donor confidence in the government's commitment to poverty reduction and improved fiscal management. However, in 2008 54.3 per cent of Mozambique's public finances were funded by donor grants, making it one of the most aid-dependent countries in the world. To reduce this dependency, the country has engaged in reforming its tax policy, expanding its fiscal base and improving the collection of customs duties. Recent developments in this area include the approval of a new computerised revenue collection system, *e-Tributação*. A new tax code for mining and petroleum was passed in May 2007 to reduce tax exemptions. In 2008 new tax codes for income taxes and value-added tax (VAT) were also introduced to streamline income taxes and eliminate some VAT exemptions. A draft law on new excise taxes was also submitted to parliament, along with a proposal to review the tax code for small and medium-sized enterprises (SMEs). However, the most important foreign-owned mega-projects still do not contribute significantly to government revenue, limiting public finances and shifting the tax burden to domestic businesses.

Reforms on the expenditure side have also progressed. A new public financial management system (SISTAFE) was introduced in 2006 and rolled out to all ministries at the central level in 2007. In 2008, the government started to pay salaries through e-SISTAFE and plans to extend the system to decentralised units in the provinces in the near future. The system should improve expenditure execution and efficiency, as well as reduce the scope for corruption. However, not all externally-financed expenditures currently pass through the SISTAFE, limiting its impact on investment expenditures.

Monetary Policy

Monetary policy aims to keep inflation below 10 per cent, but it reached 10.4 per cent in 2008. The main reason was imported food and fuel inflation; not only did the price of these items rise significantly but food accounts for 49 per cent of the consumer price index (CPI) basket. Core inflation, however, was around 5 per cent, indicating that more general inflation and liquidity pressures remain controlled. This led the central bank, the *Banco de Moçambique* (BM), not to tighten monetary policy. Instead, the government provided targeted food and fuel subsidies to the most vulnerable parts of the population and industry. Food and fuel inflation is expected to fall to 7.2 per cent and 6.1 per cent in 2009 and 2010, as a result of the rapid fall in international prices. However, additional public expenditures linked to elections might generate further inflationary pressure and threaten this outlook.

The BM currently conducts monetary policy by targeting monetary aggregates, but is actively considering adopting an inflation target instead. The upcoming Financial Sector Assessment Programme (FSAP) update exercise, to be conducted with the IMF, is meant to help reach a decision. The main challenge for monetary policy in Mozambique is to control inflation by sterilising the large inflows of foreign exchange from official development assistance and private capital while maintaining the value of the metical and minimising crowding out of private domestic investment. In 2008 Treasury bond sales were used to control liquidity, and foreign exchange sales were used to keep the exchange rate stable and control imported inflation. Because of the latter, the MZN/USD exchange rate was broadly stable in nominal terms. However the metical appreciated in real effective terms because of Mozambique's high inflation.

Between January 2008 and January 2009, the central bank attempted to stimulate credit to the private sector by lowering the rates for its benchmark standing lending facility and standing borrowing facility[1] to 13 per cent from 15.5 per cent and to 7 per cent from 10.5 per cent

1. Interest rates (MAIBOR) and Treasury bill rates are determined on the interbank market and fall within the standing lending facility window.

respectively. It also reduced the reserve requirement ratio to 8.5 per cent from 10.15 per cent, continuing a policy it began in 2006.

External Position

The current world financial crisis will hit Mozambique hardest in its external accounts as falling export volumes and values will likely offset the benefits of lower import prices for food and oil. The capital account balance is also likely to fall because of a decline in FDI inflows.

The trade balance deteriorated in 2008. The value and volume of exports increased in 2008, buoyed by very high commodity prices in the first 10 months of the year and higher titanium exports from the Moma mining project. The rise would have been larger were it not for a 10 per cent fall in export volumes of aluminium due to energy cuts and the sharp depreciation of the South African rand, the contract currency for energy and electricity exports to South Africa. Among traditional exports, sugar and cotton increased slightly, while prawn exports stagnated as industrial and traditional boats were idle because of the high cost of fuel. The value of imports rose both because of increases in imported capital goods related to ongoing investment and of the booming prices of fuel and food.

The terms of trade are expected to deteriorate over the forecast period. International prices of aluminium, which constitutes 76 per cent of Mozambican exports, dropped by 31 per cent between July and October 2008 and threaten to fall further in 2009. The South African rand is likely to depreciate further, reducing the value of electricity and gas exports, and export volumes in general are expected to decrease as a result of the slowdown in international demand. Imports will slow as well, because of the fall in food and fuel prices and investment cancellations and delays, but in 2009 this will not be enough to prevent a further deterioration in the trade balance.

Tourism receipts, which doubled between 2003 and 2007, will decrease in 2009 as a result of the global economic slowdown. However, services imported to serve mega-projects will also drop. The balance on factor income will improve as profit repatriations fall. Transfers will increase, reflecting rising donor support for 2009 but will decrease in 2010.

The current account deficit widened in 2008 to 11.9 per cent of GDP, fuelled by the deterioration in the trade balance and rising profit repatriations from mega-projects. The deficit is expected to widen to 14 per cent of GDP in 2009, because of unfavourable terms of trade, and decrease to 11.2 per cent in 2010.

On 1 January 2008 Mozambique officially eliminated duties on 85 per cent of the products coming from other South African Development Community (SADC) member countries. The SADC free trade zone is one step toward wider economic integration that will culminate in 2018 in the creation of a monetary union.

Table 3 - **Current Account** (percentage of GDP at current prices)

	2000	2005	2006	2007	2008(e)	2009(p)	2010(p)
Trade balance	-19.1	-11.0	-7.4	-7.9	-12.0	-18.1	-14.9
Exports of goods (f.o.b.)	8.7	26.5	33.0	32.5	26.9	17.1	19.6
Imports of goods (f.o.b.)	27.8	37.5	40.4	40.3	38.9	35.2	34.6
Services	-0.4	1.6	1.5	1.7	1.4	0.4	0.5
Factor income	-5.4	-7.3	-9.6	-9.2	-9.7	-5.0	-4.1
Current transfers	8.7	5.4	6.3	6.4	8.4	8.8	7.3
Current account balance	**-16.2**	**-11.4**	**-9.2**	**-9.0**	**-11.9**	**-14.0**	**-11.2**

Source: IMF and Bank of Mozambique data; estimates (e) and projections (p) based on authors' calculations.

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In 2008 Mozambique continued to receive large flows of FDI directed at three main mega-projects: aluminium, gas exports to South Africa, and electricity exports to South Africa. FDI has recently started to branch out into tourism, services and agriculture, especially the biofuel industry, and should help increase employment opportunities and economic diversification. Cumulative FDI was USD 427.4 billion in 2007 and USD 201 billion in the first six months of 2008, 10 per cent more than one year before. However, a slowdown is expected in 2009, reflecting liquidity constraints in the major source countries including South Africa, the EU member countries and the US.

Mozambique is considered one of the most successful cases of post-conflict transition and so attracts sustained and continued support from donors. Today, 26 donors are involved in direct budget support, sector common funds and project funds. Nineteen of those, headed by the UK, are organised under the Programme Aid Partnership (PAP) which is involved in budget support and in the organisation of more than 200 monitoring groups. Donors and the government are currently developing a new aid architecture that will include non-traditional donors and a new memorandum of understanding was expected to be signed by the beginning of 2009. However, despite the recent renewal of commitments for budget support, more concerns are being raised by major donors about the limited progress made in the fight against corruption. A few of them have frozen their contributions and others have temporarily suspended budget support.

As a consequence of its stable macroeconomic performance, the country has good access to external financing at highly concessional terms, and these factors should help ensure future debt sustainability in the current environment of international liquidity constraints. Mozambique's public debt fell from over 140 per cent of GDP at the beginning of the decade to 51 per cent of GDP in 2007 as a result of a series of debt relief initiatives. Today, the country is still

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

Source: IMF.

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negotiating with bilateral non-Paris Club creditors on some 30 per cent of the remaining debt.

Private sector debt, which includes a large share of FDI-related debt, fell from USD 4.4 billion in 2004 to USD 3 billion in 2007 largely as a result of a deal concluded with the Portuguese over the ownership of the Cahora Bassa hydropower facility.

Domestic debt, around 11 per cent of GDP, is comprised of recapitalisation bonds issued by commercial banks and the central bank, small amounts for deficit financing and Treasury bills issued by the central bank for liquidity management. The government's domestic debt is likely to remain relatively low because of the high cost of domestic financing.

Structural Issues

Private Sector Development

Mozambique ranks low in the annual *Doing Business* report that compares the business environment in 178 economies. It fell from 139th position in 2007 to 141th in 2008. A survey of 600 businesses conducted by the Confederation of Mozambican Business Associations (CTA) identified corruption, bureaucracy and organised crime as major problems. It also cited problems associated with property rights over land and concerns over contract enforcement in the context of a weak judicial system. Businesses face three additional hurdles. First, import and export procedures are costly and slow: inspections cost USD 100 and average two weeks for both imports and exports. Second, labour regulations remain burdensome and discourage the development of formalised, labour-intensive activities. A new labour law passed in May 2007 attempted to make the labour market more flexible but it also increased indemnity costs and overtime restrictions. Finally, compliance with tax legislation is difficult and costly. SMEs are particularly penalised since they cannot afford to hire accountants. Moreover, SMEs are subject to a tax rate of 5 per cent of their gross sales which amounts to a rate of approximately 20 per cent of profits, providing a further incentive to stay in the informal sector. In addition, small farmers must have an identification card in order to qualify for a tax exemption but 3.5 million farm families do not comply with this regulation and so have to pay taxes on their production.

However, with land and labour costs being a tenth and a fifth of those in South Africa, Mozambique has the potential to attract much economic activity from its neighbour if its business environment improves. To encourage private sector development, the government approved a strategic plan in February 2008 that includes measures to transfer the authority to issue licences to one-stop shops at provincial or district levels, simplify the licensing processes for SMEs, establish an electronic one-stop window that integrates customs and tax systems to facilitate trade across borders, and devise a strategy to make the banking sector more competitive and lower the cost of capital.

The banking sector is dominated by foreign firms but Mozambique's financial sector is poorly integrated into international capital markets. As a consequence, the recent turmoil in world financial markets has had no significant impact on short-term credit for commercial transport. The banking sector remains liquid and well capitalised (14 per cent). In December 2007, the BM estimated that non-performing loans and prudential regulations were compliant with International Financial Reporting Standards (IFRS). In 2008 the rate of non-performing loans fell to less than 1 per cent, down from 3 per cent in 2007. However Mozambique has higher intermediation costs than the SADC average because of high fees and large interest rate spreads, and limited access to credit is a major bottleneck for private sector development. A working group formed by commercial banks and the BM is identifying measures to make the sector more competitive.

Other Recent Developments

Seven new energy projects are expected to generate 6 442 megawatts (MW) of electricity and transform Mozambique into a major regional exporter. The most important projects are the expansion of Cahora Bassa Hydro Electric (HCB) plant from 2 075 MW to

2 925 MW, the construction of the 2 400 MW Mpanda Uncua hydroelectric station on the Zambezi river, the rehabilitation of the 45 MW hydroelectric stations on the Chicamba and Mavuzi rivers and the construction of a 1 500 MW thermal power station in Tete province. The HCB supplies South Africa, Zimbabwe and Botswana because their local production does not meet their consumption demands. While the HCB is still short of its potential of 14 000 MW, its full operation could provide a solution to the power crisis in the SADC region. In the meantime, power shortages are likely to continue in the region. In Mozambique, they have the largest impact on the Mozal aluminium smelters, which consume some 95 per cent of the energy distributed in the country.

Improvements in transport infrastructure are under way. These include a major upgrade of the road network as part of the *Programa Integrado do Sistemas de Estradas* that covers the period 2007-11. This project is expected to help integrate agricultural surplus areas in the north with the rest of the country. The three main regional ports of Maputo, Beira and Nacala give sea access to landlocked Malawi, Zimbabwe and northern South Africa and are currently undergoing rehabilitation and expansion. A USD 75 million international terminal at Maputo's Mavalane International Airport is being built by a Chinese company and will be completed by the end of 2009. Aeroportos de Moçambique (ADM) is seeking investors to upgrade the Pemba airport in Cabo Delgado province and to convert the old military base in Nacala into an international airport.

Innovation and ICT

Currently 13.3 per cent of Mozambique's population have access to some type of telecommunications device. Only 0.3 per cent of these communications are made through fixed-line equipment. The traditional fixed-line operator *Telecomunicações de Moçambique* (TDM) has very few lines installed in major urban areas. The TDM is partially privatised, holds a monopoly on local, long distance and international calls, and had a penetration rate of less than 3 per cent of the population in 2008.

TDM applies a uniform price, cross-subsidising between urban and rural consumers and between local and long distance and international calls. It has made no profit in recent years since cellular operators, not subject to cross-subsidisation, can easily attract consumers with more attractive prices.

TDM's distribution lines mostly use copper wire which is often subject to theft. It is introducing Asymmetric Digital Subscriber Line (ADSL) technology over these lines to provide Internet services. However the price of such services is very high. In addition, TDM is attempting "the last mile to the home" with Code Development Multiple Access (CDMA) wireless technology to reduce infrastructure costs. It is currently in the testing phase after having been granted a specific licence for the purpose.

Transmission lines also employ digital microwave and satellite connections. The latter are widely used since the fixed-line network was largely destroyed during the war period. The first optic fibre lines were operational in Maputo in 2001 and in other provincial capitals up to Beira in 2002. The northern areas of Quelimane, Nampula and Cuamba were covered in 2007 but other areas such as Cabo Delgado are still serviced by satellite connections. The parastatal Electricity Supply Corporation of Malawi (ESCOM) has been installing fibre along its grid between South Africa and Maputo which could be partly used for telecommunications services.

International communications toward Europe are currently provided by satellite. Since October 2007 TDM has provided them by microwave and optic fibre to South Africa, which enables Mozambique to connect to the west coast international submarine cable SAT3. This last link could help in reducing the high international tariffs associated with satellite connections. In practice however, the decrease in prices should be moderate since SAT3 is dominated by a consortium that imposes very high tariffs on non-members. Two new east coast submarine cables, SEACOM and EASSy, should provide open access and thus more affordable tariffs by mid-2009 and 2010 respectively.

Mobile phones account for 98 per cent of total connections, and some 98.6 per cent of these involve prepaid consumers. There are two mobile phone operators: *Moçambique Celular* (MCel), operational since September 1997 and owned by TDM, and Vodacom Moçambique, operational since October 2003. Their base stations cover 44 per cent of the population and are concentrated in major urban areas. MCel has 51.7 per cent of the market share with 1 382 270 subscribers and a 17 per cent annual growth rate. Vodacom has a slightly smaller share of the market and a 19 per cent annual growth rate. Their trend growth rates have been slowing since 2004 and are expected to stabilise by 2010 at 11 per cent and 15 per cent for MCel and Vodacom respectively.

The technology used for mobile phones is Global System for Mobiles (GSM) 900/1800, the standard used in Europe, which allows voice and short message service (SMS) messaging services. General Packet Radio Services (GPRS) technology is also being used by both mobile operators. This enables Internet access through mobile phones but requires handsets that are compatible with these technologies which is not often the case. The third generation technology of mobile phones is yet not being commercialised. Indeed, operators are still recovering the costs of second generation GSM investments and even if third generation licences are granted, deployment will take some time.

Mozambique lags behind most of its neighbours in terms of the number of cellular licences issued and penetration rates. By 2008 only two cellular licences had been issued in Mozambique, compared with three in South Africa, Zambia, Zimbabwe and four in Kenya. Mozambique's cellular penetration was 13 per cent in 2008 compared to an average of 38 per cent in these neighbouring countries and a continent-wide average of 28.4 per cent.

Mozambique's ICT regulatory framework is officially satisfactory according to the International Telecommunications Union (ITU). The Instituto Nacional das Comunicações de Moçambique (INCM) was created as a separate regulatory authority for telecommunications in 1992 under the law No. 22/92. The agency reports annually to the ministry of transports and communications but says it is autonomous in its decision making.

There are no universal licences that include fixed-line, mobile and Internet services. In practice, the operators are automatically granted licences on these complementary technologies. The fixed-line operator TDM can provide wireless and Internet services, and the cellular operators MCel and Vodacom can provide fixed-line and Internet services.

Interconnection tariffs are revised every two years by the INCM based on its estimates of interconnection costs. Tariffs were approved in 2007 and will be revised again in December 2009. A flat rate had been used for interconnection tariffs, but has been replaced by a variable tariff to take into account the fact that MCel has more users than Vodacom. MCel has very high tariffs for roaming but Vodacom Mozambique and Vodacom South Africa do not apply any roaming pricing for the communications between their networks, following the example of Zain in the African continent.

Even though new legislation encourages sharing pylons for antennae and energy devices such as generators and solar panels, MCel and Vodacom are not using common infrastructure. A third cellular licence is going to be issued soon and could spur infrastructure-sharing, thanks to the probable drop in prices with increased competition.

Mobile phones that are imported are treated as a luxury product and thus subject to 20 per cent taxation. As a consequence, there is a large informal market for handsets which can be obtained for USD 50.

The government has been heavily engaged in e-education, capacity building, e-governance and e-health. There is currently a three-year project on e-education, SchoolNet Africa, with TDM, TV Cabo, International Development Research Centre (IDRC), Direqlearn and Microsoft. This project seeks to extend the use of ICT in education, including the training of 200 young people who do not belong to a formal education system (Educação para Todos).

Capacity building in ICT is identified as a priority in Mozambique by the Fostering Digital Inclusion (ADEN) programme which was being implemented in 12 sub-Saharan countries between 2003 and 2008. The government created the Institute for Information and Communications Technologies in Mozambique (MICTI) at the University of Eduardo Mondlane (UEM) for capacity building as well. With EU funding, the IST Africa project currently develops seminars on e-business, e-government, e-learning and e-health.

The government is also engaged in several projects on e-government such as the Public Servant Information System (SIP 2000), the Civil Identification System, the State Financial Information System (e-SISTAFE), the Digital Land Registry, the one-stop shop, the ICT Survey in Public Institutions and the Electoral Process Information System and Electronic State Network (GovNet). This last programme, GovNet, is a platform that enables communications between public administrations and also provides information for citizens.

Mozambique is a success story in terms of e-health. With the support of the International Telecommunications Union (ITU) the government established a network between central hospitals in two of the country's biggest cities, Maputo and Beira. This link has allowed, for example, the hospital in Beira to have instant access to radiologists located in Maputo, which has significantly improved patient care. The government is also using information systems for HIV prevention with the support of UNESCO.

Mozambique's biggest ICT challenges include increasing investment and extending services in rural areas, lowering prices for data services, and creating a universal service fund to which TDM and the two cellular operators should contribute.

Political Context

The 22-year ruling party Frente de Libertação de Moçambique (Frelimo) extended its dominance into the opposition's remaining strongholds in the municipal elections held on 19 November 2008 by placing mayors in 41 of the 43 municipalities and winning a majority in 42 municipal assemblies. The main opposition party, Resistência Nacional de Moçambique (Renamo), suffered its worst defeat when it lost Beira to David Simango, who was expelled from Renamo in September 2008.

The country's first provincial elections are scheduled for 2009 and legislative and presidential elections will be held in December 2009. Armando Emílio Guebuza has been confirmed as Frelimo's candidate for re-election in 2009, in what would be the second of the two terms that he is allowed to serve under the constitution. He is expected to win comfortably. Armando Emílio Guebuza remains closely aligned with the hard-line socialist wing of Frelimo, which could slow progress on reforms even if no changes in donor support occur.

In the latest Ibrahim Index of African Governance released in October 2008, Mozambique occupies 22nd place in the good governance list for African countries. However corruption remains a problem in the country and there is no clear strategy to deal with it. None of the identified corruption cases have been pursued since the organisation to deal with them was discredited by the courts. The state created a forum on anti-corruption presided over by the prime minister but it was dissolved after being declared unconstitutional. Meanwhile, the previous president Joaquim Chissano received the Mo Ibrahimo Prize for good governance even though the Mo Ibrahimo Foundation had just published a report according to which Mozambique's governance was considered to be below that of Zimbabwe, where human rights violations are systematic.

Social Context and Human Resources Development

Bad weather hit Mozambique in 2008. Although not as severe as in 2003 and 2007, flooding affected parts of the country and caused significant dislocations. The Jokwe cyclone struck the coastal provinces of Nampula and Zambezia in March 2008, causing several casualties and damaging infrastructure. Severe rainfall shortages in the south and central regions between January and the harvest in April worsened the situation. In total, 302 664 people were affected by these shocks and in need of humanitarian assistance.

Overall, 35 per cent of the households in Mozambique are considered chronically food insecure. The percentages are the highest in Zambezi, Tete, Maputo and Inhambane. While the country is prone to severe droughts and floods, the situation is deteriorating because of climate change. Seasonal shifts are becoming more erratic in the Inter-Tropical Convergence Zone that is responsible for rainfall patterns in Southern Africa.

PARPA II, developed by the government for the period 2006 through 2009, contains targets in line with the Millennium Development Goals (MDGs). While progress is evident in some of the MDGs, it is not improving fast enough in others. Mozambique is unlikely to halve the proportion of those suffering from hunger by 2015 (MDG1) because of droughts and floods, and could have some difficulties in achieving the objectives of universal primary education (MDG2) and gender equality (MDG3). Even though enrolment rates are high, the completion rates are generally low. In terms of gender equality, the ratio of girls to boys was at a low level of 32 per cent for primary education and 30 per cent for secondary education in 2007.

Poverty levels in Mozambique remain high, in spite of the sustained high levels of GDP growth. It is unclear whether poverty reduction can result from economic expansion when the latter is mainly derived from mega-projects that are capital-intensive and benefit from tax exemptions. Even though the poverty rate declined from 69.4 per cent of the population in 1997 to 54.1 per cent in 2003, this change appears to be mostly associated with post-conflict catch-up growth. In February 2008 riots broke out in poor areas of Maputo as a consequence of a 50 per cent increase in public transport tariffs and, more generally, increasingly hard living conditions. Three people were killed and over 100 injured, and many shops and businesses were looted or burned in the first such incidence since 1994.

The performance of the education sector is improving in quantitative terms. The spending rate reaching 22 per cent of the budget in 2007 and is projected to reach 30 per cent by 2010. In primary and secondary education the number of students increased by 8.3 per cent and the number of schools by 6.8 per cent in 2007/08. According to government figures the enrolment rate for primary education increased from 94.1 per cent in 2007 to 97.3 per cent in 2008, but the rate drops drastically for secondary education because of shortages of schools and teachers. In terms of technical and vocational skills training, the number of students increased by17.8 per cent in 2007/08.

Plans are underway to improve the quality of education. In 2005 44 per cent of primary school teachers did not have formal training and the pupil/teacher ratio was 74:1. To address this, the government plans to double the number of teachers to 144 295 by 2015 and reduce the pupil/teacher ratio to 65:1. In 2008 11 255 new teachers were hired for primary and secondary education and 96 per cent of these had professional training.

The number of health centres and rural and general hospitals has grown steadily since 2003, reaching 859 and 41 respectively by 2007. The health sector received 12.4 per cent of the budget, a share that is expected to increase for 2008. However, Mozambique has one of the least well-staffed health sectors in the world, with only 634 staff doctors for a population of over 20 million in 2007, down from 737 in 2006. Moreover, at least 200 of those doctors are Cubans. The total number of health workers has been decreasing since 2005 and has fallen by 17 549 since 2003. This is a consequence of the fact that only about 60 doctors are trained annually in the national universities. The government aimed to recruit 5 000 new health workers and increase the number of health units from 1 232 to 2 000 by the end of 2008.

In Mozambique all social classes are affected by HIV. The prevalence rate of HIV/AIDS in the country was estimated at 12.5 per cent of the population in 2007, only marginally lower than Zambia (17 per cent) and South Africa (18.1 per cent). Prevalence in the south region is estimated at 23 per cent and is still rising. In the central and northern regions it has stabilised at around 19 per cent and 9 percent respectively. UNAIDS has estimated that life expectancy could decline from 42.8 years in 2005 to 36 years in 2010 if the disease is not dealt with. Social services could be severely affected with 17 per cent of teachers and 15 per cent of health workers at risk of dying by 2010. Although it is estimated that 250 000 people require anti-retroviral treatment (ART), only 100 000 were receiving such treatment by the end of 2007. HIV victims have left behind some 380 000 orphans.

The major constraints to controlling and treating HIV are the lack of capacity and the lack of coordination between different entities, both of which are currently being addressed. Special HIV units are being integrated into the health system to avoid discrimination against HIV-contaminated people. A new five-year strategy will be launched in 2010 based on the results of an HIV survey that is currently being developed. In addition, Brazil has committed itself to building a factory in Mozambique to provide generic anti-HIV drugs that will be subsidised by the government.

Malaria is the deadliest disease in Mozambique, especially among children, and accounts for 60 per cent of paediatric hospital admissions and 30 per cent of hospital deaths. The government is planning public service campaigns to encourage the use of some 1.7 million insecticide-treated mosquito nets that have been distributed since 2000.

In 2008, xenophobic attacks in South Africa caused the death of several Mozambicans living in the townships surrounding Johannesburg. Some 30 000 people subsequently returned to their home country, raising unemployment. The number of registered unemployed was 163 594 in 2007.

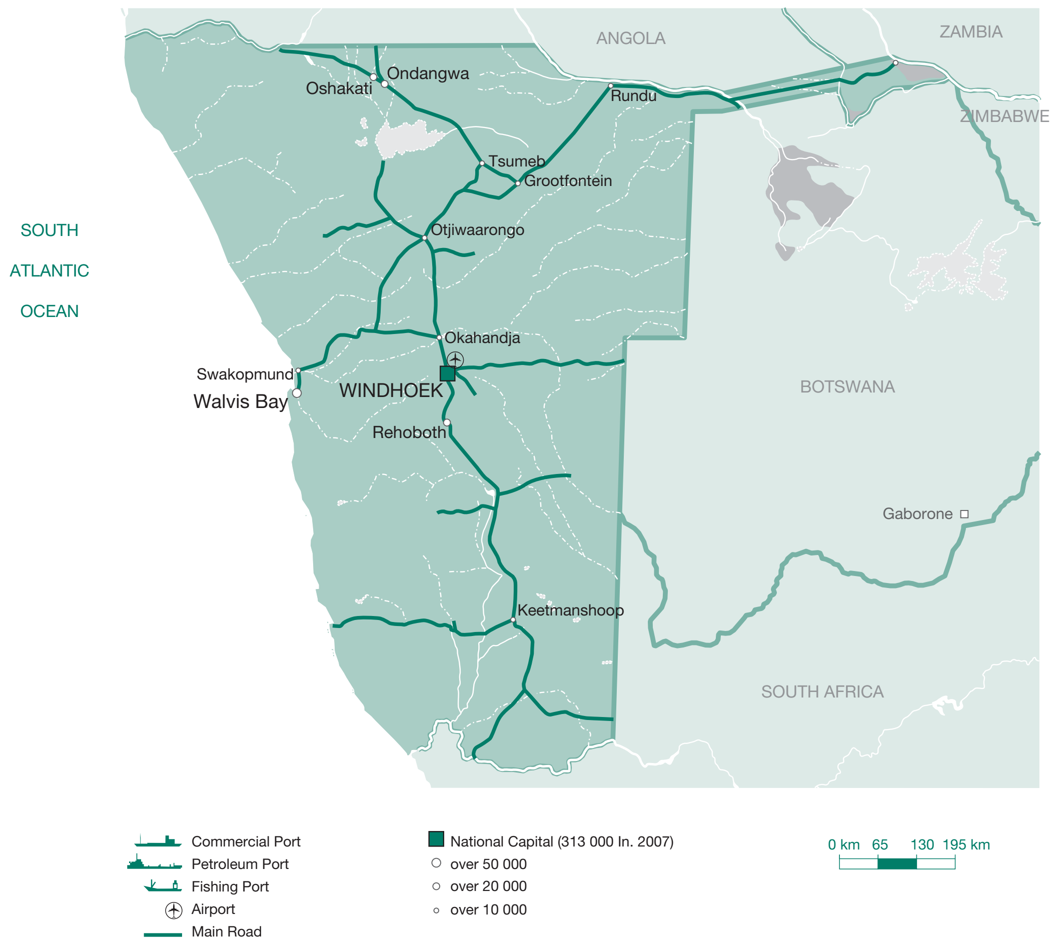
In April 2008 minimum salaries were introduced for each of nine activity sectors. However the highest minimum salary, 2 136 meticais per month, does not cover the 3 500 meticais cost of a basic food basket. The government plans to roll out its new public-sector remuneration system in 2009; along with addressing wage differentials between seniority scales, it will provide incentives for employees to work in rural areas, free medical care, benefits for housing and funeral allowances, and wage increases.

Namibia

key figures

- Land area, thousands of km²: 823
- Population, thousands (2008): 2 130
- GDP per capita, PPP valuation, USD (2008): 5 173
- Life expectancy (2008): 61.2
- Illiteracy rate (2008): 12

Namibia


SOUTH
ATLANTIC
OCEAN
ANGOLA
ZAMBIA
ZIMBABWE
BOTSWANA
SOUTH AFRICA
Oshakati
Ondangwa
Rundu
Tsumeb
Grootfontein
Otjiwaarongo
Okahandja
Swakopmund
Walvis Bay
WINDHOEK
Rehoboth
Keetmanshoop
Gaborone
Commercial Port
Petroleum Port
Fishing Port
Airport
Main Road
National Capital (313 000 In. 2007)
over 50 000
over 20 000
over 10 000
0 km 65 130 195 km

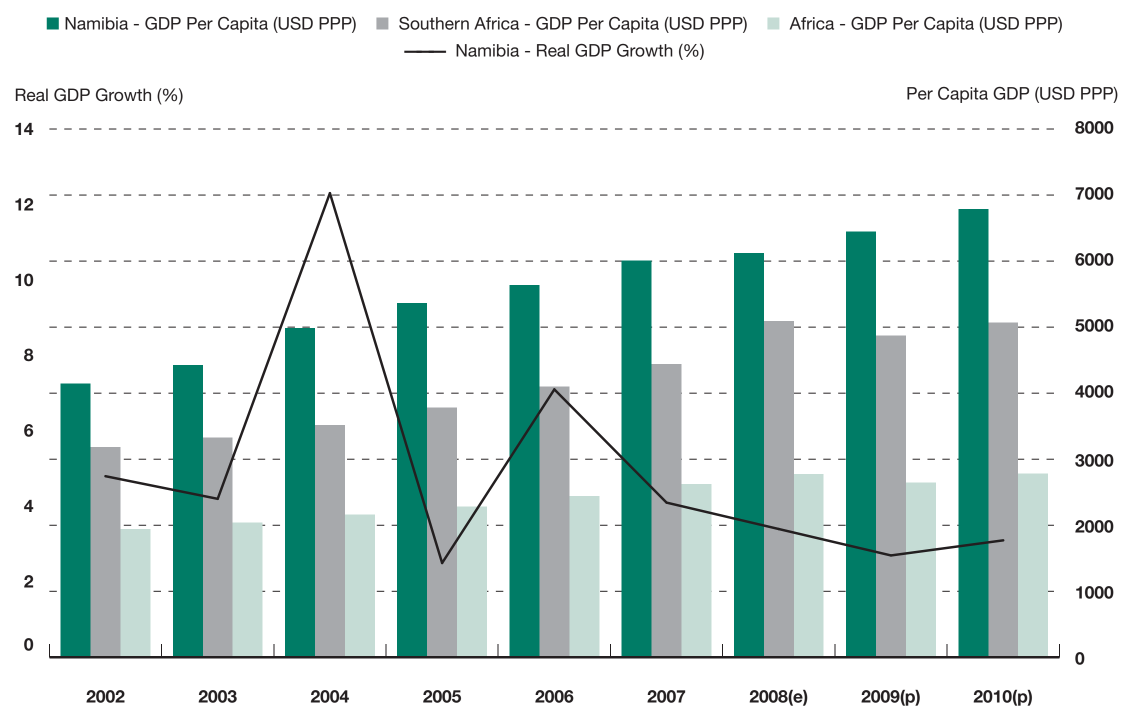
Surging oil prices and the impact of the world financial crisis on the global economy reduced growth estimates for Namibia to 3.4 per cent, much lower than forecast in last year's *AEO*. This is expected to dip to 2.7 per cent, below rates for 2009. If the world economy recovers, Namibia's economic growth could rebound to 3.1 per cent in 2010. The southern African country continues to face major challenges such as poverty, inequality and high unemployment.

Namibia's main exports are raw materials. Demand for minerals and their prices plunged in the second half of 2008, dashing hopes of increased diamond and copper production. However, new uranium mines are in the pipeline. Earlier in the year, floods and droughts in northern Namibia adversely affected agriculture and damaged infrastructure.

Efforts to re-distribute land remain slow. These include the 'willing-seller willing-buyer' project and the Affirmative Action Loan Scheme. The Namibian government also reserves the right to confiscate land in return for compensation. School children continue to perform poorly and drop out and repetition rates remain high. Although the number of people infected with HIV has dropped slightly from 19.9 per cent to 17.8 per cent and treatment is improving, it remains a major concern.

Deficits are widening due to plummeting mining exports, flooding and an expansionary budget.

Figure 1 - **Real GDP Growth and Per Capita GDP**
(USD/PPP at current prices)



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

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Recent Economic Developments

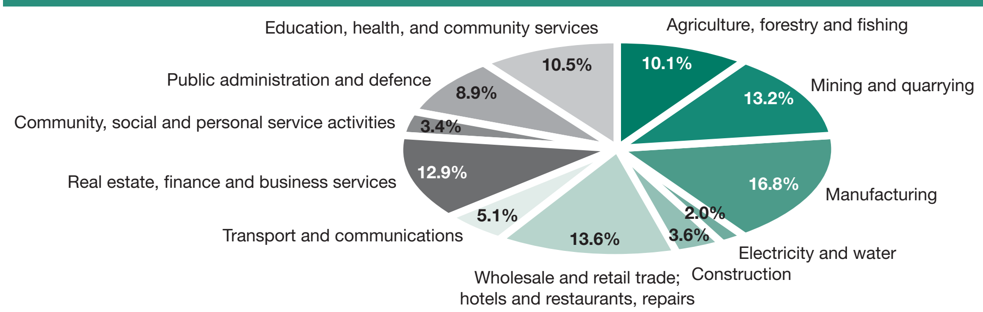
Real Gross Domestic Product (GDP) growth averaged 5.2 per cent between 2001 and 2007. During this period, it fluctuated considerably in 2004, due largely to the mining sector and textile production. Other services' contribution to GDP has dropped but still accounts for more than half of output. In 2007, for the first time since Namibia's independence in 1990, industry contributed over 20 per cent to GDP. The primary industry's contribution to GDP has fluctuated at around 20 per cent.

The mining industry has been hard hit. Diamond mining dominated the primary sector until 2007. Diamond production is estimated to have declined by at least 10 per cent during 2008. Offshore diamond mining activities have grown, contributing more than 50 per cent of total production. This remains costly and requires substantial investment, although it has not offset the decline in onshore diamond mining activities. Poor sales last season are expected to slow production further in 2009, because of the financial crisis and its effects on the global recession. All copper mines in Namibia shut down indefinitely in December 2008. Six hundred and forty people lost their jobs. By the end of 2008 copper prices had dropped by 60 per cent, with prices currently below production costs. Copper prices had risen from USD 7 000 in early 2008 to almost USD 9 000 in July.

Uranium mining has grown in response to global demand for nuclear power. New deposits are being developed while existing mines are being expanded. Uranium spot prices peaked at USD 135 per pound in July 2007 but dropped to USD 44 per pound in October 2008. Towards the end of 2008, they went up slightly to USD 53. Long – term contracts have protected Namibian producers from such drastic price swings. The global demand for uranium remains favourable. Forty nuclear reactors are currently under construction throughout the world.

Agriculture – which has also been affected by soaring oil prices and adverse weather conditions – contributes roughly 6 per cent to GDP. Namibia already irrigates 50 per cent of its crops and the government approved a Green Scheme Policy to increase such activity along rivers. Namibia usually produces – depending on weather conditions – nearly half of the 110 000 tonnes of maize it consumes every year. Floods and droughts in 2008 meant that crop production in the communal areas was lower than average, while production in commercial areas was above average. South Africa's ban on importing horticultural produce from Namibia towards the end of 2008 after a fruit fly outbreak harmed an industry that had been growing substantially since 2005. Crops had to be sold below their market value. High oil prices contributed to phosphate fertiliser prices going up twofold between early 2007 and mid-2008, and to the cost of fuel going up by more than 50 per cent. Soaring oil prices could also create opportunities for bio fuel production. A new dairy farm with roughly 2 000 cows – due to open in July 2009 – is expected to double the current annual milk output of 24 million litres, mainly for a domestic

Figure 2 - **GDP by Sector in 2007** (percentage)



Source: Author's estimates based on Central Bureau of Statistics – National Accounts 2000-2007 data.

StatLink http://dx.doi.org/10.1787/572074731606

market. The cattle industry has declined since farmers started restocking their herd. The Small Stock Marketing Scheme, which the government introduced in 2004 in order to increase value added in the country, remains controversial. For every sheep exported on the hoof to South Africa, farmers are required to slaughter six sheep locally. Although this created more local abattoirs, farmers complained that the cost of slaughtered animals was lower in Namibia than in South Africa.

The fishery sector has been declining over the past seven years because of high oil prices, fish migration and depleted fish stocks. The Total Allowable Catch for 2008/09 remains roughly the same. This will further reduce the output for the fishing industry. Marine life nearly collapsed in 2008 due to an influx of red tide, and an oxygen-sapping algae species. As a result, 70 per cent of the oyster stock was wiped out. The marine sector is expected to make a partial recovery in 2009.

Over the past decade industrial production's contribution to GDP has helped steady its increase from around 15 per cent to over 20 per cent. The textile, mineral processing (mainly zinc refining and copper smelting), diamond cutting, polishing, and construction industries have performed particularly well. Ramatex, a Malaysian-owned textile factory, with over 7 000 staff at peak time, shut down in early 2008 due to stiff competition from China. Diamond cutting and polishing companies are expected to announce lay offs in 2009 because of the drop in demand for diamonds. In spite of the closure of copper mines in Namibia, copper smelting increased to 2 000 tons in November 2008 and it is expected to double to 4 000 tons in November 2009. This is only expected to have a minor impact on employment. The output of the fisheries and livestock sectors has yet to be seen. Lower disposable incomes due to the economic slowdown are expected to slow down the growth of the beverage industry.

The construction industry has expanded over the past ten years partly due to the development of new mining sites, an extended railway line that runs into Angola in the north and the extension of the electricity grid to the north east to connect to Zambia and Zimbabwe, and more residential and office blocks. This growth is expected to carry on in 2009 with plans to build at least one new uranium mine and to expand an existing one. Plans to invest in two new five-star hotels in Windhoek, conference centres, the electricity grid, electricity generating plants, roads and railways are also underway. The construction industry has also faced some setbacks. The price of cement has risen and supply has not always met the demand. The construction of a cement factory in 2009 is expected to supply Namibia and neighbouring Angola from 2010 onwards. It is expected to reduce input costs for the construction industry. Rising interest rates in 2007, soaring food and fuel prices have prevented homeowners from keeping up with mortgage payments. Since less people applied for a mortgage to buy a property in 2008, construction of new private homes are not expected to boost the construction industry.

Namibia has had to rely increasingly on costly coal-fuelled domestic electricity generation after South Africa – its main supplier – faced shortages. Towards the end of 2008, closing copper mines and providing energy saving bulbs had reduced peak demand in Namibia by 19 megawatts. Namibia's NamPower provided Zimbabwe with a loan to renovate the Hwange power plant and receives 150 MW of subsidised electricity in exchange. The Caprivi Link Interconnector linking Namibia with Zambia and Zimbabwe is due to be completed by the end of 2009. Solar energy is expected to provide growth opportunities in the near future. Plans to build a 40 MW wind turbine park along the coast are in the pipeline. The long-awaited construction of a gas-fired power plant in the south fuelled by gas from off-shore gas reserves (Kudu gas field) got a boost at the end of 2008 when the South African power utility joined the consortium after it shelved a plan to construct a second nuclear reactor. It is planned to build a 400 MW power plant and to export additional gas to South Africa.

Government activities, wholesale and retail trade, real estate and business services dominate the tertiary sector. Wholesale and retail trade showed strong growth between 2004 and 2007, averaging at 8.4 per cent per year. In 2008, growth slowed down due to high food and fuel prices, which caused a lower disposable income. Rising unemployment is expected to weaken the sector further in 2009.

Tourism is Namibia's third largest foreign exchange earner. It generates about 78 000 jobs. The number of tourists rose by 11 per cent in 2007. Seven per cent more tourists were expected to arrive in 2008 although the forecast for 2009 looks bleak especially in the lower end of the market segment, due to the global recession. A number of new up-market hotels are under construction to cater for the growing number of tourists. Although tourism is expected to rise again in 2010 when Angola hosts the African Cup of Nations and South Africa hosts the World Cup, this will only benefit the industry slightly since Namibia's limited hotel capacity can only cater to a certain number of foreign visitors at a time.

Over the past decade, the transportation and communication sectors have shown double-digit growth for most of the past decade. The cost of petrol and diesel rose by 46 per cent and 75 per cent between July 2007 and July 2008, which took its toll on the transportation sector. By the second half of 2008, petrol and diesel prices had gone down by roughly 34 per cent and 28 per cent. However, Namibia has not reaped the full benefits of declining world-market prices, because the value of the Namibian dollar (NAD) declined against the US dollar (USD).

The 2008 global economic crisis has had a subdued effect on Namibia's financial sector due to strict exchange controls. Nevertheless, the Namibian stock index dropped 44 per cent between January and the start of December 2008. A decline in share prices has adversely affected pension funds. While commercial banks revealed strong results during 2008, mortgage and commercial loans showed lower growth. Although financial institutions are required to invest 5 per cent of their portfolio in unlisted companies to boost small and medium enterprises, there are concerns about their absorptive capacity.

Overall, real GDP is predicted to grow by 2.7 per cent in 2009, before rebounding to 3.1 per cent in 2010. Gross fixed capital formation grew at a remarkable rate in 2008. Private investment, primarily in new mining deposits and telecommunications increased. Public investment – mainly in electricity, road and railway infrastructure – also increased markedly by 9 per cent. Annual growth in gross capital formation is expected to remain high at 8.4 per cent in 2009 and 9.8 per cent in 2010 due primarily to private investment. Fiscal stimulus, which boosted government consumption in 2008, is set to continue in 2009 and at a slower rate

Table 1 – **Demand Composition**

	Percentage of GDP (current prices)		Percentage changes, volume			Contribution to real GDP growth		
	2000	2007	2008(e)	2009(p)	2010(p)	2008(e)	2009(p)	2010(p)
Gross capital formation	**17.1**	**20.9**	**13.0**	**8.4**	**9.8**	**3.0**	**2.1**	**2.6**
Public	5.1	6.9	9.0	6.0	6.0	0.7	0.5	0.5
Private	12.0	14.0	15.0	9.5	11.5	2.3	1.6	2.1
Consumption	**86.6**	**80.9**	**6.6**	**6.4**	**3.7**	**5.5**	**5.5**	**3.3**
Public	23.5	19.2	8.2	7.7	3.6	1.6	1.6	0.8
Private	63.1	61.8	6.1	6.0	3.8	3.9	3.9	2.6
External demand	**-3.7**	**-1.9**				**-5.0**	**-4.9**	**-2.8**
Exports	40.9	47.9	-2.2	-3.5	2.5	-1.2	-1.7	1.2
Imports	-44.6	-49.7	6.7	5.2	6.4	-3.9	-3.1	-3.9
Real GDP growth						**3.4**	**2.7**	**3.1**

Source: Central Bureau of Statistics data; estimates (e) and projections (p) based on authors' calculations.

StatLink http://dx.doi.org/10.1787/576078886262

in 2010. The government increased the monthly old-age grant – which benefits roughly 150 000 pensioners by 22 per cent in 2008 and agreed to salary increments for public servants of 13 per cent each in 2009 and 2010, thus supporting private consumption. Exports fell in 2008. They are expected to remain weak in 2009 and 2010 due to the world recession, as the external sector continues to pull down aggregate demand.

Macroeconomic Policy

In 2008, the Namibian government launched a medium – term economic plan, the Third National Development Plan (NDP3). It covers the period 2008 to 2012 and aims to transform Namibia into an industrialised nation by 2030. Due to global recession, the NDP3 estimated growth of roughly 6 per cent per annum is unlikely to be met.

As in previous years, Namibia received a Fitch Sovereign Rating of BBB- in 2008, indicating prudent macroeconomic policies.

Fiscal Policy

The government has a three – year medium-term expenditure framework. In 2008 ministries published reports on the budget's implementation and performance in a bid to make officials more accountable and transparent. This move encouraged an output – oriented budgeting system as opposed to an input – oriented system.

In recent years, Namibia has achieved its fiscal target of a budget deficit below 3 per cent and a 25 per cent debt to GDP. The overall balance is still expected to fall from a surplus of 0.9 per cent in 2007/08 to a deficit of 3.6 per cent in 2008/09 and a deficit of 3.4 per cent in 2009/10. This is due to a slump in economic activity, an increased wage bill and forthcoming elections in November 2009.

Last year, transfers from the Southern Africa Customs Union revenue pool increased to 41 per cent of total government revenue amidst strong growth of imports into Southern Africa. However, reduced imports due to the economic slowdown, cancellation and delays of investment, as well as trade liberalisation agreements such as the Economic Partnership Agreement with the EU pose threats to the fiscal balance. In order to increase revenue, the government continued forensic audits of companies and introduced taxes on income earned from unit trusts, including withholding tax on interest earned. This came into effect on 1 March 2009.

In response to soaring food prices, in September 2008, the government reduced the 15 per cent Value

Table 2 - **Public Finances** (percentage of GDP at current prices)

	2000/01	2005/06	2006/07	2007/08	2008/09(e)	2009/10(p)	2010/11(p)
Total revenue and grants[a]	**29.6**	**27.2**	**31.5**	**28.9**	**27.3**	**27.8**	**31.4**
Tax revenue	27.0	24.9	28.4	26.8	25.2	26.0	29.8
Grants	0.0	0.1	0.1	0.3	0.3	0.3	0.2
Total expenditure and net lending[a]	**31.1**	**27.4**	**27.3**	**28.0**	**30.9**	**31.2**	**30.3**
Current expenditure	27.3	24.0	22.2	21.9	24.5	25.5	25.4
Excluding interest	*25.4*	*21.5*	*19.9*	*20.1*	*22.8*	*23.8*	*23.9*
Wages and salaries	14.2	12.2	11.1	10.6	10.6	10.9	11.4
Interest	1.8	2.5	2.3	1.8	1.8	1.7	1.5
Capital expenditure	3.4	3.0	3.6	4.1	4.7	4.9	4.8
Primary balance	**0.3**	**2.3**	**6.4**	**2.7**	**-1.9**	**-1.7**	**2.6**
Overall balance	**-1.5**	**-0.2**	**4.1**	**0.9**	**-3.6**	**-3.4**	**1.1**

a. Only major items are reported.
Source: Ministry of Finance; estimates (e) and projections (p) based on authors' calculations.

StatLink http://dx.doi.org/10.1787/577512013570

Added Tax (VAT) on staple foods to 0 per cent. This measure is expected to reduce the government's revenue by NAD 34 million. To cushion oil price fluctuations, the government uses the National Energy Fund. Petrol and diesel prices are only adjusted on a monthly or even on a longer basis. During the first half of 2008 the fund incurred large deficits because of increasing oil prices. However, these deficits were levelled out during the second half of 2008 when oil prices dropped significantly, while petrol and diesel prices were reduced only with a time lag. The prices set by government aim to stabilise transport costs and to cross-subsidise remote areas.

In 2008, government spending grew sharply at a rate of 21.6 per cent due to increased social transfers and infrastructure costs. The government increased pensions from NAD 370 to NAD 450 per month. It increased the War Veteran Allowance to NAD 2 000, which will come into effect in April 2009. All orphans and vulnerable children will also receive state grants in 2009/10. In February 2009, the government increased civil servants' salaries by about 12 per cent for 2009 and 2010 each to make up for their non – inflation adjusted income over the past five years. Investing more in infrastructure and development projects such as the Green Scheme will boost capital expenditure.

Monetary Policy

The value of the NAD fell sharply against major currencies and made a partial recovery towards the end of 2008. By December, the NAD had dropped by 50 per cent against the US dollar and by 30 per cent against the Euro. Although this protected the lower cost of commodities in local currency and benefited exports, it did raise import prices.

Inflation rose steadily from 7.8 per cent in January 2008 to 12 per cent in January 2009. Rising food prices, soaring fuel costs in the first half of 2008 and the weakening NAD accelerated the rise of inflation. Inflation is expected to decline in 2009 as oil prices fall and food prices rise at a slower rate.

Namibia is a member of the Common Monetary Area (CMA) alongside South Africa, Lesotho and Swaziland. South Africa dominates the CMAs monetary policies. Nevertheless, the Bank of Namibia maintained a repurchase rate of 10.5 per cent until December 2008. In 2008, the South African Reserve Bank increased the repurchase rate by 100 basis points in order to contain inflation within the band of 3 to 6 per cent. By the end of 2008, both central banks had cut interest rates by 50 basis points and in February 2009 by an additional 100 basis points. Despite the 150 basis point difference between the repurchase rates of Namibia and South Africa since June 2008, Namibia's foreign exchange reserves remained very healthy and cover imports for at least 20 weeks. A cut in interest rates within Namibia's central bank and its commercial banks is expected to boost economic activity.

External Position

Namibia is a member of the Southern Africa Customs Union (SACU) and the Southern Africa

Table 3 - **Current Account** (percentage of GDP at current prices)

	2000	2005	2006	2007	2008(e)	2009(p)	2010(p)
Trade balance	0.2	-3.7	1.2	5.2	-11.4	-13.7	-13.6
Exports of goods (f.o.b.)	33.8	28.5	33.2	33.5	34.3	30.3	28.3
Imports of goods (f.o.b.)	33.5	32.1	32.0	28.3	45.7	44.0	41.9
Services	-2.7	0.6	1.2	1.0	0.6	1.0	1.2
Factor income	0.9	-0.2	-0.4	0.3	0.3	0.4	0.4
Current transfers	11.1	9.2	11.9	11.5	14.1	15.0	13.4
Current account balance	**9.5**	**6.0**	**13.9**	**18.0**	**3.6**	**2.7**	**1.4**

Source: Central Bureau of Statistics data; estimates (e) and projections (p) based on authors' calculations.

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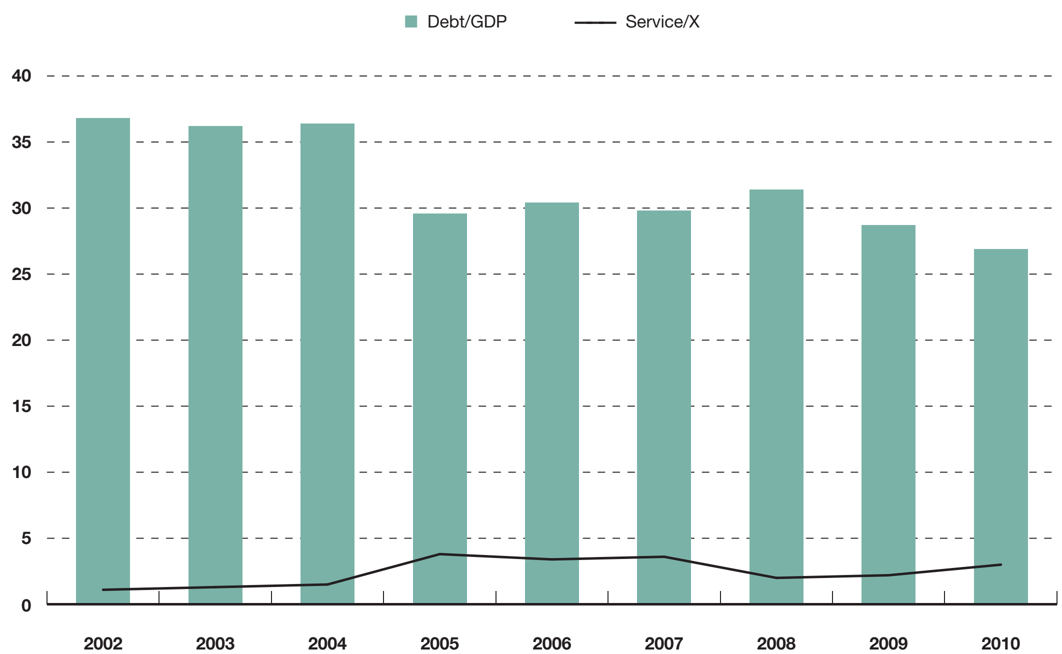
Development Community (SADC). It dropped out of the Common Market for Eastern and Southern Africa (COMESA) a few years ago. In 2007 Namibia participated in the SADC Economic Partnership Agreement (EPA) negotiations with the European Union and agreed to an interim agreement. SACU – led negotiations on a final EPA were still underway in 2009 without South Africa. Namibia gained quota-free, duty-free access to the EU market but will have to grant European producers reciprocity over time. This is expected to increase domestic competition and to reduce transfers from the SACU common revenue pool. The SADC Free Trade Area (FTA) was launched in August 2008. COMESA, the East African Community (EAC) and SADC are working towards an FTA. However, critics are sceptical as to whether or not the FTA could resolve any outstanding issues SADC and/or COMESA could not yet solve, in particular the issue of overlapping memberships – countries belonging to more than one regional bloc. COMESA postponed launching its Customs Union until 2009 easing pressure off SADC countries to join a particular customs union.

Rising oil prices in 2008 led to a dramatic trade deficit. Although oil prices dropped during the second half of 2008, the weakened NAD increased import prices. The decline in mineral prices and output decreased exports and contributed to a larger trade deficit. As a result, the current account surplus declined from 18 per cent of GDP in 2007 to 3.6 per cent in 2008. It is expected to decline to 1.4 per cent by 2010. The capital account continued to show a deficit at the end of 2008, albeit at a much lower rate.

Between 2001 and 2007 the sum of external debt rose only slightly to NAD 6.78 billion. Private sector debt declined by 31 per cent. Central government and parastatal debt rose by 19 and 33 per cent. Central government accounts for about 50 per cent of external debt, signalling an upward trend compared to previous years. Government debt service declined while private

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



Source: IMF.

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sector debt service more than doubled. The debt service to exports ratio rose to 19.6 per cent by the end of September 2008, up from less than 12.0 per cent in 2007, due to a drop in exports and a substantial increase in debt servicing. The total stocks of international reserves were estimated at NAD 12 billion by the end of 2008, up considerably compared to previous years. This equals an import cover of about 20 weeks.

Structural Issues

Private Sector Development

In March 2008, Namibia announced The Competition Act. This is expected to be up and running in early 2009, once the commission's secretary general has been appointed. Namibia is finalising the overall policy framework to develop the private sector – the Private Sector Development Policy. This includes industrial, small and medium enterprises and, trade policies.

The Namibian government plans to carry out a survey of the country's micro and small enterprises in order to identity their needs and to fund them. The government gave the Development Bank of Namibia NAD 300 million to finance small-scale national projects. It also wants to gather data on and eventually boost productivity levels. The Namibian Bureau of Standards, which continues to rely on the South Africa Bureau of Standards, wants to strengthen the private sector's competitiveness especially small businesses that generate new export opportunities.

The government also wants to ensure that the public sector is productive and efficient by setting up the Namibia Institute of Public Administration and Management. This comes partly in response to the Global Competitiveness Report's (GCR) recent criticism of the country's good governance. Subsequently the government urged state-owned enterprises (SOEs) to be more transparent and accountable about their spending. It has also encouraged them to contribute to good governance by securing funds in the international financial market. The government has not taken steps recently to commercialise or privatise SOEs.

Overall Namibia ranked 80 out of 134 countries and fourth in Sub-Saharan Africa in a recent GCR survey, scoring well in infrastructure, macroeconomic stability and institutions, but poorly in education and health.

The country's financial sector survived the global economic crisis largely due to regulations that protected the sector from international markets.

Other Recent Developments

To reduce the effects of rising food prices and climate change the government has taken certain measures including irrigation farming, food assistance, providing storage space for staple foods such as maize and securing private land ownership. The government has also reduced imports of staple foods and horticultural products in favour of home grown produce and the country's own agricultural potential. It allocated NAD 6.8 million over 2008/09 to subsidise seeds, fertilisers, ploughing and weeding for farmers working in arid crop regions. The Agricultural Bank provides the private sector with a significant amount of money for agricultural projects. In 2008, the Namibian government and the African Development Bank gave the Agricultural Bank NAD 350 million. Although high food prices did have an adverse effect on growth in 2008, Namibia was affected less than other countries due to a long-term pricing agreement between producers and maize – a staple food – grinders.

As Sub -Saharan Africa's driest country, Namibia relies substantially on natural resource extraction. Environmentally friendly tourism and natural resource extraction are crucial long-term challenges. Population growth has lead to soil erosion and bush encroachment due mainly to overgrazing/overstocking. A growing mining industry has made scarce water supplies worse.

Innovation and ICT

State – run Namibia Post and Telecom Holdings (NPTH) owns Telecom Namibia – the country's only fixed-line operator. NPTH is also a majority shareholder in Mobile Telecommunications Ltd. (MTC), which was awarded a mobile telecommunication licence in 1996. Portugal Telecom has owned 34 per cent of MTC since July 2006. In the same year, CellOne – which was bought by Telecel Globe in January 2009, was awarded a second mobile license.

Fixed-line penetration has been stagnant with a marginal increase between 2004 and 2007 to 6.7 telephone lines per 100 people. Mobile teledensity has increased exponentially from 14.2 subscribers per 100 people in 2004 to 38.6 in 2007, in spite of high costs that averaged 25.3 per cent of monthly disposable income.

MTC and CellOne use Global Systems for Mobile communication (GSM) to provide mobile telephony while Telecom Namibia uses Code Division Multiple Access (CDMA). End-users internet access is available in the form of modem-dial-up, ISDN, ADSL, leased lines, WiFi hotspots, line of sight wireless and mobile 3G or CDMA. However, usage only increased slightly between 2004 and 2007, from 3.7 users per 100 people to 4.9, due to access and usage cost, and a majority of users continue to connect through a modem or ISDN dial-up (60.4 per cent). Telecom Namibia provides the country with International bandwidth through the SAT3 via the Cape Town landing point and satellite. Namibia is a non-landing consortium member of SAT3, though efforts are underway to establish an own-landing point for SAT3. VSAT used by MTC and Mweb, among others, provide additional bandwidth, with further international bandwidth obtained by ISPs leasing line capacity to South Africa.

Liberalising the market has put pressure on both mobile telephony profits and prices. Since VAT was imposed on prepaid airtime in February 2008 and passed on by MTC and CellOne to their customers, prepaid phone users have declined by 16 per cent. VAT is charged for telecommunication hardware, prepaid and non-residential post-paid services. Telecom Namibia chose to absorb VAT costs. In a bid to boost its market share – which is currently 20 per cent of the mobile market – CellOne has opted to reduce its prices. An inadequate regulatory environment and high interconnection rates have made this difficult. SACU import taxes on telecommunication hardware, which are up to 10 per cent depending on the country of origin and item, have also affected prices.

Telecom Namibia provides the cheapest products whereas CellOne is more competitive for low volume users. MTC targets the higher end of the market and its profit margins have been much higher than Telecom Namibia's. Since 2004, profit margins for both companies have decreased. The launch of Telecom Namibia's Switch mobile phone was hampered after CellOne and MTC objected to Telecom Namibia competing in the mobile segment, restricting it to a fixed wireless service.

The Namibian Communications Commission (NCC), which came into effect in 1992, is a state funded segment of the Ministry of Information and Communication Technology. The NCC is expected to become an independent regulator for the entire ICT sector once a draft telecommunications bill is passed. Thereafter, it will be able to collect licence fees to fund its own operation and the universal service fund. New ICT policies on broadcasting, telecommunication, IT and licensing were drafted in 2008 although they only mention universal access vaguely. The NCC will be left in charge of defining concrete objectives and design strategies to attain them once it becomes an independent regulator. In the meantime, Telecom Namibia has a statutory licence, not a statutory monopoly and remains *de facto* and unregulated.

An effective regulatory environment is crucial to reap the socio-economic benefits of ICTs. The next step is to pass the long-stalled telecommunications act. The government only gave its verbal approval in 2008, which in turn has prevented investment and increased competition.

Political Context

Namibia gained independence from South Africa in 1990. Since then four parliamentary elections have been held with competing political parties. A fifth parliamentary election is due to take place in November

2009. The ruling party – The South West Africa Peoples' Organisation (SWAPO) – has a two third majority in parliament. The opposition has disintegrated with members defecting to join/form splinter groups. The Rally for Democracy and Progress (RDP), created in November 2007 by former high-ranking SWAPO members poses some threat to the government. Former foreign minister Hidipo Hamutenya became leader of the RDP in late 2008, four years after he was sacked from government.

President Hifikepunye Pohamba has been determined to stamp out corruption since he took power in 2005. In February 2006 the government set up an anti corruption commission. The number of reported corruption cases rose from 92 by 2006 to 240 by March 2007. Nonetheless, Namibia continues to be one of the better governed and least corrupt countries in Africa. The Transparency International corruption perception index showed that Namibia scored 4.5 in 2008 and 2007 despite dropping from 57 to 61 in world rankings. In 2008 the Ibrahim Index of African Governance ranked Namibia sixth out of 48 Sub – Saharan countries.

Growing political unrest and violence has marred the lead up to forthcoming regional and presidential elections due to take place in mid and late 2009. SWAPO supporters have disrupted RDP public rallies. In October 2008 a new local authority was elected for Omuthiya in Northern Namibia after being delayed twice when different political parties disputed over voter registration. Although SWAPO retained a majority, RDP did – for the first time – take part in these elections.

Social Context and Human Resources Development

The government's second progress report on achieving the Millennium Development Goals (MDGs) will be released in early 2009. Gender-related targets are on schedule but progress on health is lagging.

Namibia is one of the most unequal societies in the world. Income distribution improved in 2004 as the Gini index fell from 0.7 in 1994 to 0.6 in 2004. In 2008 Namibia introduced the Cost of Basic Needs (CBN) approach to measure poverty. Households were defined as poor and severely poor if adult consumption levels were below NAD 265.24 and NAD 184.56 respectively. Poverty used to be defined by the food consumption ratio: people who spent 60 per cent or more of total consumption on food were considered poor, while people who spent more than 80 per cent on food were considered severely poor. According to the food consumption ratio measures, the percentage of poor people has declined from 38 per cent in 1994 to 28 per cent in 2004, while the proportion of severely poor people has gone down from 9 per cent to 4 per cent. According to the CBN approach poverty stands at about 28 per cent, while the proportion of severely poor households is 14 per cent. Poverty levels are highest among female-headed households in rural areas with one or more children. Child poverty in Namibia is rife, almost one in five children under the age of five is severely malnourished. However, the number of malnourished children has declined from about 28 per cent to 24 per cent. Namibia is unlikely to eradicate extreme poverty and hunger by 2015.

The government invested 25 per cent of its budget in 2008/09 on education, which is considered a priority. Primary enrolment rates and youth literacy rates remain at 83.8 per cent and 92.7 per cent respectively. The level of education among learners and teachers was considerably lower than in neighbouring countries. Dropout and repetition rates are high. 94 per cent of pupils make it to fifth grade while 81 per cent reach eighth grade. Regional disparities in survival and literacy rates as well as school facilities are huge. Namibia has made some progress towards achieving universal primary education.

87.4 per cent of females are literate as opposed to 88.6 per cent of males. In primary education there are 98 females per 100 males, in secondary education there are 117 females per 100 males, while in tertiary education there are 88 females per 100 males. Nonetheless, women are under-represented in professional jobs and in higher – level positions.

Gender-based violence and discrimination are significant hindrances to women's empowerment.

HIV/AIDS are a major obstacle to development in Namibia. An estimated 200 000 people – 60 per cent of whom are women – are living with HIV. The HIV prevalence rate among pregnant women fell from 19.9 per cent in 2006 to 17.8 per cent in 2008. According to national sources, the infection has reduced life expectancy significantly from 61 years in 1991 to 43 years in 2000 and left about 66 000 children orphaned. The proportion of advanced HIV sufferers with access to anti retroviral treatment (ART) rose from 3 per cent in 2003 to 66 per cent in 2006, increasing the number of people living with HIV. In 2009 the national budget financed the treatment of 65 000 infected people.

Although the child mortality rate for children below the age of five had fallen over the past decade, HIV/AIDS might now change this. Between 2000 and 2008, infant and child mortality rates have decreased from 37 to 34.4 and 62 to 50 respectively per 1 000 live births. Immunisation against preventable diseases has also improved. Eighty four per cent of one-year-old children are immunised against measles while 70 per cent of children are immunised against all preventable diseases. Conversely, maternal mortality has increased from 271 in 2000 to 449 in 2006 per 100 000 births. This is largely due to HIV/AIDS and despite an increase in the number of medical staff during births. Since Namibia is a large and sparsely populated country, distance and very few rural medical staff prevent people from receiving medical care in time. Achieving the MDGs for child mortality and maternal health by 2015 remains a challenge.

Tuberculosis (TB) cases decreased from 822 per 100 000 in 2004 to 15 205 in 2007. Simultaneously the success rate of TB treatments rose from 70 per cent to 76 per cent. Malaria incidences fell from 238 in 2000 to 48 per 100 000 in 2007. In Namibia malaria is a seasonal infection, which mainly affects the northern parts of the country where roughly 60 per cent of the population lives.

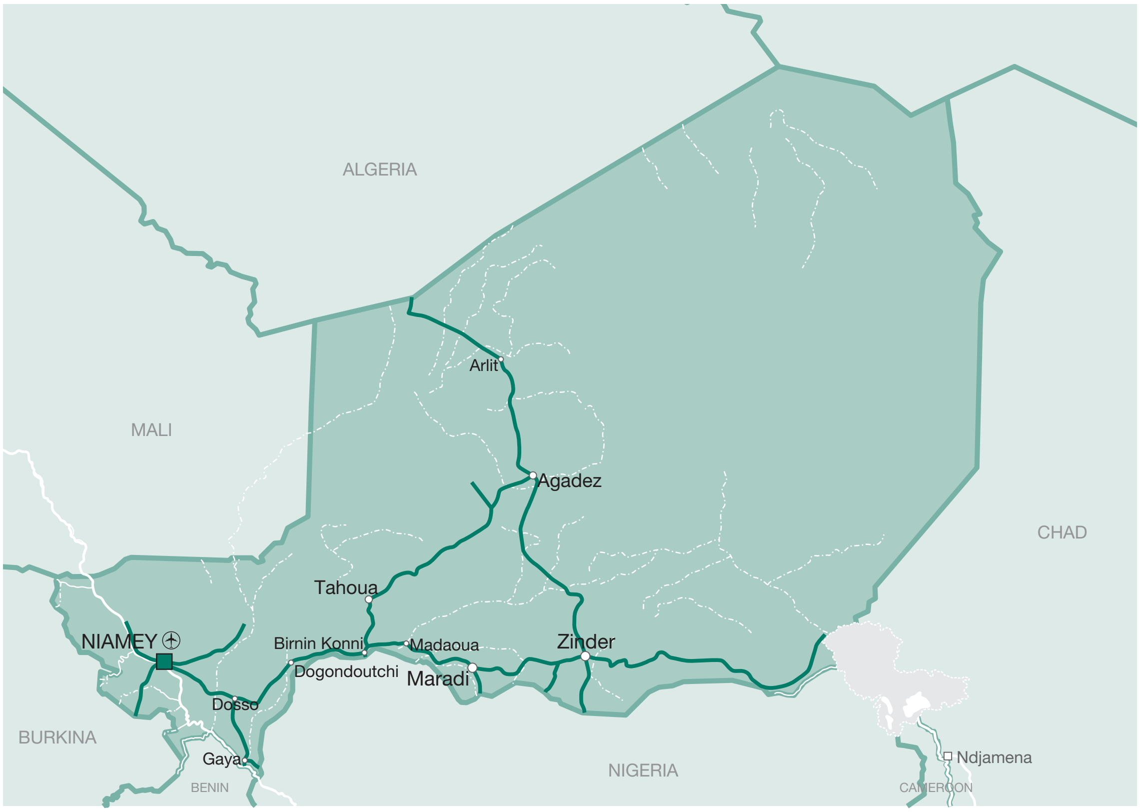
Unemployment remains high at 21.9 per cent while there is a shortage of skilled labour. Most unemployed people have only completed secondary education. The labour market mismatch is also manifested in large wage differentials between skilled and unskilled workers. *The 2008/09 Global Competitiveness Report* identified that restrictive labour regulations, poor work ethics, and a lack of skills had prevented competitiveness in Namibia. Furthermore, the capital intensity of the growing mining sector and a decline in agricultural labour contributed to unemployment. The new labour act prohibits temporary employment agencies and transient workers. The country's largest temporary employment agency challenged this clause in court in 2008. The court ruled in favour of the government, urging these companies to shut down by 1 March 2009.

Niger

key figures

- Land area, thousands of km^2: 1 267
- Population, thousands (2008): 14 704
- GDP per capita, PPP valuation, USD (2008): 628
- Life expectancy (2008): 51.4
- Illiteracy rate (2008): 70

Niger



Airport
Main Road

National Capital (915 000 In. 2007)
over 100 000
over 40 000
over 20 000

0 km 70 140 210 km

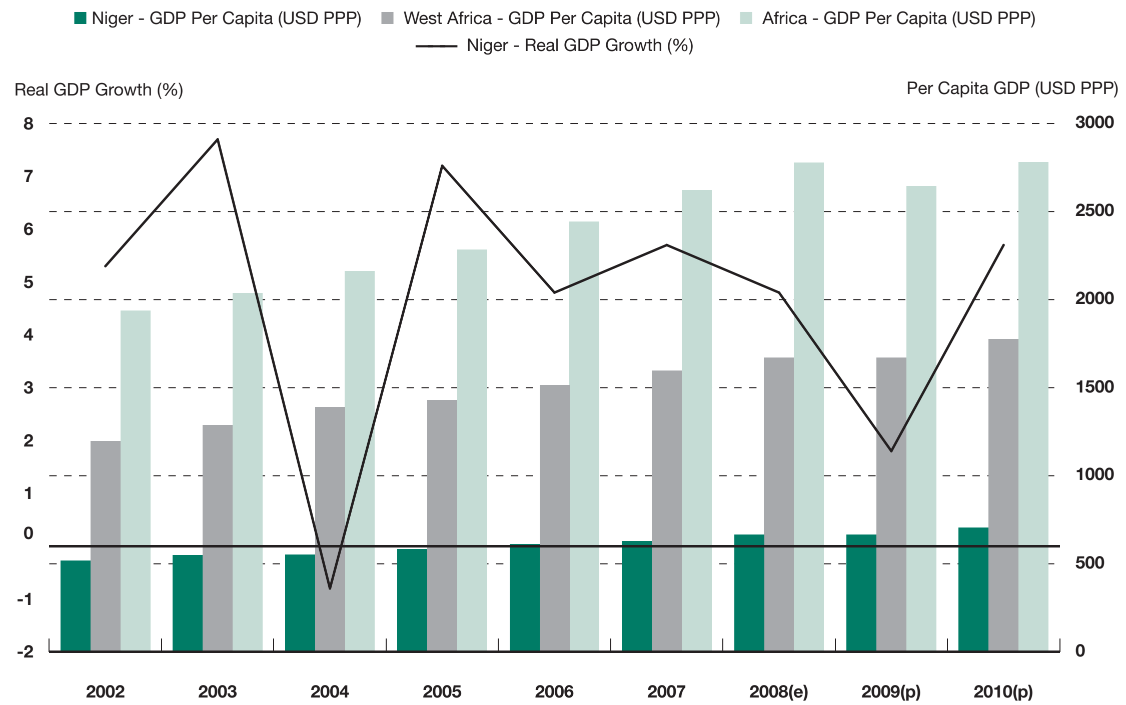
ECONOMIC GROWTH SHOULD CONTRACT significantly in 2008, to 4.8 per cent, as against 5.7 per cent in 2007. This rate is below the level recorded during the previous three years (5.9 per cent), primarily due to falling mining production, particularly uranium extraction.

As in 2008, economic growth in Niger in 2009 and 2010 is expected to be driven by agriculture. The uranium sector should become increasingly important as French and Chinese companies have committed to developing new mines. The impact on growth of these new projects should however be attenuated by the decline in global demand for raw materials. Indeed, the financial crisis that broke out during the second half of 2008 has begun to make the international prices of these products decline, including for uranium. As a result, growth is projected to slow down to 1.8 per cent in 2009 and then rise again to 5.7 per cent in 2010.

The crisis is undermining growth despite a large increase in general budgetary support.

Inflation in Niamey, as measured by the Harmonised Index of Consumer Prices (HICP), was estimated at 10.9 per cent in 2008. The global food crisis, combined with poor availability of local products, explains largely why prices skyrocketed during the first semester of 2008. In the second semester, slower price increases for food and oil products on the world markets somewhat curbed the

Figure 1 - **Real GDP Growth and Per Capita GDP**
(USD/PPP at current prices)



Source: IMF and National Statistics Institute data; estimates (e) and projections (p) based on authors' calculations.

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rise of prices in Niger. The annual inflation of food products remained too high, however, reaching a rate of 20.5 per cent. This should change in 2009, thanks to the good harvest of 2008 and a lesser inflationary pressure on world food and energy prices. Inflation should thus slow down to 4.1 per cent in 2009 and 4.3 per cent in 2010, even if the expected fall in oil and food prices will be dampened in part by a rise in imported inflation, due to the weakness of the euro to which the CFA franc is pegged.

Recent Economic Developments

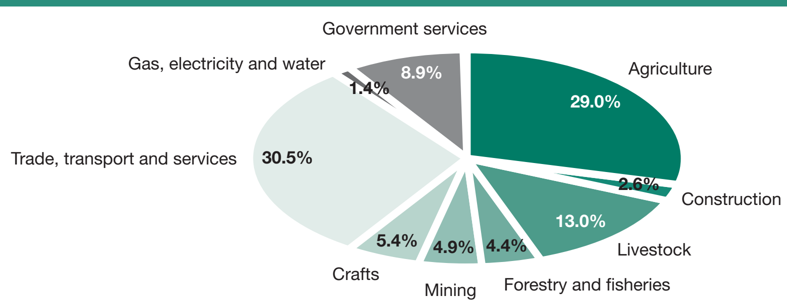
According to estimates, the primary sector, which accounted for 47.3 per cent of GDP in 2008, will post 8.6 per cent growth in 2008 as against 4 per cent in 2007. This situation is primarily the result of good rainfall recorded throughout the country's agricultural zones and the expected effects of irrigation programmes, notably in small-scale irrigation and hydro-agricultural projects. By 30 September 2008, cumulated rainfall had varied between 350 and 780 millimetres, which is 62 per cent more than the 1971-2000 interannual average. The 2008 harvest recorded cereal production (millet, maize, sorghum and fonio) of 4.626 million tonnes, versus 3.369 million tonnes in 2007, a 37 per cent increase.

Niger is essentially a pastoral country in which livestock plays an important role in the rural and national economies. Its contribution to GDP was nearly 13 per cent in 2008. The sector grew by 4.2 per cent in 2008, driven by the agricultural sector and the abundance of livestock feed. The data indicates similar performances for forestry, with a 3.4 per cent growth rate, and for fishing, with a growth rate of 4.1 per cent.

The secondary sector is the weak link of Niger's economy. It accounts for just 14.2 per cent of GDP, and more than 47 per cent of it is informal. Mining activities, particularly for uranium, account for more than one-third of its added value. In 2008, the sector should experience a light recovery with a growth rate of 0.9 per cent, compared with a fall of 1.1 per cent in 2007. This development is due to an upturn in energy production and to a dynamic construction sector, which grew respectively by 9.5 per cent (versus 3.3 per cent in 2007) and by 5.9 per cent (versus 3.1 per cent in 2007). Despite the uranium prices, mining production should decline in volume again in 2008 (-7.3 per cent in 2008 and -7.2 per cent in 2007), thus weakening the growth of the secondary sector. The rise in added value of manufacturing activities is estimated at 3.9 per cent, as against 2.3 per cent in 2007, linked to the good performances of the food and chemical industries. Niger expects to begin extracting oil in 2009.

The tertiary sector accounted for 40.4 per cent of GDP in 2008 and recorded real growth of 4.6 per cent in 2008, versus 3.9 per cent in 2007. This result is attributable, notably, to the expected performance of

Figure 2 - **GDP by Sector in 2008** (percentage)



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

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Table 1 – **Demand Composition**

	Percentage of GDP (current prices)		Percentage changes, volume			Contribution to real GDP growth		
	2000	2007	2008(e)	2009(p)	2010(p)	2008(e)	2009(p)	2010(p)
Gross capital formation	**13.9**	**25.2**	**4.6**	**4.2**	**4.3**	**1.3**	**1.2**	**1.2**
Public	4.3	7.3	6.0	6.0	6.1	0.5	0.5	0.5
Private	9.6	17.9	4.0	3.5	3.5	0.8	0.7	0.7
Consumption	**94.2**	**89.1**	**7.1**	**2.8**	**5.6**	**6.8**	**2.7**	**5.6**
Public	19.0	17.2	5.0	4.7	4.4	0.9	0.9	0.8
Private	75.2	71.9	7.6	2.3	5.9	5.9	1.9	4.8
External demand	**-8.1**	**-14.3**				**-3.4**	**-2.2**	**-1.1**
Exports	19.2	19.0	1.4	-11.1	14.5	0.2	-1.9	2.1
Imports	-27.3	-33.4	8.6	0.6	7.5	-3.6	-0.3	-3.2
Real GDP growth						**4.8**	**1.8**	**5.7**

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

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transport (4.9 per cent) and communications (6 per cent) activities. The weight of the informal sector in the tertiary sector is estimated to represent 85.6 per cent of added value in 2008.

Overall, according to estimations, the contributions to GDP growth of the primary, secondary and tertiary sectors in 2008 should settle at 3.2 percentage points, 0.1 percentage point and 1.5 percentage point, respectively. The structure of GDP remains marked by the predominance of the informal sector, including in agriculture. It was estimated to grow by 6.7 per cent in 2008, to account for 74.2 per cent of GDP.

The growth of demand was driven by a sharp rise in consumption, estimated to reach 7.1 per cent in 2008. Private consumption remains the largest component of GDP entries, accounting for 71.9 per cent in 2007. This is not conducive to mobilising sufficient savings to finance productive investments. In 2008, private consumption should grow by 7.6 per cent, compared with 4.8 per cent in 2007. Niger's households consume mainly cereals and energy (firewood in particular). Public consumption continued to accelerate, with an estimated rise of 5 per cent in 2008 from 20.2 per cent of GDP in 2007, in line with an increase in capital expenditure.

In terms of investments, there was a more modest rise, both for the private sector (with a growth rate of 4 per cent in 2008) and for the public sector (with 6 per cent growth). These increases are attributable to: the rise in public expenditure committed in 2007 to equipment and continuing investments in the fields of mining research – uranium and oil in particular – energy and communications.

In 2008, foreign trade was characterised by an 8.6 per cent increase in imports, which represented 21.7 per cent of GDP. This development is linked to growing needs for capital goods and the 1.4 per cent increase in exports – of uranium and agro-pastoral products – which accounted for 13.6 per cent of GDP. This growth resulted in a fall in the coverage rate of imports by exports, which came in at 62.7 per cent in 2008, as against 82.1 per cent in 2007. The trend will continue in 2009 and 2010, when exports are projected to fall to an average of 11 per cent of GDP. This will be accompanied by a stagnation in imports.

Overall, the contributions to real GDP growth of consumption, investment, exports and imports should be 6.8, 1.3, 0.2 and -3.6 percentage points, respectively. The commercial balance was in deficit in 2008, deteriorating from XOF 104 700 million in 2007 to

XOF 154 900 million in 2008. Imports of oil products in 2008 accounted for 23.8 per cent of all imports and increased by 41.6 per cent from the previous year. The year 2008 was also marked by an increase in food prices, which represented 16.2 per cent of Niger's imports. This corresponds to a 19.4 per cent rise in their value as compared with 2007.

Macroeconomic Policies

Fiscal Policy

The priority of the initial budget for 2008 was to allocate an additional XOF 78.4 billion (3.6 per cent of GDP) taken from the results of the 2007 fiscal year, which included XOF 15 billion in non-recurring dividends from mining companies, XOF 21 billion from the sale of mining assets and XOF 31 billion from the sale of a telecommunications licence. The government proposed to use these resources to soften the impact of the rise in prices of imported staple goods by removing taxes on them. According to its estimates, these measures led to a capital loss of XOF 12.4 billion. The authorities also planned to allocate the balance of these resources to security and development needs. The budget allowances earmarked for these items were XOF 10 billion and XOF 45 billion, respectively. About XOF 11.1 billion will go towards adjustments in salaries. An 8.5 per cent share of development expenditure, or XOF 7.8 billion, should go to free health services for children and pregnant women. Otherwise, significant amounts were allocated to agricultural and livestock development, for example, to extend irrigated areas, develop land, purchase fertilisers, strengthen Niger's rice, vaccinate animals and work on genetic improvements, etc.

At the end of 2008, Niger benefited from a significant increase in budgetary aid, of around 53.5 per cent, which brought it to 35.2 per cent of total revenue (taxes and grants). Tax revenues increased by 10.5 per cent from the previous year but did not make it possible to increase total budget revenues, which fell, instead, by 4.2 per cent and non-tax receipts, which had been exceptional in 2007, declined significantly in 2008. The amending finance law of 2 June 2008 adjusted the projected customs revenues to a lower expectation after adoption of the measure to suspend import duties and taxes on rice and milk, and of the 17 per cent reduction of the taxable value of sugar and wheat flour.

Expenditure, particularly capital expenditure, increased to XOF 253.4 billion, representing a growth rate of 22.6 per cent. Capital expenditure accounted for 47.2 per cent of total expenditure and 10.1 per

Table 2 - **Public Finances** (percentage of GDP at current prices)

	2000	2005	2006	2007	2008(e)	2009(p)	2010(p)
Total revenue and grants[a]	**14.3**	**18.8**	**62.7**	**25.1**	**27.2**	**26.1**	**25.6**
Tax revenue	8.7	10.8	13.2	15.4	15.3	15.5	15.4
Grants	5.0	7.6	47.2	5.9	8.2	6.9	6.3
Total expenditure and net lending[a]	**18.1**	**20.4**	**20.1**	**22.3**	**22.2**	**22.9**	**22.6**
Current expenditure	12.1	9.4	9.3	11.9	12.1	12.1	11.9
Excluding interest	10.3	8.8	9.0	11.6	11.7	11.8	11.6
Wages and salaries	4.4	3.6	3.6	3.6	3.4	3.4	3.3
Interest	1.8	0.6	0.3	0.3	0.3	0.3	0.3
Capital expenditure	6.2	11.0	10.8	10.3	10.1	10.8	10.7
Primary balance	**-2.0**	**-1.0**	**42.9**	**3.1**	**5.4**	**3.5**	**3.3**
Overall balance	**-3.8**	**-1.6**	**42.6**	**2.8**	**5.1**	**3.2**	**3.0**

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

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cent of GDP. The overall 2008 primary budget balance stood at 5.4 per cent of GDP, as compared with 3.1 per cent in 2007. The overall balance is expected to deteriorate in 2009 and 2010, at 3.2 per cent and 3 per cent of GDP, respectively. The primary cause for this is the increase in expenditure and the fall in foreign aid due to the worldwide financial crisis.

Investment expenditure on foreign financing came to XOF 153.6 billion in 2008, primarily to finance national research agencies. This accounts for 60.6 per cent of all expenditure in this category, the rest being largely financed by drawing on credit lines. Investment expenditure thus relies largely on foreign resources for its financing, a situation that presents a risk for the sustainability of the government's non-controlled expenditure. This risk will be even greater in 2009 due to the probable fall in international transfers and aid that will most certainly ensue from the financial crisis.

Monetary Policy

Monetary policy is set by the Central Bank of West African States (CBWAS), the priorities of which are to check inflation and maintain parity between the CFA franc and the euro.

At the start of the second semester of 2008, the net foreign assets in the banking system stood at XOF 331.6 billion, 47.3 per cent more than in December 2007. This rise is primarily due to USD 300 million raised in income with the concession of oil-exploitation rights to the China National Oil and Gas Exploration and Development Corporation. The contribution of other budget support, along with mine, oil and telecommunications taxes, firmed up the net external position of Niger's banking system.

At the end of June 2008, outstanding domestic credit stood at XOF 53.7 billion, a 62.3 per cent increase from the situation at the end of 2007. The main reasons for this increase were improvement of the government's net position by XOF 127.2 billion and a XOF 38.5 billion increase in credits to the economy. This improvement in the government's net position is reflected by an increase in the state's deposits at the Central Bank, which were made possible among others by revenues from mining dividends and from the sale of 100 tonnes of uranium by the national mining company, Société du Patrimoine des Mines du Niger, as well as by non-recurrent oil revenues and budget support. The money supply also expanded by XOF 11.2 billion between December 2007 and the end of June 2008, which represents a 3.1 per cent increase and is the outcome of the consolidation of bank deposits, which rose by 9.3 per cent, and of a 1.1 per cent increase of the currency in circulation.

Inflation grew enormously in 2008 due to the increase in world prices of oil and food products. Its annual rate is estimated at 10.9 per cent, above the CBWAS targets. Otherwise, the price of fuel at the pump remained stable despite the increase in international prices. This was the result of a government decision in January 2008 to freeze prices. Thanks to the good harvest and the fall in world prices, inflation should slow down in 2009 and 2010, to level at 4.1 per cent and 4.3 per cent, respectively.

External Position

Niger's trade balance deteriorated significantly in 2008. It posted a deficit of 8.1 per cent of GDP, as against a 3.8 per cent deficit in 2007. This situation reflects the net increase in imports (8.6 per cent) despite the good performance of export sectors. Furthermore, pessimism prevails in regard to world demand in 2009. Uranium exports are expected to fall, which will further deteriorate the trade balance, expected to reach a deficit of 9.2 per cent of GDP in 2009.

Mining companies had signalled projections for uranium exports of 2 897 tonnes in 2008 (down by 15.7 per cent from 2007) due to the insecurity in the north of the country. Nonetheless, exports actually exceeded the projections, reaching 3 530 tonnes, a 3.2 per cent increase. Other export goods, particularly livestock and onions, experienced sustained growth approaching 5 per cent thanks to the good performance of the agricultural sector. In contrast, the quantities of gold exported are estimated to fall by 9.8 per cent in 2008 according to projections of the Ministry of Mines

Table 3 - **Current Account** (percentage of GDP at current prices)

	2000	2005	2006	2007	2008(e)	2009(p)	2010(p)
Trade balance	-2.9	-8.7	-6.5	-3.8	-8.1	-9.2	-9.2
Exports of goods (f.o.b.)	17.0	13.8	14.4	17.5	13.6	11.5	11.2
Imports of goods (f.o.b.)	19.8	22.5	20.9	21.3	21.7	20.7	20.4
Services	-5.7	-5.8	-6.6	-7.3	-7.4	-7.5	-7.6
Factor income	-1.4	-0.3	0.0	-0.8	-2.3	-2.3	-2.7
Current transfers	4.4	5.5	4.6	4.2	5.1	3.6	3.3
Current account balance	**-5.5**	**-9.3**	**-8.6**	**-7.7**	**-12.8**	**-15.4**	**-16.3**

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

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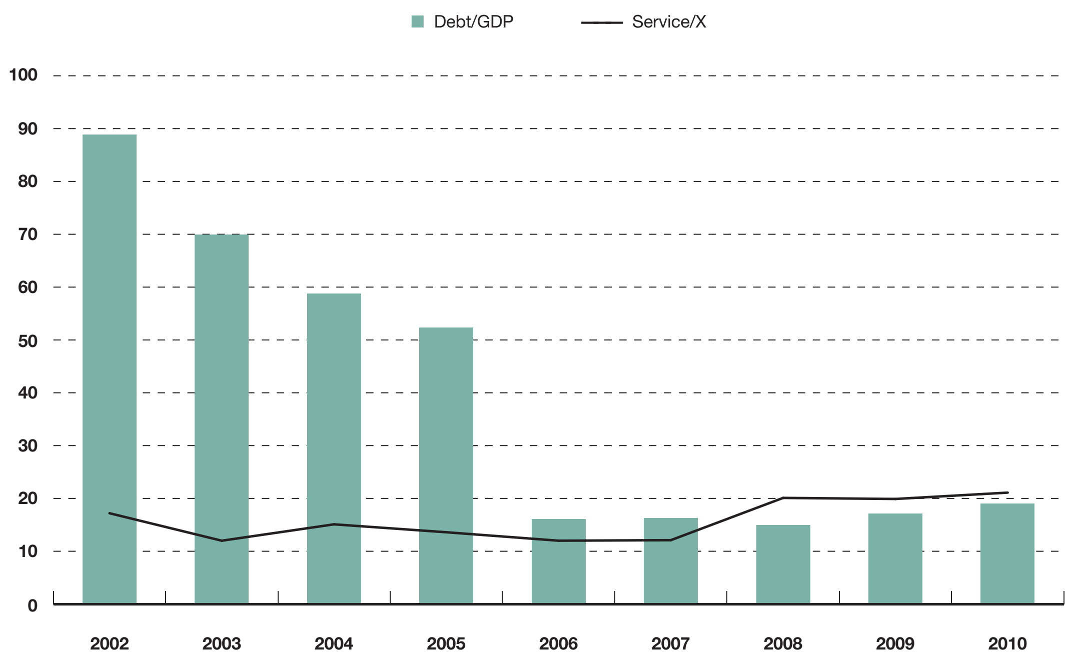
and Energy. While gold exports did not change much in terms of quantity, however, higher world market prices actually produced a 25.4 per cent increase in income.

The rapid growth of imports – 8.6 per cent between 2007 and 2008 – is due to capital goods and oil products. Imports of capital goods increased by 22 per cent, in line with investments in the mining and oil sectors, which reached XOF 54.6 billion in the Imouraren uranium project conducted by the French group Areva, and XOF 38.6 billion in the Société des Mines d'Azelik (Somina) site.

The services balance deteriorated by XOF 34.7 billion (-7.4 per cent of GDP) with a deficit

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



Source: IMF.

StatLink http://dx.doi.org/10.1787/573645207371

of XOF 177.8 billion in 2008. This situation is linked to the increase in the shipping of goods ensuing from the increase in imports, combined with the sharp rise in the price of fuel. Consumption of other external services also experienced a significant increase with the launching of large-scale mining projects, the start of work on the construction of a second bridge in Niamey and the Kandadgi dam.

Current transfers in 2008 recorded a net rise to XOF 132.1 billion, which is a 60.3 per cent increase from 2007. This flow appeared mainly through budget aid.

In terms of relations with the international community, in February 2008 the IMF completed the sixth and final review of economic results as part of the triennial agreement under the Poverty Reduction and Growth Facility (PRGF), approved in 2005 for the sum of USD 41.9 million. The agreement had been extended to 31 May 2008. A new triennial PRGF agreement (2008-10) for the sum of USD 37.5 million was approved to assist the country's effort in reaching the Millennium Development Goals (MDGs). A first disbursement of USD 5.4 million was made in June 2008 and a first review carried out in October 2008. For its part, the World Bank was supporting 11 projects at the end of 2007, representing an overall commitment of USD 307.6 million, 163.9 million of which were not disbursed.

An analysis of the viability of Niger's debt carried out in October 2007 by the IMF under the fifth review of the PRGF revealed a stumbling block: Niger remains exposed to risk, albeit moderate, of over-indebtedness despite the debt cancellations implemented after Niger reached the completion point of the Heavily Indebted Poor Countries (HIPC) Initiative in April 2004. It was thus that, from 2003 to 2007, the decline in foreign-debt servicing was equivalent to 2.3 per cent of GDP. The development of debt ratios in the coming years will remain sensitive to the financial conditions of new contracted loans, which makes the case for resorting predominately to concessional financing.

Structural Issues

Private Sector Development

Niger's mediocre ranking in terms of its business environment is a serious problem for a country seeking to attract foreign investment. *Doing Business 2009*, the World Bank's survey of 181 countries, ranked Niger 172nd, down from 171st in the 2008 report.

To improve the business environment, the government has developed an action plan in collaboration with the World Bank and the private sector's representatives. It committed to taking measures to reduce from eleven to eight the steps required to start a business, and to do so before the end of 2008. It was also to have simplified procedures by reducing the number of days required for transfer of a property title from 49 in 2006 to 19 in 2008. Other measures aim at shortening procedures for registering property titles by strengthening the management of the Land Registry. Essential business services, such as electricity supply, were to have improved in 2008, amongst others with completion of interconnection with Nigeria by the parastatal power company, Nigelec. In addition, tax-system reforms could be undertaken in partnership with the IMF in the framework of the current overhaul of the tax code. This should be accompanied by a review of the tax advantages in the investment code. Property taxes on investments in fixed capital by corporations are also on the agenda. Their possible deterrence effect on investments will be studied.

If the most recent Transparency International (TI) report is to be believed, corruption remains a major obstacle in Niger. Each year, TI publishes an index analysing the degree of corruption in the public sector in 180 countries. Niger was ranked 5th amongst the 8 members of the West African Economic and Monetary Union (WAEMU), 28th amongst 47 African countries, and 123rd out of 180 countries worldwide.

Other Recent Developments

The government has taken unprecedented measures to improve the transparency and quality of the management of public finances under the Public Expenditure Management and Financial Accountability Review (PEMFAR). In 2008, thanks to the launch of new public-procurement procedures whereby calls for tender are issued without waiting for credits to be put in place, consumption of budget allocations for priority sectors was accelerated. Likewise, a special pilot room aimed at speeding up expenditure procedures (notably for commitment appropriations) has existed since 2008. In addition, confirmation operations for expenditure commitments, initially managed by the ministry in charge of finance, should be transferred to the financial comptrollers of the various ministries in 2009 under the decentralisation policy.

Management of expenditure should be made more rigorous in 2009 with tougher financial control and reinforcement of the ministry divisions in charge of awarding public contracts. Training programmes supported by the public-contract regulation agency (ARMP, in its French acronym) will be set up, the staff of the Direction générale du contrôle des marchés publics (public-contract controlling body) will be increased, and the Court of Audit and payment-order centres will be consolidated. In addition, the ARMP will audit public contracts with assistance from the European Union. To improve the Treasury's operations, computerisation of the general fund, which is under way, should be completed in the second half of 2009.

The government has abandoned plans to privatise the national electric-power company and fuel-distribution companies, as neither succeeded in attracting investors from the private sector. It does, however, plan to proceed with reforms of the financial sector, including privatisation of a number of state banks.

The privatisation process of Crédit du Niger has been completed. Reform of the financial sector is continuing, with Finaposte beginning to offer financial services, and unfreezing of deposits at the former savings bank, Caisse d'Épargne, which had been scheduled for end September 2008. In addition, the government will reinforce mechanisms to finance agriculture, one of its priorities in the development of financial services. It will focus on developing microfinance networks, which are less extensive in Niger than in other WAEMU countries. The government will take part in the programme to assess the stability of the financial sector and will define reforms needed to improve it.

The government and the International Development Association (IDA) signed an agreement on 26 June 2008 to finance a project to develop local infrastructure. Under this agreement, the IDA has allocated Niger an 18.3 million Special Drawing Rights (SDR) loan. The aim of the project is to increase, sustainably, access to infrastructure and basic services by the urban populations, particularly those residing in disadvantaged neighbourhoods.

In 2008, investments in the agricultural sector were undertaken in the framework of the rural-development strategy. They focused on increasing irrigated zones, building new dams, and hydraulic facilities, and improving livestock herds. Another project was launched in 2008 to improve food security for Niger's population, fight against poverty, conserve the ecosystem and meet energy needs by building a storage dam and a hydroelectric power plant. The project also includes developing 31 000 hectares upstream of the dam. This project is jointly financed by the Arab Bank for Economic Development in Africa, the Banque islamique du développement, the Saudi Fund for Development, the Abu Dhabi Fund, the OPEC Fund for International Development, the African Development Bank, the World Bank, the Banque ouest-africaine de développement, the ECOWAS Bank for Investment and Development, and the government of Niger.

Innovation and ICT

Information and communication technologies (ICT) in Niger have developed from overhead lines in the colonial era to radio-relay systems in 1973, then today to a system combining radio-relay systems, satellites and optical fibre. The national transmission network via Domsat satellite is made up of six earth stations: Karma, Agadez, Diffa, Arlit, Tchin-Tabaraden and Bilma. All of these stations were digitised by

Siemens under a Bank of Africa loan. The SDH STM-4 urban digital loop carrier is located in the centre of Niamey and uses optical fibre.

In 1973, there were eight telephone exchanges. In 2009, there are 13 digital, 2 analogue and 7 local telephone exchanges. Despite this progress, many of the main towns have no local exchanges, a situation that restricts the population's access to means of communication. In 2001, the former state communications monopoly operator, Sonitel, was privatised and the sector was liberalised, opening the door to the appearance of 4 mobile operators (Télécel, Celtel, Sahelcom and Orange-Niger) and 14 Internet service providers. As a result, the rate of telephone penetration rose from 0.47 per cent in 2002 to 2.4 per cent in 2005 and, according to a study carried out under Niger's Accelerated Development and Poverty Reduction Strategy (SDRP), will reach 8 per cent for the 2007-09 period.

Telephone access was also promoted by the establishment of private tele-centres, which proliferated by a factor of 12 between 1999 and 2005. In terms of network, Sonitel offers a copper network, Code Division Multiple Access (CDMA) 800 and 450, in all the country's large towns. Its maintenance is costly, however, and its quality has been declining over time. Sonitel thus installed a Wireless Local Loop (WLL) based on CDMA technology on the 800 MHz band. The switching network is hierarchical and non-meshed, and is organised around the two central switch units in Niamey, which are subscriber centres as well as national and international transit centres.

Since 3 December 2001, Sonitel has held a temporary exclusive licence to exploit fixed-line services open to the public and access to international telecommunications networks and services open to the public. Sonitel operates a fixed-line RTC network, extended since September 2005 by wireless CDMA access in Niamey and Maradi. The market for fixed-line telephony and international communications has been open to competition since 31 December 2004. France Télécom thus obtained a comprehensive licence in 2007. A subsidiary called Orange-Niger was set up with a capital of XOF 10 million, which will be increased to XOF 32.8 billion (around USD 65.6 million). Since 2001, Sonitel has faced competition in the voice segment from the mobile operators Celtel, Sahelcom and Télécel.

In terms of technology, of note is the digitisation of about 960 kilometres of transmission lines on the southern Karma-Zinder axis, of the Konni-Tahoua feeder line (130 kilometres), of Niamey-Kollo, Diffa-N'Guigmi, Maradi-Madarounfa, of all the earth stations (Niamey, Agadez, Arlit, Bilma, Diffa, Tchin-Tabaraden), and of a first 15 kilometres of optical fibre in Niamey. Installation of CDMA technology (fixed-line wireless telephony) was also undertaken to supplement the fixed-line network, as well as the digitisation of 11 exchanges, including those in the main towns.

Access to ICT is taking place with the expansion of the Internet. For this purpose, Decision N° 008/CNR-ARM of 23 June 2003 sets out the terms and conditions for granting permits. Fourteen permits have been granted to set up and operate network interconnection services that are part of the Internet infrastructure.

Niger's Internet market is quite limited. It comprises several modes of access: RTC (dial-up); CDMA; WiFi (wireless); and Asymmetric Digital Subscriber Line (ADSL – high speed). Internet access and data supply are offered by three types of operators: Sonitel (WiFi and CDMA); Sahelcom, which is the only one to offer Internet subscriptions on RTC as well as on specialised lines; alternative operators such as Ixcom, Afripa and Telestar, which sell access via Very Small Aperture Terminal (VSAT – satellite) and LS. Internet penetration of the population remains very limited due to the scarcity of computers and the low incomes of Niger's households.

Several types of services are provided: fixed-line and mobile telephony, low-speed data transmission, dial-up Internet and high-speed Internet, specialised links via the Global Mobile Personal Communications by Satellite (GMCPS) system, radio and television signal transmission of the Niger Office of Radio and Television Broadcasting, non-voice services, e-mail in particular, Web browsing, Internet telephony, data transmission on X.25 protocol for banks and large companies, Integrated Services Digital Network (ISDN) services and broadband services (video conferencing and services including e-applications, e-health, e-education, and e-commerce). Tele-learning projects are in progress.

Mobile-phone operators mainly use Global System for Mobile communications (GSM) 900 MHz technology. Internet-service providers (ISPs) use VSAT stations. Use of mobile CDMA by mobile operators is strictly prohibited by the current legislation.

The law proscribes sharing of infrastructure by operators. The clauses of Article 50 of Law 99-045 of 26 October 1999 pertain to telecommunications regulations, and those of Article 8.7.2 to operator specifications. Through its catalogue of interconnections, Sonitel must serve every operator that requests it. Celtel Niger has also announced that it is open to all requests to share infrastructure.

The government is aware of the challenges of ICT as a tool to fight against poverty and to improve the efficiency of public administration. It thus gathered the country's main actors to develop and adopt, in January 2004, a national plan to develop ICT called the National Information and Communications Infrastructure (NICI) Plan. The implementation programme for the 2005-10 period constitutes the second step decided by the government to make the NICI Plan operational.

A high commission on information and communications technology was set up by decree in February 2005 in order to supervise and co-ordinate the NICI plan. To respond to the many problems met by Niger's citizens in ICT use, it has focused on six basic directions: infrastructure development, ICT and the Poverty Reduction Strategy (PRS), the legal and regulatory framework for ICT, content development, capacity building and e-governance. Each direction is given two or three specific objectives. Infrastructure development is always the priority.

In 2006, Niger's government drew up a strategy for universal access to ICT services in rural and suburban areas. The goal is to attract the necessary investments to be able to improve services.

Universal access is set out in Ordinance Nº 99-045 of 26 October 1999 concerning telecommunications regulation. A universal-access fund, which is to be managed by the Multisector Regulatory Authority (ARM in its French acronym), will receive contributions from licensed operators during the 2007-15 period to the tune of 4 per cent of their annual pre-tax turnover. Internet service providers also have to contribute to the fund, but in order not to undermine their operations, their contribution has been set at 1 per cent of pre-tax turnover, as long as they are not posting losses (positive net earnings).

ARM's mission is to regulate the activities carried out on the territory of the Republic of Niger in the sectors of water, energy, telecommunications and transport, the so-called 'regulated sectors'. It monitors operators to make sure that they fully respect legislative and regulatory decrees and provisions, as well as the commitments attached to the granting of their licences and permits. When necessary, it suggests or imposes sanctions related to observed infringements. ARM also checks that the conditions of interconnection, and the approval of technical and pricing offers are respected. It also oversees compliance with the obligations set out in the terms and conditions for all the operators, in both fixed-line and mobile telephony, and supervises the efficiency of frequency planning and management, first in the urban community of Niamey, then in other regions of the country. In addition to these monitoring operations on the ground, ARM regularly measures load rates on the different frequency bands.

The funds allocated to ARM derive from ordinary and extraordinary resources. The former are constituted by the annual licence fees paid by operators holding a licence, a permit or an agreement, by fees related to the examination of applications, and to inspection and monitoring facilities, by the costs of proceedings paid by the operators under sector laws, and by the income generated from providing services. Extraordinary resources comprise interest on loans, subsidies from government and public or private organisations, both national and international, and grants and bequests.

The law on telecommunications regulation includes important measures in the area of regulation of interconnections, which constitutes one of the essential components of the competition framework. The law was supplemented by the 2000-399/PRN/MC decree of 20 October 2000 concerning the general conditions for interconnection. As part of the allocation of lower frequency bandwidth, holders of fixed or mobile licences are permitted to request low frequencies to extend their networks in rural areas, particularly the 400-450 MHz band. At the time of writing, even in rural areas, operators have been content to use the 900 MHz band for GSM, and both the 1 800 MHz and 900 MHz bands for dense areas. They have also made do with the 800 MHz band for their fixed-line CDMA networks even though the 450 MHz band is available. The first mobile licences granted in 2000 were on the GSM standard. Since then, the principle of technical neutrality has been applied, as was clearly manifested in the last issuing of an overall licence in 2007.

Article 36 of Ordinance 99-045 authorises operators to set their customer rates freely. ICT equipment is exempt from customs duties, as per the decree on tax exemption for ICT imports issued in 2007.

Telecommunications infrastructure is mainly financed by the state, which is finding it hard to meet the population's ICT needs. There are also other financial sources, however, including the traditional operator, Sonitel, 51 per cent of which is privatised, as well as a few other bodies. Several agreements have been signed that approve the financing of many telecommunications projects, including, for instance, the project on 'e-governance and access to information for the modernisation of public administration and for local development in Niger', which was jointly launched in 2006 by the country's ministry of the economy and finance and the resident representative of the United Nations Development Programme (UNDP). The e-governance project aims to strengthen electronic governance and access to information in order to modernise public administration.

One of the key ICT-regulation projects, which the Belgian Development Co-operation decided to finance, consists in supplying Niger with a legislative and institutional framework adapted to the realities and changes of the sector, as much in the sub-region as internationally.

As for optical fibre, Niger obtained funds amounting to USD 442 000 for a feasibility study of its distribution frame. It also received the overall financing of optical fibre to link Niger and Chad, for a total of USD 140 million. Niger will thus be able to connect its central administration to the different regions, districts and boroughs, and at the same time to promote tele-medicine, tele-education, e-commerce and e-environment via the SAT-3 submarine cable.

In the framework of education and vocational training, the Agence Universitaire de la Francophonie is supporting a project aimed at facilitating the use of ICT in distance education and university research. The University of Niamey will thus join a digital francophone campus network. With this project, the government also wishes to introduce ICT into training programmes, to train instructors and to build the capacities of the schools in the sector. In Niger, access to ICT is often easier for men than for women, who run into many cultural and logistical barriers. At Sonitel, women only account for 21.4 per cent of employees overall, all departments included.

Generally speaking, ICT is a promising sector. It is dynamic and the increasingly greater importance of information imbues it with the possibility of generating jobs.

An obstacle remains, however: the current state of ICT infrastructure impedes an optimal development of the sector. Constraints are numerous: insufficient and outdated equipment, a restrictive institutional and regulatory framework, insufficient human and material resources, failure to address gender in the sector, inadequate e-applications, high rate of illiteracy amongst the population, particularly amongst women, poor understanding of the opportunities offered by ICT and high cost of equipment and services.

Political Context

Several important events marked the political scene in Niger in 2008. First was the arrest, in June, of the former Prime Minister Hama Amadou, also President of the Mouvement national pour la société de développement (MNSD), suspected of corruption. The government accused him of having misappropriated some USD 230 000 during his 2000-07 mandate. This has not prevented Amadou from wanting to lead the MNSD to victory in the forthcoming presidential election, scheduled for December 2009. The conflict between the President of Niger, Mamadou Tandja, and Amadou could lead to ethnic divisions and generate an uncertain political climate in the run-up to the election. Although the president has not officially declared his intention to seek a third mandate – this would require a constitutional amendment – his doing so is not completely out of the question.

In 2008, the conflict between Niger's authorities and the Tuareg rebels directed by the Mouvement du Niger pour la justice (MNJ) became more intense and a major source of social instability. Many people were obliged to leave their villages and were integrated into host families, particularly in the regions of Arlit, Tchirozerine and Agadez-Commune. Economic activity has been affected. Insecurity has also had negative repercussions on the use of health services. Indigenous populations are more vulnerable.

Social Context and Human Resources Development

Niger is one of the poorest countries in the world, with a strong feminisation of poverty. The 2007/08 Human Development Index (HDI) ranks the country 174th out of 177. Extrapolating from current trends, the only Millennium Development Goals (MDGs) that might be reached by 2015 are those related to the reduction of infant mortality and to access to drinking water.

In response to these challenges, the government adopted an Accelerated Development and Poverty Reduction Strategy (SDRP) covering the 2008-12 period, in which existing sector policies and programmes and/or those being developed will serve as an operational framework. The SDRP aims at promoting strong growth (7 per cent on average annually) favouring the most disadvantaged as well as sustainable human development.

Poverty fell during the 2005-08 period: it contracted by 2.6 points, falling from 62.1 per cent in 2005 to 59.5 per cent in 2007/08. This fall was accompanied by an improvement in households' living conditions, particularly in terms of access to drinking water, electricity and better housing. The share of the population benefiting from electricity rose from 7.3 per cent in 2005 to 10.7 per cent in 2008. The fall in poverty was more marked in urban areas than in rural ones.

This fall has enabled a reduction in inequalities in Niger. The Gini index declined from 43.7 in 2005 to 36.3 in 2007/08 and the Atkinson index from 43.7 in 2005 to 31.7 in 2007/08. Still, even though poverty indicators have improved, the number of poor people increased significantly due to strong demographic growth.

The objective of reducing poverty by half, which is one of the MDGs, may not be reached in 2015. Despite all of this, Niger continues to make progress in education. According to national sources, the education enrolment ratio was estimated at 106 per cent in February 2009, with a resulting gross enrolment ratio of 63 per cent in 2008, as against 50.6 per cent in 2007, or a 6-point increase, as against a 2.3-point increase for the 2003-07 period. The gross enrolment ratio in the first year of primary school increased from 64.7 per cent in 2007 to almost 77 per cent in 2008, which represents a 12.3-point improvement. The gross primary enrolment ratio for girls was estimated at more than 72 per cent, as against 57 per cent in 2007, or a 15-point improvement. The gap between girls and boys was reduced by 3 points.

The proportion of illiterate adults was estimated at more than 70 per cent in 2007. Women are more affected than men (84 per cent versus 56 per cent). Despite inadequate financial, material and human resources, efforts have been made and noticeable improvements have been obtained in non-formal education. The total number of students went up from 39 880 in 2003 to 76 369 in 2007. The completion rate also increased from 49 per cent in 2003 to 60 per cent in 2007. But the drop-out rate, which was 18 per cent in 2003, rose to 34 per cent in 2007.

The government drew up a national literacy and non-formal education policy, which was approved in June 2008. This policy document lays out the choices, directions and policy measures necessary for the development of the sub-sector. It relies on a strategy of letting local partners do the job (*faire-faire*) as the main way of dealing with illiteracy and adult-education programmes, as well as on setting up support funds for literacy and post-literacy programmes, and on adding a literacy component to every development programme and/or project.

According to national sources, the number of unemployed persons was 637 525 out of a labour force of 4 008 486, which puts the unemployment rate at 15.9 per cent. This is higher in urban centres than in rural areas (19.4 per cent versus 15.2 per cent).

In terms of health, some forms of health care were made free in 2008: that for children under five years old, caesarean sections, and treatment of female cancers. Niger faces meningitis, cholera and malaria epidemics every year. In 2008, following a meningitis epidemic that hit the country, a combined total of 3 492 cases and 225 deaths were recorded, giving a mortality rate of 6.4 per cent. For cholera, this total was 948 cases and 70 deaths between January and October 2008, or a lethality rate of 6.4 per cent. For malaria, which is the largest public-health problem in Niger, a combined total of 1 621 003 cases and 2 093 presumed deaths were notified nationwide. Malaria, pneumonia and diarrhoea are responsible for almost 60 per cent of deaths of children under five years old.

Despite the national measles-immunization campaign conducted in January 2008, the number of children affected by this disease has not declined: 2 200 cases were recorded between 1 January and 23 March 2008 throughout the country. To combat this outbreak, teams from the organisation Doctors without Borders conducted vaccination campaigns for children 6 months to 15 years old in the Zinder and Maradi regions.

Every year, a significant part of the rural population is forced to migrate temporarily to border countries in search of work. They are thus exposed to an increased risk of infection from sexually transmitted diseases (STDs) and HIV/AIDS. Data for 2007 indicates a 1.1 per cent HIV/AIDS infection rate for persons between the ages of 15 and 49. The number of pregnant women infected by HIV/AIDS was estimated at 3 300 in 2007.

The government intends to decrease morbidity and mortality rates by using several tools: a health-development plan (2005-09), a national framework strategy for combating STDs and HIV/AIDS (2007-10), and a national programme to combat tuberculosis (2007-10).

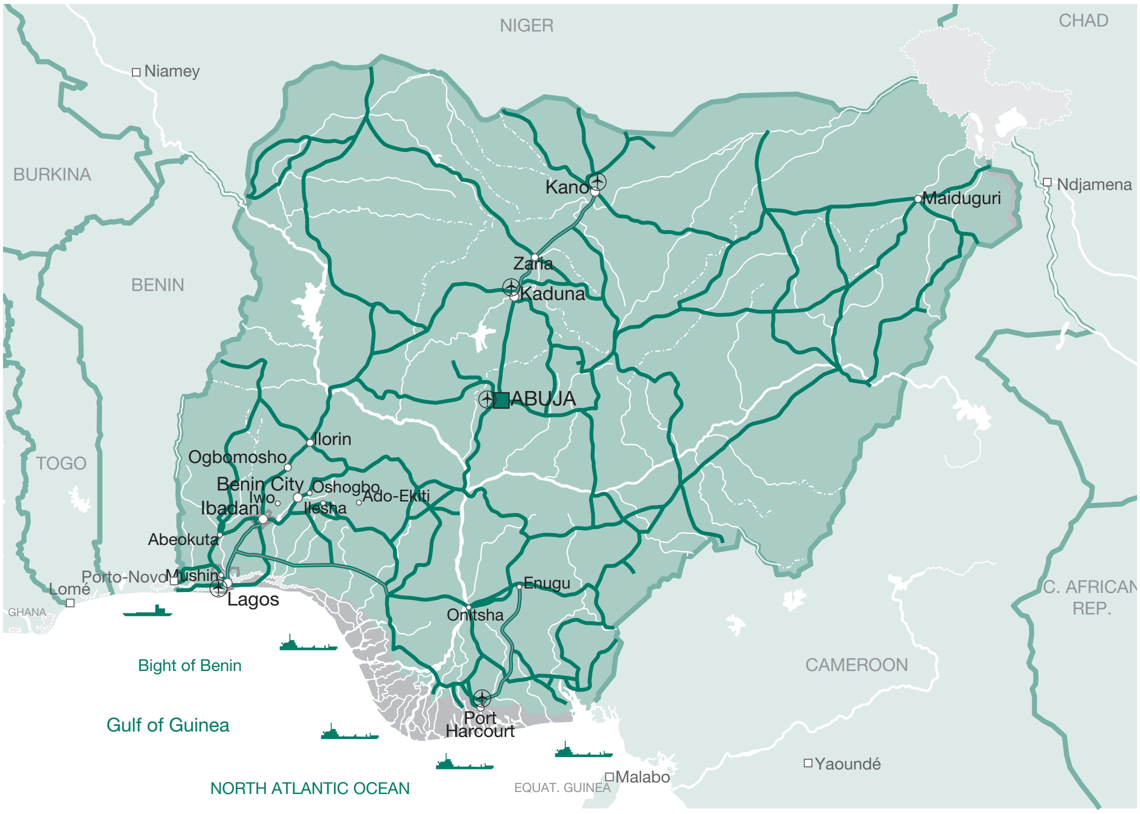
Since the last food crisis in 2005, the overall acute under-nutrition rate declined from 15.3 per cent in 2005 to 10.7 per cent in 2008. In 2008, however, four regions still had under-nutrition rates above 10 per cent. In addition, 49 zones out of 147 (35 per cent) were identified as vulnerable in terms of nutritional security. From January to October 2008, health centres recorded 157 588 cases and 351 deaths due to malnutrition. The government, UNICEF and non-governmental partner organisations air radio programmes in local languages to explain how to detect and treat malnutrition. Community health agents tour the villages to spread messages on health and nutrition. They are working in co-operation with community teams to identify under-nourished children and send them to treatment or feeding centres.

Nigeria

key figures

• Land area, thousands of km²:	911
• Population, thousands (2008):	151 212
• GDP per capita, PPP valuation, USD (2008):	1 977
• Life expectancy (2008):	47.9
• Illiteracy rate (2008):	28

Nigeria



Commercial Port
Petroleum Port
Fishing Port
Airport
Divided Highway
Main Road

National Capital (1 576 000 In. 2007)
over 1 000 000
over 600 000
over 300 000

0 km 60 120 180 km

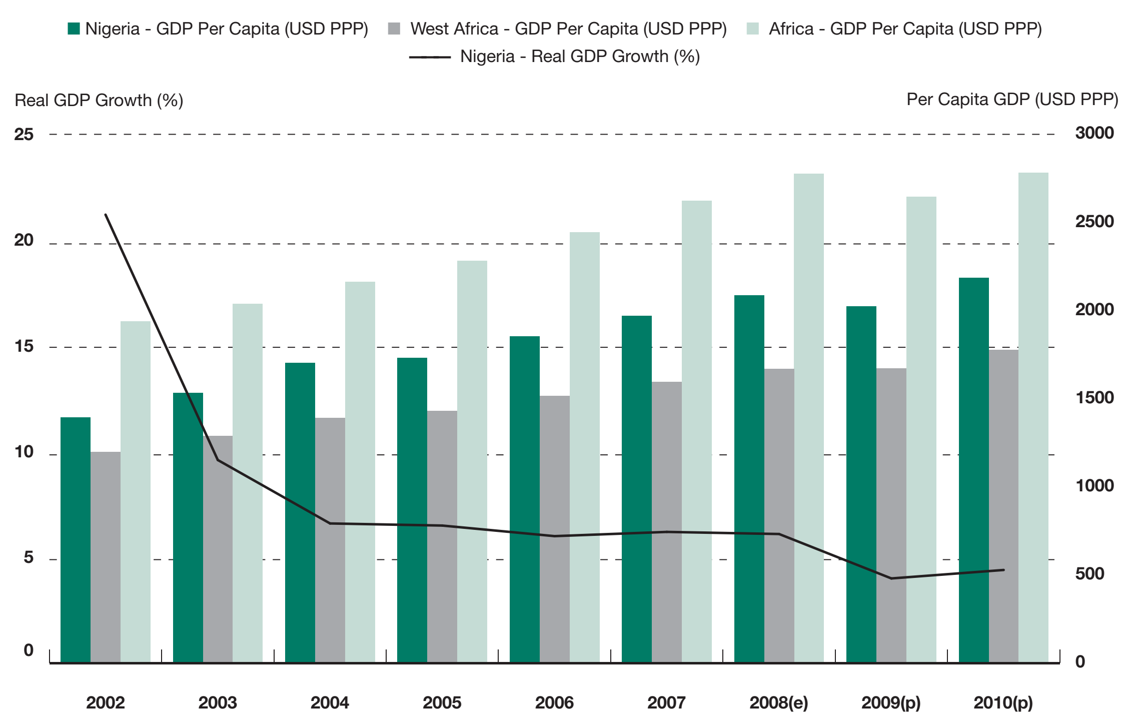
OVER THE PAST YEAR, NIGERIA'S economic situation has been affected by the collapse of oil prices in the second half of 2008 and the near-meltdown of the domestic financial system because of the global financial crisis. Throughout 2008, unrest in the oil-producing Niger Delta region continued.

The Nigerian government has taken measures to improve growth and macroeconomic stability. In 2008 it developed a Medium-Term Sector Strategy (MTSS) for growth to cover the period 2009-2011. Since 2006, the MTSS has helped prepare the national budget, by outlining the federal government's medium term goals and objectives to state-run institutions. The government has also prioritised improving seven key sectors including agriculture, employment, transportation and education. In order to do this Nigeria has had to improve its economic diversification although its oil-reliant economy is poor. Improving the supply of electric power remains the most pressing challenge.

Inadequate infrastructure is the main structural constraint on growth, and tax revenue is insufficient.

Plummeting oil prices in the second half of the year and ongoing unrest in the Niger Delta reduced oil production. The non-oil sector's strong performance in 2008 led to overall growth of 6.1 per cent in 2008, despite a decline in oil output.

Figure 1 - **Real GDP Growth and Per Capita GDP**
(USD in PPP at current prices)



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

StatLink http://dx.doi.org/10.1787/570561225176

The naira (NGN) fell sharply towards the end of the year and a huge draw down of external reserves occurred. Over the next year the government budget and the current account balance are expected to shift from large surpluses to deficits. This could threaten financial stability and the fight against corruption.

The crisis in the Nigerian financial system is due to the world economic problem, the country's excessive dependence on oil, a frail domestic financial system, and deficient regulatory oversight.

Recent Economic Developments

Growth in non-oil output increased from 7.8 per cent in 2007 to 9.6 per cent in 2008, but oil production fell by 8.2 per cent resulting in an overall economic growth of 6.1 per cent in 2008. This was slightly down from 6.2 per cent in 2007. Oil output declined due to the ongoing crisis in the Niger Delta region and aging oil infrastructure. Oil prices have dropped since July 2008, falling from their peak of over USD 140 earlier in the year to USD 40 in December 2008.

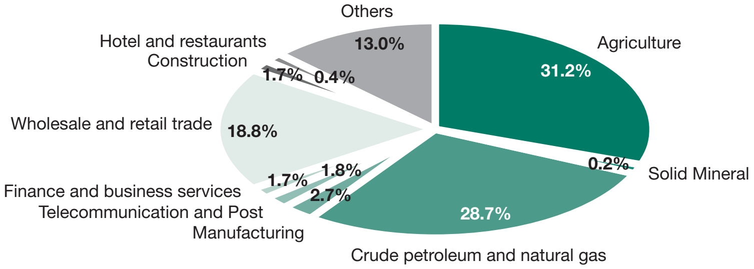
The service sector grew by 8.0 per cent in 2006 and 9.8 per cent in 2007. In 2008 telecommunications and postal services jumped by an estimated 34 per cent, continuing the 30 per cent plus growth rates in 2007 and 2006; wholesale and retail trade, which constitute 18.8 per cent of GDP, grew by an estimated 15.3 per cent; building and construction grew by an estimated 13.1 per cent; the hotel and restaurant industry grew by an estimated 13.0 percent; and finance and insurance grew by roughly 5.0 per cent.

Manufacturing grew by 9.2 per cent in 2008, only making up 2.7 per cent of GDP, which is very low, even by African standards. Agriculture, which constitutes 31.2 per cent of GDP and about two-thirds of employment, grew by an estimated 7.4 per cent in 2008, just below its 7.7 per cent growth in 2007. Late rainfall was abundant and evenly distributed throughout the country.

Domestic demand contributed to growth in 2008, while the external sector reduced demand as imports surged. Gross capital formation is estimated to have increased strongly by 16.3 per cent in 2008. It is expected to continue to grow at about 7.3 per cent in 2009 and 2010, with both public and private investment contributions. Consumption is also expected to support GDP growth. Lower oil prices and output will slow down external demand and continue to burden Nigeria's real GDP.

Real GDP growth is expected to weaken to 4.0 per cent in 2009 due to continued low oil prices and production, and the effects of the global crisis on Nigeria. Lower government revenues due to falling oil prices will reduce government spending and investment. Private investment could also suffer from the recent

Figure 2 - **GDP by Sector in 2008** (percentage)



Source: Authors' estimates based on National Bureau of Statistics (NBS) data.

StatLink http://dx.doi.org/10.1787/572154044755

Table 1 – **Demand Composition**

	Percentage of GDP (current prices)		Percentage changes, volume			Contribution to real GDP growth		
	2000	2007	2008(e)	2009(p)	2010(p)	2008(e)	2009(p)	2010(p)
Gross capital formation	**20.4**	**24.0**	**16.3**	**7.3**	**7.3**	**4.1**	**2.0**	**2.1**
Public	9.5	8.0	17.0	8.0	8.0	1.4	0.7	0.8
Private	10.9	16.0	16.0	7.0	7.0	2.7	1.3	1.3
Consumption	**58.0**	**65.5**	**11.6**	**3.9**	**4.5**	**8.8**	**3.1**	**3.6**
Public	20.7	18.8	12.6	6.1	6.5	2.6	1.3	1.5
Private	37.2	46.7	11.2	3.1	3.8	6.1	1.8	2.1
External demand	**21.6**	**10.5**				**-6.7**	**-1.2**	**-1.3**
Exports	53.8	40.3	-2.1	2.4	2.8	-0.9	1.0	1.1
Imports	-32.2	-29.7	12.8	4.5	5.1	-5.8	-2.2	-2.5
Real GDP growth						**6.1**	**4.0**	**4.4**

Source: Data from local sources; estimates (e) and projections (p) based on authors' calculations.

StatLink http://dx.doi.org/10.1787/576103740176

collapse of prices on the Nigerian stock exchange and a loss of confidence in banks. Growth is expected to pick back up slightly to 4.4 per cent in 2010 as oil prices recover partially and the financial markets start to stabilise.

Macroeconomic Policies

Fiscal Policy

Nigeria's fiscal policies are based on medium-term fiscal strategy (MTFS) 2008-10 –a roadmap for macroeconomic stability. The MTFS is in line with a poverty reduction driven National Economic Empowerment and Development Strategy (NEEDS), of which there are state and local level equivalents. Nigeria hopes to become among the world's leading 20 economies by 2020. To ensure that this happens, the government introduced a Seven Point Agenda. Broadly speaking, the objectives of NEEDS, Vision 2020 and the Seven Point Agenda are to sustain rapid, broad-based GDP growth; to reduce poverty; to generate employment; to ensure macroeconomic stability; and; to provide economic diversification. The International Monetary Fund (IMF) is providing technical assistance to the Federal Inland Revenue Service and to the Office of Accountant General of the Federation.

Recent fiscal reforms, namely managing oil revenues more efficiently, which accounts for 80 per cent of all revenues, have improved the budget. In 2004, Nigeria introduced a fiscal rule to save surplus income from oil revenues in the Excess Crude Proceeds Account (ECPA). This funds government when oil prices drop. Since prices fell sharply in July 2008, the government has been relying on ECPA funds.

Revenues and expenditures as a per cent of GDP declined in 2008 to an estimated 27.3 per cent and 26.4 per cent respectively, increasing the budget surplus slightly to 0.9 per cent of GDP. A decline in revenues reflected the weakness of oil production, partially offset by better non-oil revenues, which were boosted by improved tax collection efficiency.

Oil revenues are projected to drop sharply from 21.0 per cent of GDP in 2008 to 12.4 per cent in 2009 and 2010. The budget deficit will be much higher than previous estimates, at more than 10 per cent of GDP in both 2009 and 2010, increasing domestic and foreign debts. A rapid and large drawdown of the

Table 2 - **Public Finances** (percentage of GDP at current prices)

	2000	2005	2006	2007	2008(e)	2009(p)	2010(p)
Total revenue and grants[a]	**42.1**	**38.1**	**34.1**	**28.3**	**27.3**	**19.0**	**18.8**
Tax revenue	6.3	5.5	4.8	5.6	5.5	5.8	5.6
Oil revenue	35.0	32.3	29.1	21.9	21.0	12.4	12.4
Total expenditure and net lending[a]	**36.2**	**28.7**	**26.4**	**27.8**	**26.4**	**30.1**	**30.5**
Current expenditure	14.0	9.5	8.2	9.4	9.6	10.7	10.7
Excluding interest	*8.1*	*6.9*	*7.2*	*8.4*	*8.8*	*9.8*	*9.9*
Wages and salaries	5.9	3.6	3.6	4.2	4.0	4.3	4.1
Interest	5.9	2.6	1.0	1.0	0.8	0.9	0.8
Capital expenditure	11.5	5.9	5.8	6.4	6.6	7.6	7.6
Primary balance	**11.9**	**12.0**	**8.7**	**1.4**	**1.7**	**-10.2**	**-10.9**
Overall balance	**5.9**	**9.4**	**7.7**	**0.4**	**0.9**	**-11.1**	**-11.7**

a. Only major items are reported.
Source: Data from local sources; estimates (e) and projections (p) based on authors' calculations.

StatLink http://dx.doi.org/10.1787/577582602032

ECPA, which stood at USD 20.1 billion at the end of November 2008, is to be expected.

The domestic debt/GDP ratio fell from 21 per cent in 2000 to about 10.2 per cent in 2008. A growing proportion of domestic debt consists of longer-maturity bonds, which represented about 58 per cent of domestic debt stock at the end of 2008. As a result, the rise in domestic borrowing associated with large budget deficits in 2009 and 2010 should be manageable.

Monetary Policy

The broad money supply (M2) grew at an estimated 58.0 per cent in 2008 following 30.9 per cent growth in 2007. The M2s growth in 2008 was largely due to a 59.5 per cent growth in credit to the private sector, compared to 161.6 per cent growth in 2007. So far, this rapid growth in the money supply has not involved a large upsurge in inflation and has coincided with rising real interest rates.

To offset the effects of the global financial crisis on Nigeria, the Central Bank of Nigeria (CBN) cut the Monetary Policy Rate by 50 basis points to 9.75 per cent in September to facilitate more lending. The Cash Reserve Requirement was also reduced from 4 per cent to 2 per cent and the liquidity ratio decreased from 40 per cent to 30 per cent. The CBN also extended emergency borrowing from 12 hours to 360 days and widened the range of related financial instruments to include non-governmental securities. The CBN appears to rely on the Nigerian Interbank Offered Rate (NIBOR) to contain core inflationary pressures. NIBOR rose from about 13.0 per cent at the end of July to 18 per cent by mid September 2008, before slipping back to 14.2 percent at the end of September.

The CBN has managed to bring inflation down from 17.9 per cent in 2005 to 8.2 per cent in 2006 and 5.4 per cent in 2007. In 2008, inflation edged up to an estimated 11 per cent because of higher food costs and monetary easing in response to the financial crisis. Inflation is expected to remain at about 10 per cent in 2009 and 2010.

The CBN targets the exchange rate as well as inflation. The naira fluctuated within a narrow range against the US dollar until the end of 2008 when it depreciated. The differential between the official exchange rate and the parallel market dropped to below 5 per cent although it could widen due to the turmoil in Nigerian financial markets.

External Position

Nigeria initially resisted the Economic Community of West African States (ECOWAS) proposal for common external tariffs with a top rate to 20 per cent and finally agreed to 35 per cent on the new "fifth band" of tariffs. Nigeria retains a long list of prohibited imports, so it is difficult to gage how far liberalisation has reduced smuggling.

Nigeria's oil exports made up 92.3 per cent of total exports in 2007. Despite higher prices, oil exports fell from USD 55.7 billion in 2006 to USD 51.0 billion in 2007, due to instability in the Niger Delta region. Oil revenues rose to roughly USD 70 billion due to higher prices in the first half of the year, but are expected to drop sharply in the next few years as prices remained well below their peak in the middle of 2008.

The trade surplus fell to around 14.5 per cent of GDP in 2008. It is projected to fall further to 4.4 per cent in 2009 and to recover only slightly to 4.6 per cent in 2010 as oil prices remain far below the heights of early 2008 and production stays low. The services and investment income accounts are in structural deficit, although the income deficit will improve in 2010 due to lower profits among international oil companies operating in Nigeria. The surplus on current transfers is estimated to have fallen marginally to 1.6 per cent of GDP in 2008 and is expected to remain the same in 2009 and 2010, reflecting falling remittances from Nigerian expatriates as a result of the global slowdown. The overall current account surplus is estimated to have fallen to 3.2 per cent of GDP in 2008 from 3.5 per cent in 2007 in response to the fall in oil prices in the second half of the year. The steep fall in oil prices is expected to continue and to push the current account into a large deficit projected at 9.1 per cent of GDP in 2009. The current account deficit is expected to narrow slightly to 6.4 per cent of GDP in 2010 as oil prices recover in part.

Nigeria is now the largest recipient of Foreign Direct Investment (FDI) in Sub-Saharan Africa, both in dollar terms and as a percentage of GDP. More inflows are hailing from other emerging economies, notably Russia and Brazil. Recent trends have shown a greater diversification of inflows into the non-oil sectors. UNCTAD estimates that FDI inflows to Nigeria surged from USD 5 billion in 2005 to USD 14 billion in 2006 (9.4 per cent of GDP) and stayed high in 2007 at USD 12.5 billion (7.5 per cent of GDP). FDI is expected to remain strong over the next few years, reflecting continued diversification into the non-oil industries, notably infrastructure, reviving the oil sector and reviving liquefied natural gas.

In mid 2008, before oil prices plunged, Nigeria's foreign reserves reached USD 67 billion, the equivalent of about 10 months of imports, strengthening investor sentiment. As oil prices collapsed reserves dropped to USD 53 billion by the end of the year.

Over the past few years, the boom in oil prices enabled buybacks of external debt. These buybacks along with debt relief led to a reduction of external debt as a percentage of GDP from 18.2 per cent in 2005 to 1.7 per cent in 2008. This is projected to remain the same in 2009 and 2010. As a result, the ratio of external debt service payments to exports fell sharply from

Table 3 - **Current Account** (percentage of GDP at current prices)

	2000	2005	2006	2007	2008(e)	2009(p)	2010(p)
Trade balance	27.3	21.9	18.6	16.3	14.5	4.4	4.6
Exports of goods (f.o.b.)	52.1	44.7	39.5	39.4	36.4	27.3	26.2
Imports of goods (f.o.b.)	24.8	22.8	20.9	23.1	21.9	22.9	21.5
Services	-6.9	-6.3	-4.4	-4.5	-4.0	-5.1	-4.7
Factor income	-13.6	-11.4	-7.8	-10.3	-9.0	-10.2	-8.0
Current transfers	3.4	3.0	2.3	2.1	1.6	1.9	1.7
Current account balance	**10.1**	**7.2**	**8.8**	**3.5**	**3.2**	**-9.1**	**-6.4**

Source: Data from local sources; estimates (e) and projections (p) based on authors' calculations.

StatLink http://dx.doi.org/10.1787/580076285531

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

Source: IMF.

StatLink http://dx.doi.org/10.1787/573670645251

31.8 per cent in 2005 to an estimated 2.5 per cent in 2008. This ratio is projected to increase slightly to 2.9 per cent in 2009 and 3.1 per cent in 2010 as exports decline in relation to GDP.

Structural Issues

Private Sector Development

Out of 180 countries, the World Bank business survey ranked Nigeria 118 in 2009. This had gone down from 108 in 2007 and 114 in 2008. Nigeria ranks poorly on obtaining construction permits but it does well on labour market flexibility.

As part of its Seven Point Plan and the NEEDS-2 strategy, the government has made financial development, particularly lending to micro, small and medium sized enterprises a priority. The number of Nigerian banks dropped from 89 in 2006 to 24 in 2008 after a sizeable number of mergers that were overseen by CBN. Minimum capital requirements went up. Restructuring has reduced the share of non-performing loans substantially. Most banks are liquid and profitable with adequate capital asset ratios averaging 18 per cent. The Nigerian property boom has prompted some banks to engage in excessive lending. Since Nigerian banks have less access to US dollar credit lines, they have had to rely on the CBN for foreign currency.

Nigerian banks have become major players in the global financial market, establishing subsidiaries and branches in ECOWAS, Southern Africa (Zambia), Central Africa [Congo, the Democratic Republic of Congo (DRC)], Europe and North America. The 2008 Banker Awards went to the Intercontinental Bank Plc.

The Nigerian equity market boomed in 2007 and early 2008 with a return rate of 74.7 per cent, well above those in South Africa and Ghana, but then plunged in the second half of 2008 as oil prices fell and the global financial crisis spread. By January 2009 the stock market index was 50 per cent below its peak in early 2008. It is claimed that measures to ease the boom by Securities and Exchange Commission (SEC), the Nigerian Stock Exchange (NSE) and the Central Bank of Nigeria (CBN) exacerbated the downturn. These regulatory measures included restrictions on private placement and over margin trading; the bank year harmonisation policy and; a rule barring any company from sourcing new capital until one year after listing. Once the market fell the SEC and CBN abandoned these measures, choosing instead to lower fees and to ease monetary policy. The downturn's momentum has been overshadowed by the impact of the global financial crisis and a dramatic fall in international oil prices on Nigeria's balance of payment and fiscal position.

Other Recent Developments

Public sector reform in Nigeria has stalled. Plans to privatise electricity generation and distribution, marketing boards, oil and gas pipelines, and airport facilities have also lagged.

Poor and inadequate infrastructure – which NEEDS hopes to tackle – is preventing economic growth in Nigeria. Chronic power outages are devastating the country's manufacturing sector. The Finance Ministry recently announced that an estimated USD 40-60 billion was required for infrastructure over the next six years. The government is seeking investment from the private sector – namely from the public-private partnerships (PPP) to finance this. It has also set up an Infrastructure Concession Regulatory Institution.

Electricity generation in Nigeria is inadequate and sometimes falls below the minimum threshold due to technical glitches and lower water levels. The current volume of 6 300MW – of which roughly 75 per cent works – falls short of the 10 000MW of electricity that a population of 150 million people requires. By the middle of 2008, power generation had fallen from 3 850MW/h to 2 500MW/h over a three-month period. This was due to a drop in reservoir water levels to power hydropower stations, as well as disruptions to gas supplies to Egbin, Delta and Geregu power stations.

The government estimates that roughly USD 5 billion is required to raise available power generation levels to 6 000MW in eighteen months and USD 80 billion to get to 10 000MW by 2011. In the meantime, the government plans to draw down NGN5 billion (about USD 40 million) from the ECPA oil account for emergency repairs and upgrading.

The Nigerian Electricity Regulatory Commission launched its new tariff scheme in July 2008. The government will subsidise consumer prices over the first three years, at an estimated budgetary cost of NGN 177 billion, which will gradually fall. Consumers will eventually pay tariffs for cost recovery purposes. The government announced that a Power Consumer Assistance Fund will be created to assist lower income consumers. In 2008 NGN 64 billion of a total of NGN 177 billion of the supplementary budget was earmarked to subsidise this. The government plans to allocate NGN 77 billion in 2009 and NGN 36 billion in 2010.

Plans to modernise the transportation network throughout Nigeria have stalled amid demands for policy reforms by government officials before contracts are signed. There are plans to privatise Nigeria's poor railway system in a bid to improve services and profits by granting 30 year-long concessions to private companies. The government also plans to revive existing railway lines between the country's seaports and inland container depots. The government has pledged to complete the 19 kilometre long Ajaokuta-Itakpe-Warri standard gauge line. In its bid to semi-privatise ports, the government has granted concessions to private port operators and made a bid for eight ports including Bonny, Calabar, Koko, Port Harcourt and Sapele.

Nigeria is Africa's biggest oil producer. The oil and gas sectors have dominated its economy since the petroleum boom in the 1970s. The country has oil reserves of over 36 billion barrels and natural gas reserves estimated at over 100 trillion cubic feet. Despite strong non-oil sector growth in recent years, petroleum production still accounts for around 21.5 per cent of GDP, 90 per cent of total exports, and about 80 per cent of government revenue. Nigeria has not used oil revenues to develop the country because of poor expenditure policy and management. This has sparked social unrest and hampered production in oil rich regions like the Niger Delta where local populations have not reaped the benefits of the booming petroleum. As a result, the country's output has dropped below its OPEC quota. At the start of 2009, the country was exporting 0.9 million barrels per day (bpd), half of its OPEC quota. Nigeria's oil exports have declined from 1.89 million bpd in 2003, to 1.78 million bpd in 2006, and 1.70 million bpd in 2007.

Aside from the West African Gas Project (WASGP) and the Liquefied Natural Gas (LNG) projects, not much money has been invested in commercialising gas. The WAGP is a 678 kilometre long pipeline that runs from gas reserves in the Niger Delta's Escravos region through to neighbouring Benin, Togo and Ghana. It is expected to provide gas fuel to power-stations and industries in these four West African countries. It would be Sub-Saharan Africa's first natural gas transmission system. Although this ECOWAS -led project has been in the pipeline since 1982, construction only began in 2005 after an agreement was signed in 2003. The pipeline was commissioned on 13 May 2008 and it is expected to start delivering supplies soon. Nigeria LNG Limited is jointly owned by Nigerian National Petroleum Corporation (49 per cent), Shell (25.6 per cent), Total LNG Nigeria Ltd (15 per cent) and Eni (10.4 per cent). It was incorporated as a limited liability company on 17 May 1989, to harness Nigeria's vast natural gas resources and to produce liquefied natural gas and natural gas liquids for export. These projects alone cannot absorb Nigeria's vast gas resources. A lack of investment in processing and shipping has slowed down moves to eliminate gas flaring.

In 2008, the government prepared a new national oil and gas policy, to improve how national oil and gas resources were managed in line with international best practices. The Nigeria National Petroleum Corporation (NNPC) will be sub-divided into five organisations in a bid to decentralise the oil and gas sectors and to make them more efficient. These organisations are the National Petroleum Directorate; the National Petroleum Company of Nigeria; the Petroleum Inspectorate Commission; the Petroleum Products Distribution Authority; and the National Oil and Gas Assets Holding and Management Services Company. The National Petroleum Company of Nigeria will replace the current NNPC with seven directorates including: Upstream; Refinery & Petrochemical; Marketing and Investments; Gas and Power; Engineering and Technology; Finance and Accounts; and Corporate Services. The new company would function as a fund-raising, profit-oriented and commercial company with no more policy regulation and national assets management.

To ease the impact of the global food crisis in early 2008, the government earmarked a NGN 80 billion rescue plan to import rice and to develop the agriculture sector. Although it refused to lift high tariffs on rice imports permanently, the government did suspend them for a while, to remedy shortfall. It also subsidised food supplies. The government has also taken several measures to develop farming. The National Roots Crops Research Institute, the federal government stimulated an increase in yam production from 27 million tons to 30 million tons. Although global food prices had dropped by the fourth quarter of 2008, longer-term agricultural reform in Nigeria still remained a challenge.

Global Biofuels Ltd – a private company – has set up a 20-hectare farm in Ekiti state out of 11 000-hectare stretch of land to plant sweet sorghum and to produce ethanol. The company has also started constructing an ethanol refinery complex at an estimated cost of about NGN 12.5 billion. It will be up and running in 2010 when it is expected to have a 1.5 million litre-production capacity.

Innovation and ICT

Nigeria has the eighth fastest growing telecommunication market in the world and the fastest one in Africa. Since 2000, the average annual growth rate for the number of mobile and fixed line subscribers has been 125 per cent. Various subscribers have reported a monthly growth of 1.1 million subscribers. In October 2008, Nigeria's telecom sector had 59 million active lines, with Africa's highest teledensity of 42.3 per cent.

More than 90 per cent of Nigerian telephone lines use the Global System for Mobile Communications (GSM) technology. The country boasts six mobile networks; MTN Nigeria; Globacom; Zain; Etisalat; M-tel; and Visafone. In 2001, MTN – which is a part of Africa's leading MTN group - became the first GSM network to operate in the country.

Globacom – which has a mobile segment called Glo Mobile – started in 2002. It is Nigeria's Second National Operator (SNO). Zain was set up in 2000 by a group of institutional and private investors and three states. Etisalat – the latest entrant in GSM technology is a Nigerian company that was created by Mubadala Development Company and Etisalat of the United Arab Emirates. Mobile Telecommunications Limited (MTel) – a mobile subsidiary of the national carrier, NITEL – was Nigeria's First Mobile Network, which existed long before the advent of GSM. The Nigerian Communications Commission (NCC) granted it a Unified Access Service Licence as a telecom operator in August 2007.

Only 20 per cent of the country – mainly urban areas – has mobile coverage. Out of Nigeria's 59 million active phones, only about 13 million are in rural areas, where 80 per cent of the population resides. To narrow this gap, the NCC plans to offer fixed wireless access telephony licences to populations in areas that don't have coverage.

The NCC regulates telecommunications. The sector attracted investment in excess of USD 12 billion between January 2001 and October 2008. Between 2006 and 2007 alone, foreign investment in the sector rose from USD 8.2 billion to USD 11.5 billion, a 41.1 per cent increase. The government has realised over USD 2.5 billion from spectrum auctions. Import duties and taxes on telecom companies also contribute substantially to government revenues.

A competitive telecommunication market/industry has led to a drop in the cost of services. In 2001, subscribing to a GSM line cost NGN 20 000. By the end of 2008, this figure had fallen to almost zero. The tariff for calls on the GSM network had dropped from NGN 50 per minute in 2001 to less than NGN 25 per minute in 2008.

Nigeria has the most competitive ICT market in Africa, with service providers fighting for the market share. Ensuring that networks receive an optimum quality of service remains a challenge. A small network capacity has prevented operators from broadening their network fast enough to satisfy more and more subscribers. Poor telecommunication infrastructure has slowed down the rapid launch of network resources, which would otherwise improve the quality of ICT services.

The government set up the National Poverty Eradication Program through its Rural Communication Program to ensure that rural Nigerians would only be a day's walk away from a telephone. For people with less than 1 per cent teledensity, the NCC also proposed a new licence category for fixed-line services in so-called short distance charging areas. Private investors could find this attractive. The NCC relies on the Wire Nigeria (WiN) project and the State Accelerated Broadband Initiative (SABI) to provide broadband access throughout the country. WiN will subsidise building a core, high-capacity fiber-optic layer and SABI was designed to make broadband infrastructure available to all of the country's 36 states as well as urban and semi-urban areas.

By the end of 2007 Nigeria had 117 Internet service providers with 1.52 subscribers and 6.75 users per 100 inhabitants. In 2008 the average cost for broadband Internet access varied from NGN 52.95 for Globacom to NGN 35.56 for GS Telecomm. ICT are transforming business practices – making them more cost effective, developing financial markets and e-learning including open and distance learning. Efforts by government agencies, universities, and local and international ICT companies to develop educational institutions appear to be paying off. However, cyber crime poses a clear challenge to ICT development.

Political Context

Unrest in the Niger Delta region remains a great political and economic challenge. Militants – who mainly target foreign oil firms – regularly take people hostage and destroy property. More attacks on oil firms since late 2005 have reduced Nigeria's oil output by 20 per cent. In 2008, the government established the Ministry of Niger Delta to foster peace and economic development in the area. It also established a committee tasked with ending violence in the region. Election reruns lead to more violence in Jos (Plateau State) where people were killed and properties were destroyed.

On 26 February 2008, the Presidential Election Petitions tribunal confirmed the validity of the election of President Yar'Adua, and the Supreme Court upheld the ruling later in the year. Opposition parties scored a number of successes in challenging the results of some of the re-contested legislative and state elections, but the People's Democratic Party won in many of the 2008 rerun elections. In addition, the federal government rationalized the number of ministries to make policy formulation and implementation easier. It has also changed key military personnel and federal ministers.

Nigeria has been riddled with corruption for a very long time although this has only recently received attention. The Economic and Financial Crimes Commission appointed Ms. Farida Mzamba Waziri, a retired high-ranking police official to stamp out corruption. The 2008 Transparency International Corruption Perception Index ranked Nigeria 121 out of 180 countries, up 26 places on 2007. The Economic and Financial Crimes Commission and the prosecutions of senior officials have contributed to improving Nigeria's ranking.

Social Context and Human Resources Development

Unfortunately Nigeria's tremendous oil resources and business dynamism have not benefited social progress or sustainable development. Human development indicators show that the country has yet to attain the Millennium Development Goals (MDGs). The United Nations Human Development Report gave Nigeria a Human Development Index ranking of 154 out of 179 countries, below the average for Africa.

There have been some improvements in the health sector. Infant mortality fell from 140 in the 1970s to 108.7out of a 1000 in 2008, although they are still higher than the continent's average of 81.8, and 57.3 throughout developing countries. Similarly, the mortality rate for under five year-olds – that accounts for 50 per cent of deaths in sub-Saharan Africa – fell from 265 to 186 during the same period. This is relatively high compared to the African average of 134 and the average for developing countries, which is 80.8. Life expectancy is only 47.9 years compared with 54.3 years for Africa, 65.4 years for developing countries. In 2007, 3.1 per cent of 15 to 19 year-olds were living with HIV/AIDS while 615 out of every 100 000 people had been diagnosed with tuberculosis. In 2003, just over 2 per cent of the population was reportedly carrying malaria. Statistics show that the country's public expenditure on health as a percentage of GDP is 4.1 per cent against a 4.6 per cent African average and over 6.3 per cent in developed countries. Poor and limited infrastructures also pose some challenges.

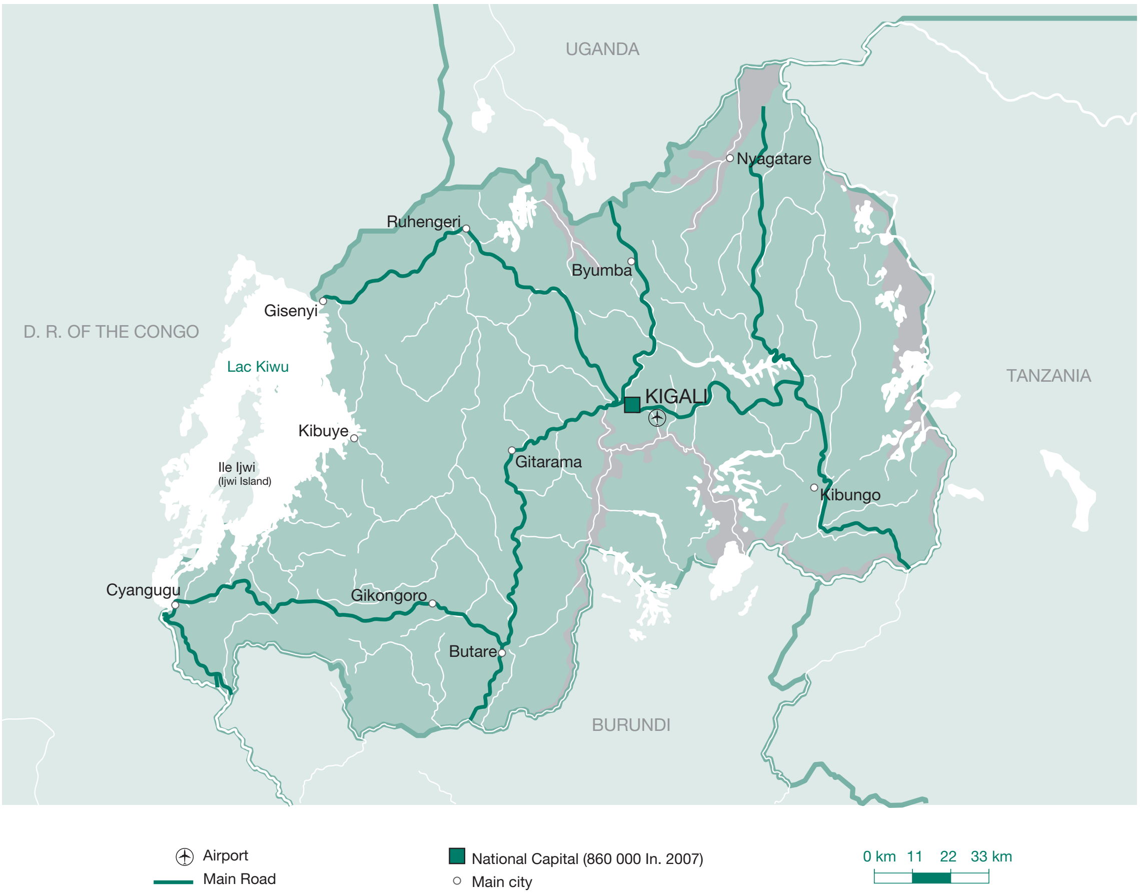
Nigeria's education system is underfunded. In 2004, federal education authorities said the compulsory, free Universal Basic Education Act would be improved to make basic education more needs based. Nigeria's gross primary enrolment stands at 92.5 per cent, compared to 96.4 per cent for Africa and 91 per cent for developing countries. The country's gross secondary enrolment stands at 74.5 per cent compared to 44.5 per cent for Africa and 88 per cent for developing countries. 47 and 30 per cent of the population has access to water and sanitation respectively. Nigeria's access to water and sanitation is lower than the African average of 63.6 and 37.3 per cent respectively. According to a recent survey, the proportion of people living below the poverty line fell from 70 per cent in 2000 to 54.4 per cent in 2004. Rural poverty is still above 63 per cent. Income inequality is higher in urban areas than in rural areas with Gini coefficients of 0.554 and 0.529, respectively.

Rwanda

key figures

- Land area, thousands of km^2: 25
- Population, thousands (2008): 9 721
- GDP per capita, PPP valuation, USD (2008): 867
- Life expectancy (2008): 50.2
- Illiteracy rate (2008): n.a.

Rwanda



UGANDA
D. R. OF THE CONGO
TANZANIA
BURUNDI
Lac Kiwu
Nyagatare
Ruhengeri
Byumba
Gisenyi
KIGALI
Kibuye
Gitarama
Ile Ijwi
(Ijwi Island)
Kibungo
Cyangugu
Gikongoro
Butare
Airport
Main Road
National Capital (860 000 In. 2007)
Main city
0 km 11 22 33 km

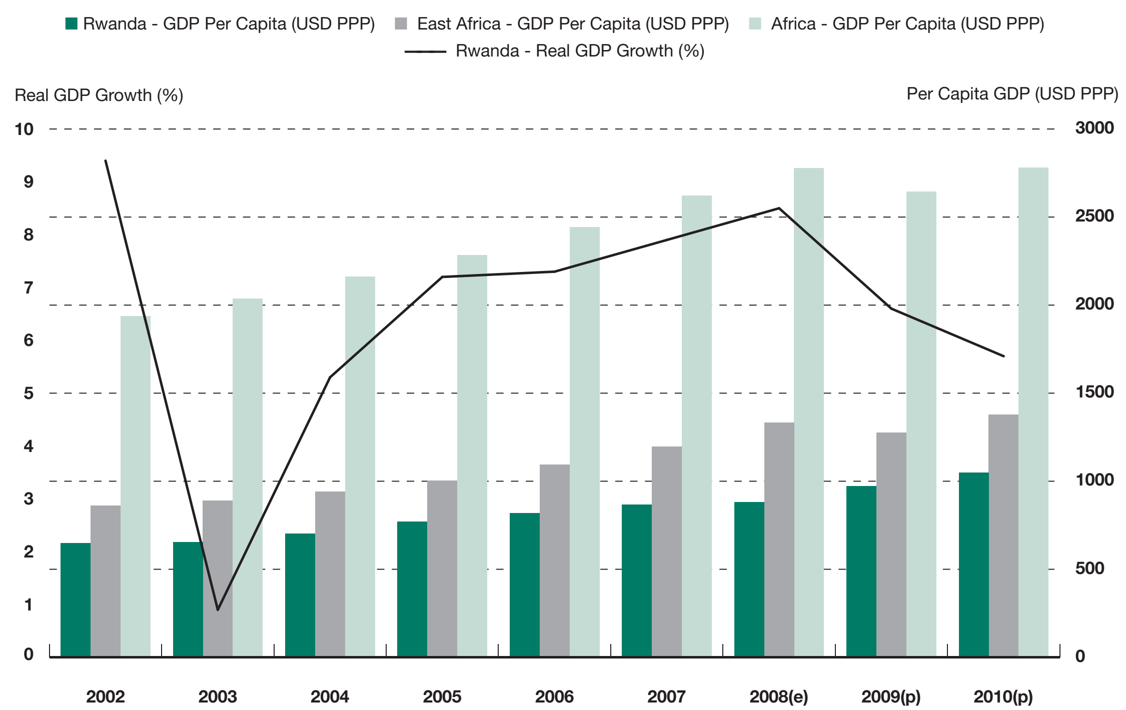
GDP GROWTH IN 2008 WAS ESTIMATED at slightly above 8.5 per cent, significantly higher than the average rate of 7.5 per cent registered during the 2005-07 period. The higher than expected growth in 2008 was largely a result of good climatic conditions that impacted favourably on agricultural production. In 2009, the economy is forecast to register lower growth of about 6.6 per cent. The lower growth forecast is a result of a combination of factors, including among others, a fall in exports, reduced government expenditures and a slowdown in agricultural growth. The weakening of economic growth is projected to extend into 2010, when the economy is expected to grow by 5.7 per cent.

The current declines in commodity prices arising from the global financial crisis are expected to impact negatively on the country's exports. Despite the high growth registered since 2001, the number of people living below the poverty line has only dropped by about 3 per cent. Rwanda continues to depend on aid flows, with almost 50 per cent of its national budget financed by Official Development Assistance (ODA). In December 2008, the Rwanda Revenue Authority reported that it had raised its revenue collection from 47 per cent to 50 per cent of the government budget.

Agriculture was the main growth driver in 2008. Youth unemployment remains a major challenge.

The fuel and food price increases in 2007 and 2008 resulted in inflation rising above single-digit levels, as transport prices rose substantially. The good agricultural

Figure 1 - Real GDP Growth and Per Capita GDP
(USD/PPP at current prices)



Source: National Institute of Statistics data; estimates (e) and projections (p) based on authors' calculations.

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season in 2008, however, had a dampening effect on food prices. In 2009, inflation is expected to be brought down to about 9 per cent and to fall further in 2010. The global economic downturn will also contribute to falling domestic prices, especially now that oil prices have dropped by more than USD 100 a barrel since July 2008.

Continuing reforms in support of the Economic Development and Poverty Reduction Strategy (EDPRS) and the increased focus on improving the business environment, with support from the development partners, are aimed at further improving growth prospects.

Recent Economic Developments

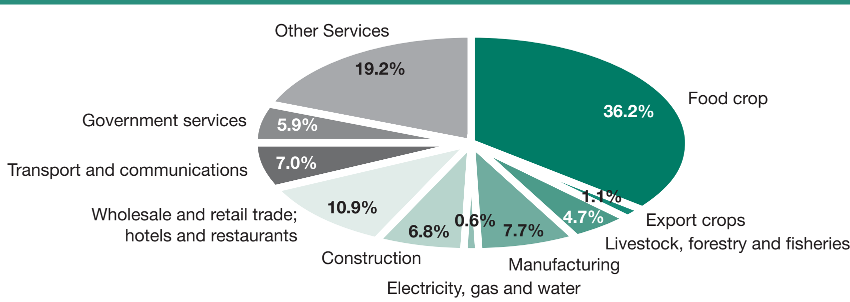
Sustained by the exceptional performance of the agricultural sector, real GDP growth in 2008 is estimated at 8.5 per cent, up from 7.9 per cent in 2007. Real GDP is forecast to fall to 6.6 per cent in 2009, although there are considerable downside risks with the real effects of the global financial crisis just beginning to unfold. Inflation has risen to two-digit levels from 9.1 per cent in 2007. High oil and food prices in 2008 have contributed to an annual inflation rate of 14.4 per cent.

The agricultural sector, which accounted for 38 per cent of GDP in 2007, experienced rapid growth in both 2007 and 2008. The sector grew by 14.7 per cent in 2008 led by the production of food crops which increased by 16.4 per cent. The exceptional growth in cereals production - maize (64.1 per cent) and wheat (180.5 per cent) - is a direct result of the Crop Intensification Programme, which improved the quality and quantity of inputs, as well as good weather conditions.

Other food crops to register high growth were cassava (155.8 per cent), rice (32.7 per cent) and Irish potatoes (20.1 per cent). Similar growth was registered in coffee production, which rebounded in 2008 by 70.4 per cent, following a poor performance in 2007. However, tea production dropped by 6 per cent although it remained higher than the 5-year average of 10 110 tonnes. Furthermore, livestock, fisheries and forestry recovered from the depressed conditions prevailing in 2007.

At the beginning of 2008, the 2nd Phase of the Rural Sector Support Project was launched. This phase of the project will focus on a Resettlement Policy Framework that seeks to build upon the first phase of the project. During this first Phase, which ran from 2001 to 2008, the focus was on building the institutional, technical, and human capacity needed to support the adoption of sustainable intensive agriculture in developed marshlands and surrounding hillsides. The 2nd Phase, 2008-13, aims at accelerating the pace of intensification and the commercialisation of agricultural production.

Figure 2 - **GDP by Sector in 2007** (percentage)



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

StatLink http://dx.doi.org/10.1787/572318047723

Industrial production has also exhibited strong growth, 10.2 per cent in 2007 and an estimated 14.6 per cent in 2008. In 2007, industrial activity accounted for 15 per cent of GDP, with construction being the largest sub-sector. Growth in the construction sub-sector was estimated at 26.1 per cent in 2008. Large public sector investment projects such as the methane gas project and a boom in private sector investments in hotels and private housing are responsible for the increased activity in this sector. Mining remains a marginal activity, contributing about 1 per cent to GDP from three dominant products: cassiterite, coltan and wolfram. Output for the first two products increased by 5.3 per cent and 37.8 per cent respectively, between January and June 2008 compared to the corresponding period in 2007. Wolfram output, however, declined by almost 40 per cent. Also, cassiterite and coltan prices rose by 53.2 per cent and 96.8 per cent respectively.

Manufacturing accounted for about 6 per cent of GDP in 2007. Food processing and beverages and tobacco constitute more than 60 per cent of manufacturing activities. Growth in these two sectors was, however, significantly lower – food (7 per cent) and beverages and tobacco (1 per cent) – compared to that of wood and paper (27 per cent) and furniture (24 per cent). Estimates for 2008 show mixed outcomes for growth in the beverages sub-sector. During the first quarter of 2008, soft drinks production grew by 87.3 per cent while alcoholic drinks output shrunk by 12.3 per cent, resulting in overall growth of only 20.2 per cent compared to the same period in 2007. Despite the high growth in the construction sector, local cement production only rose by 2 per cent compared to 96.7 per cent growth in cement imports. This outcome indicates significant local capacity constraints to respond to increasing demand.

In 2008, growth in the services sector (47 per cent of GDP) as a whole is estimated at only 4.2 per cent, significantly lower than in 2007. In particular, the wholesale and retail trade and hotels and restaurant sub-sectors are expected to contract marginally. On the other hand, the government's financial sector liberalisation programme is beginning to yield positive results, with the finance and insurance sub-sector estimated to have registered strong growth (21 per cent). The telecommunications sector is also estimated to have grown by 28.9 per cent in 2008.

Gross capital formation (GCF) expenditure constituted 21.2 per cent of GDP in nominal terms in 2007. In 2008, growth in real GCF was estimated at 13.3 per cent and projected to weaken further to 1.9 per cent in 2009, before rebounding to 6.6 per cent in 2010. While public investment is expected to increase by about 22 per cent in 2008 before contracting to 0.6 per cent in 2009, private investment growth is estimated at only 6.9 per cent in 2008 and is expected to slow further to 4 per cent in 2009.

Private investment growth reflected large investments in many sectors in 2008. Nigeria's Industrial and General Insurance Company (IGI) acquired a controlling 35 per cent (RWF 1.6 billion)-(Rwandan franc) stake in Société Nouvelle d'Assurance du Rwanda (SONARWA), the largest insurance company in Rwanda. The African Development Corporation (ADC), a German-owned investment company, acquired 25 per cent of shares worth RWF 4.4 billion in Rwanda Development Bank (BRD) and another 70 per cent share ownership valued at USD 3.5 million in Rwanda's national electronic payment transactions provider. Nigeria's Access Bank also acquired 75 per cent of the shares in Bancor, the fourth largest commercial bank in Rwanda. ShoreCap International – comprised of a Chicago-based consortium of financiers, the Belgian Investment Company for developing countries (BIO), and Tunisian AfricaInvest – acquired a 40 per cent stake worth USD 6 million in Compagnie Générale des Banques (Cogebanque), a Rwandan bank. Nakumatt Holdings of Kenya acquired control of Rwanda's largest supermarket, City Market, for USD 3 million. Further investments in Virunga Property Development, were expected to bring in another USD 18 million in 2008.

Both private and public consumption are expected to continue to grow. Growth in public consumption, however, is expected to weaken significantly in 2009 and 2010, contributing less than 1 per cent to GDP growth. Private consumption growth, on the other

Table 1 – **Demand Composition**

	Percentage of GDP (current prices)		Percentage changes, volume			Contribution to real GDP growth		
	2000	**2007**	**2008(e)**	**2009(p)**	**2010(p)**	**2008(e)**	**2009(p)**	**2010(p)**
Gross capital formation	**18.3**	**21.2**	**13.3**	**1.9**	**6.6**	**2.4**	**0.4**	**1.2**
Public	6.2	8.8	22.4	-0.6	7.1	1.7	-0.1	0.6
Private	12.1	12.4	6.9	4.0	6.2	0.7	0.4	0.6
Consumption	**99.9**	**97.2**	**9.6**	**9.4**	**6.4**	**9.2**	**9.1**	**6.3**
Public	11.0	10.9	5.9	5.2	3.6	0.6	0.5	0.3
Private	88.9	86.3	10.0	9.9	6.7	8.7	8.6	6.0
External demand	**-18.2**	**-18.3**				**-3.1**	**-2.9**	**-1.9**
Exports	7.5	10.0	2.3	1.4	5.8	0.2	0.1	0.5
Imports	-25.7	-28.3	14.0	12.0	9.0	-3.3	-3.0	-2.4
Real GDP growth						**8.5**	**6.6**	**5.7**

Source: National Institute of Statistics and National Bank of Rwanda data; estimates (e) and projections (p) based on authors' calculations.

StatLink http://dx.doi.org/10.1787/576113660670

hand, is expected to increase by 9.9 per cent in 2009 before weakening in 2010 to 6.7 per cent. Overall, total consumption is expected to drive GDP growth in the short to medium term. The external sector's contribution to growth is expected to be negative. Imports are forecast to grow faster than exports leading to a worsening balance of trade position. The limited diversification of the trade sector remains one of the greatest challenges facing Rwanda, particularly given risks of reduced ODA in the wake of the global financial crisis.

Macroeconomic Policies

Fiscal Policy

In an effort to contain inflationary pressures, expenditures were restrained during the first and second quarters of 2008; however, during the third quarter, expenditure rose faster than expected. Overall, government expenditure in 2008 was expected to be RWF 620 billion, with revenue standing at RWF 322 billion. The budgeted expenditure for 2008 was far higher than the RWF 460 billion in 2007. The initial budget surplus of 1.3 per cent of GDP, however, is now unlikely to be realised as expenditures rose sharply during the second half of the year despite the good performance in revenue collection. In particular, Sweden and the Netherlands withdrew part of the budgeted grants in reaction to a negative United Nations report on events in the Democratic Republic of Congo. Thus, in 2008, the fiscal deficit is estimated to be 0.3 per cent of GDP, but significantly lower than the 1.7 per cent realised in 2007. In 2009, the deficit is expected to narrow further to 0.1 per cent, but this is highly dependent on the government not adopting expansionary measures in response to the financial crisis and on donor support remaining strong. In the meantime, the government plans to reduce expenditure in 2009 in anticipation of a decline in grants while tax revenues are not expected to increase at the same rate as experienced over the last three years.

Actual expenditures during the first half of 2008 fell below target by a total of RWF 15.4 billion but shot-up from RWF 144 billion to RWF 174 billion in the third quarter of 2008, an increase of 21.1 per cent. On the revenue side, tax revenue collection during the first half of the year improved due to healthy real GDP growth, increased monetisation of the economy, as well as improvements in Rwanda Revenue Authority's tax collection efforts. By the end of June 2008, total revenue was RWF 180 billion and higher than the

Table 2 - **Public Finances** (percentage of GDP at current prices)

	2000	2005	2006	2007	2008(e)	2009(p)	2010(p)
Total revenue and grants[a]	**20.2**	**26.3**	**23.8**	**25.2**	**26.9**	**24.7**	**23.7**
Tax revenue	9.7	12.3	12.2	13.0	12.8	13.5	13.8
Grants	10.1	12.7	10.6	11.4	13.3	10.3	9.1
Total expenditure and net lending[a]	**19.5**	**25.7**	**24.2**	**26.9**	**27.2**	**24.7**	**24.8**
Current expenditure	13.2	16.2	16.1	17.1	16.6	15.4	14.9
Excluding interest	*12.2*	*15.4*	*15.1*	*16.5*	*16.0*	*14.9*	*14.5*
Wages and salaries	5.4	3.9	3.9	4.0	3.5	3.3	3.1
Interest	1.0	0.8	0.9	0.6	0.6	0.5	0.4
Capital expenditure	6.2	9.1	7.5	10.2	10.9	9.8	9.8
Primary balance	**1.7**	**1.4**	**0.5**	**-1.1**	**0.2**	**0.4**	**-0.7**
Overall balance	**0.8**	**0.7**	**-0.4**	**-1.7**	**-0.3**	**-0.1**	**-1.1**

a. Only major items are reported.
Source: National Institute of Statistics and National Bank of Rwanda data; estimates (e) and projections (p) based on authors' calculations.

StatLink http://dx.doi.org/10.1787/577625760424

projected amount. Total revenue, however, was only RWF 128 billion at the end of September, or 28.9 per cent less than the June level. While tax revenue remained more or less unchanged at RWF 83 billion at the end of September 2008, compared to RWF 82 billion in June, grants fell back to less than half their level at RWF 42 billion against RWF 90 billion in June.

Despite the upward revision of the 2008 expenditures by RWF 51 billion due to rising fuel prices and the associated increase in transport costs, the reduced inflow of grants is also responsible for the widening fiscal deficit by the end of September 2008. Petroleum products have been heavily subsidised. In 2006 and 2007 the pump price of petrol and diesel hardly changed. However, as the subsidies reached 100 per cent in 2008, prices started creeping upwards before they began falling in October, imposing a heavy burden on the Treasury. At the end of the third quarter, the fiscal deficit increased to RWF 29 billion on a cash basis compared to RWF 26 billion at the end of June. The deficit at the end of September 2008 was financed by domestic resources to the tune of RWF 19.29 billion while foreign resources contributed RWF 9.77 billion, of which RWF 9.73 billion were project loans and the rest realised from exchange rate gains.

While the government failed to reduce expenditure, it avoided central bank financing of the deficit and reduced the amount of domestic debt held by the banking sector. Of the RWF 121 billion total outstanding domestic debt at the end of September 2008, only RWF 5 billion was from the banking sector compared to more than RWF 20 billion at the beginning of the year. In particular, outstanding domestic public debt came down from RWF 132 billion in June to RWF 121 billion in September 2008, a fall of 8.1 per cent. The Rwanda Social Security Fund contributed about RWF 64 billion of the non-bank financing of the debt. The fall in debt has brought about some relief to the budget as debt servicing requirements have declined.

Beginning 2009, Rwanda is moving to a new fiscal year running from July to June. A mini- budget for January-June 2009 has been approved. This mini-budget allows for the use of aid inflows to scale up spending on priority sectors, including infrastructure, in line with the objectives of the Economic Development and Poverty Reduction Strategy (EDPRS).

Monetary Policy

The main objectives of the Poverty Reduction and Growth Facility 2008 macroeconomic framework were to achieve real GDP growth of between 5.5 per cent and 6.5 per cent and an average inflation rate of 8.5 per cent. Following a loose monetary policy in 2007, the authorities decided to slow the growth of the money supply in 2008. In 2007, broad money supply growth was 33.2 per cent (from 30.4 per cent in 2006) and the objective in 2008 was to decelerate the growth of broad money to 14 per cent.

The National Bank of Rwanda (BNR) controls money supply growth by targeting banking sector liquidity. It affects liquidity through overnight operations, 7-day operations, repurchasing operations and by issuing Treasury bills and bonds. Between January and September 2008, it drained liquidity by 29 per cent more than it had done during the same period in 2007. In August 2008 the NBR replaced overnight and 7-day mopping-up operations with repurchase operations of up to 14 days, as a means of increasing the efficiency of liquidity control. Similarly, Treasury bills issued between January and September 2008 rose by 20.8 per cent compared to the same period in 2007. Other than adjustments in maturities in money market operations, the Central Bank continuously increased the monthly draining of liquidity from 5.2 per cent in February to 7.9 per cent in September 2008.

At end June 2008, Net Foreign Assets (NFA) rose sharply to RWF 331 billion from RWF 281.8 billion in December 2007. The increase occurred as a result of disbursements of official budget support of USD 247.1 million and the second instalment for the sale of Rwandatel of USD 25 million to the Libyan company Lapgreen. By mid-2008, foreign exchange reserves were equivalent to about 5.2 months of import cover but were expected to fall by 2.3 per cent compared to their level at the end of 2007. The effect of the increase in foreign currency inflows was to reduce government demand for credit which declined from the targeted RWF 116 billion to RWF 70 billion at end June 2008. The combination of an estimated 22 per cent increase in reserve money and a slightly lower 20 per cent increase of both credit to government and the private sector is likely to push up narrow money growth. Despite this expected expansion in narrow money, growth in broad money supply was projected to slow as a result of FDI outflows of about USD 16 million and the increase in the interest rate on mopping-up operations. The Central Bank also hopes to improve its liquidity management by reintroducing the 4-weeks instruments as well as establishing repurchase agreement operations of up to 90 days. This policy change will help restore positive real interest rates. It was, therefore, expected that the targeted 14 per cent growth in broad money supply would be achieved.

On the exchange rate front, the Central Bank allowed temporary appreciations of the RWF by 0.2 per cent between end-2007 and June 2008, but it subsequently depreciated slightly to more than 546 units per USD by year-end and is expected to be roughly stable in 2009 and 2010. The strength of the RWF has helped curb inflationary pressures, although the inflation outcome of 14.4 per cent exceeded the projected annual average of 8.5 per cent.

Apart from the effects of draining liquidity from the banking system, other interest rates remained largely unchanged. Despite the tight monetary conditions, the inter-bank rate fluctuated between 6.6 and 8 per cent even though the discount rate was 12.5 per cent. In addition, deposit rates remained low at about 6 per cent. With the high rate of inflation in 2008, all real interest rates, with the exception of lending rates (16 per cent), were negative. It is therefore important that the Central Bank adopt measures to encourage local savings and increase efficiency in the financial sector.

External Position

Exports grew by 40 per cent during the first three quarters of 2008 compared to 2007 driven by a recovery of cash crops. However, imports increased by 58 per cent during the same period. Rwanda's trade position is unsustainable in that export receipts cover only 24 per cent of import requirements. Thus greater effort must be devoted to developing the export sector, especially the non-traditional exports of horticultural products and tourism.

Rwanda's exports continue to be dominated by traditional export products, such as coffee, tea and minerals that account for more than 69 per cent of all export receipts. For example, mining receipts constitute 36.5 per cent of total export receipts followed by coffee and tea, contributing 32.9 per cent. A combination of the increases in both the volume and price of the major exports contributed to the observed performance of the export sector. In particular, coffee export volumes rose by 24.8 per cent while its price increased by an average of 12.1 per cent. The highest price increase was registered for cassiterite (68.3 per cent) followed by coltan (51.7 per cent). Horticultural exports contracted significantly, with export receipts falling from USD 233 275 end September 2007 to USD 50 320 for the corresponding period in 2008.

In 2008, tourism, which had been growing rapidly, contracted with earnings falling to USD 138.6 million compared to USD 180.5 million in 2007. In 2009, a further decline is expected, due to the effects of the financial crisis.

The increase in international food and fuel prices had a significant impact on the import bill. While the volume of food imports declined by 26.1 per cent during the first nine months of 2008 compared to the same period in 2007, the value of food imports rose by 18.3 per cent, reflecting the impact of rising international oil and food prices. In value terms, the total import bill increased by 58 per cent but rose by only 12 per cent in volume terms. Intermediate and capital goods imports increased the most, at 91 per cent and 84 per cent, respectively. The growth in agriculture, construction and manufacturing has been accompanied by large increases in imports of fertilizer, cement and machinery. Machinery imports, for instance, increased by 144 per cent in value. In addition, imports of energy and lubricants, of which fuel accounts for more than 90 per cent, increased by 47 per cent in value and only 6 per cent in volume.

As a result of these developments in merchandise trade, the trade balance deteriorated further, from USD 377 million at end September 2007 to USD 622 million over the corresponding period in 2008. However, the trade deficit is projected to improve in 2009, decreasing to 10.3 per cent of GDP from 12.8 per cent in 2008.

Despite the high growth in the service sectors, Rwanda remains a net importer of services. The tourism sector, however, has increased in importance as a foreign currency earner, with receipts higher than those from tea exports. The government projects that private transfers (including remittances) are likely to fall from USD 115.2 million in 2008 to USD 83.4 million in 2009. Despite this in 2009 the current account deficit is expected to improve to 5.9 per cent compared to 7.9 per cent of GDP in 2008.

Moreover, the government expects foreign direct investment to fall from USD 83.4 million in 2008 to USD 46 million in 2009. Thus, a larger portion of the current account deficit will need to be financed by debt and drawing down reserves.

Some of these inflows are in the form of debt. Following the fall in Rwanda's public debt in 2005, as

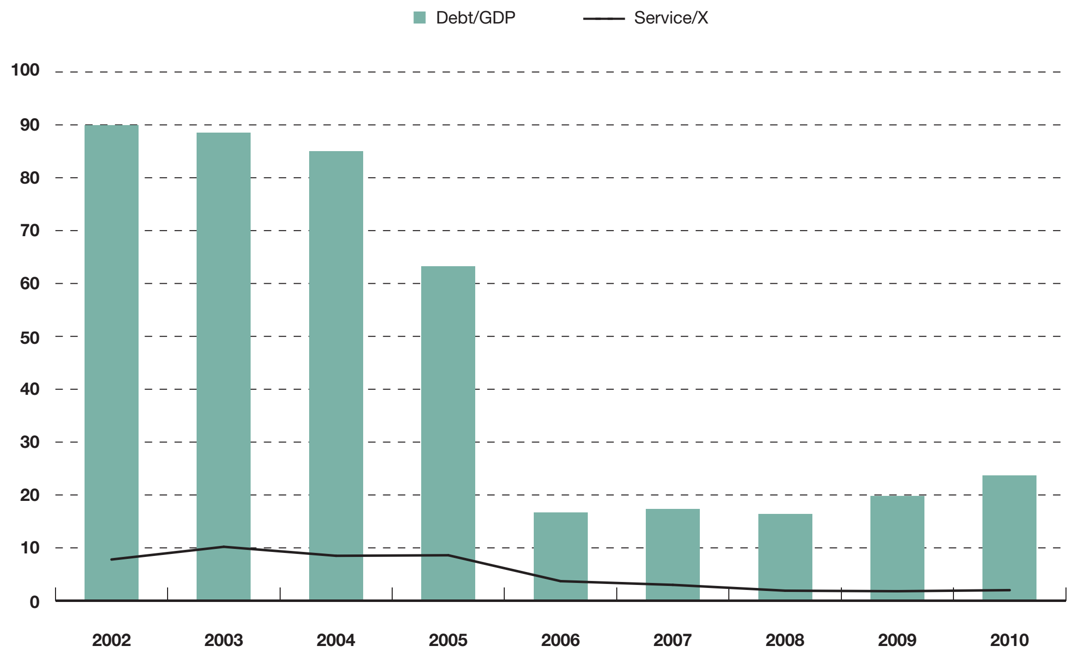
Table 3 - **Current Account** (percentage of GDP at current prices)

	2000	2005	2006	2007	2008(e)	2009(p)	2010(p)
Trade balance	-9.2	-9.6	-10.4	-12.1	-12.8	-10.3	-10.2
Exports of goods (f.o.b.)	4.0	5.3	5.1	5.3	5.1	5.0	5.2
Imports of goods (f.o.b.)	13.2	14.9	15.6	17.4	17.8	15.3	15.4
Services	-9.3	-7.0	-7.2	-6.2	-8.1	-4.5	-3.9
Factor income	-0.9	-1.2	-1.0	-0.5	-0.5	-0.5	-0.3
Current transfers	16.8	16.6	11.3	13.8	13.5	9.4	8.2
Current account balance	**-2.6**	**-1.1**	**-7.3**	**-5.0**	**-7.9**	**-5.9**	**-6.2**

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

StatLink http://dx.doi.org/10.1787/580115123660

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



Source: IMF.

StatLink http://dx.doi.org/10.1787/573823628274

a result of debt cancellation, external debt increased in 2006 to USD 449.8 million before rising further to USD 503.2 million in 2007. The 11.9 per cent increase in debt in 2007 was mainly due to new disbursements of multilateral loans. Bilateral debt, however, declined with the cancellation of China's loan of about USD 17.2 million. At the end of 2007, bilateral debt was USD 72.9 million compared to USD 88.1 million in 2006. The increase in multilateral debt in recent years resulted in the proportion of debt held in SDR currency rising from 64 per cent in 2006 to 69.4 per cent in 2007. Bilateral debt service fell by more than 50 per cent in 2007 compared to the levels of 2006.

Structural Issues

Private Sector Development

The Rwanda Intellectual Property Rights Bill was passed in October 2008 with a view to improving incentives for creativity and innovation. A number of other measures were also taken to improve the business climate and eliminate obstacles to business development. One important measure was the computerisation of the Rwanda Commercial and Registry Services which will speed up business registration, securitisation of assets, and registration of intellectual property rights. Also the Rwanda Intellectual Property Rights Bill was passed by parliament. In addition, the office of the Registrar of Land Titles began operations in 2008 making the land registration process easier.

As part of its divesture programme, in 2008, the government targeted IMPRISCO and Rubilizi National Hatchery for privatisation. Partial privatisations were also planned for Rwandair Express (40 per cent) and Pfunda Tea Company (35 per cent). The former transaction, however, did not materialise in 2008. Proceeds from these sales were meant to improve the operational efficiencies of these entities while providing resources that could be used by the government for infrastructure investment.

The signing of a Bilateral Investment Treaty between Rwanda and the United States in February 2008 is an indication that the government is open to foreign investment.

In 2008, a number of steps were taken to modernise the national payments system. Financial support was provided by an investment from the African Development Corporation (ADC), which acquired a controlling stake in Rwanda's national electronic payment transactions provider. Further efforts were directed at improving access to credit and financial services, upgrading accounting and auditing standards, and promoting contractual savings and non-bank financial institutions in order to mobilise long-term savings. The issues of access to credit and financial services will continue to receive attention in coming years, since only 14 per cent of the country's adult population have access to banking services.

The Rwandan parliament passed two pieces of legislation in 2008. In July, a law governing the organisation and supervision of the insurance industry was followed in October by the passing of the Anti-Money Laundering and Combating the Financing of Terrorism Act. Also, a Capital Markets Authority and a Stock Exchange were established, moving the country into greater alignment with conditions elsewhere in the East African Community.

Other Recent Developments

In 2008 Rwanda's developed the first Rwanda Industrial Master Plan (RIMP). The RIMP was drawn within the context of the Industrial Development Policy of 2006, the main objective of which is to foster job creation and income generation by improving the performance and competitiveness of the industrial sector.

The Rwandan government produced an energy sector policy document at the end of 2008 in which the main objectives are to: ensure the availability of reliable and affordable energy supplies for all Rwandans; encourage the rational and efficient use of energy; and, establish environmentally sound and sustainable systems of energy production, procurement, transportation, distribution and end-use.

The current energy sources are skewed towards wood (80 per cent), with electricity contributing only 3 per cent. Electricity generation is also heavily dependent on petroleum products, all of which are imported. Market-related signals have been proposed to ensure efficient use of energy as well as to provide adequate incentives for suppliers to invest in the sector. The coming on stream of the Lake Kivu methane gas generator in 2008 represented an improvement in electricity supply.

The World Bank approved the Second Rural Sector Support project worth USD 35 million in June 2008, focusing on assisting rural households to expand and intensify sustainable crop production systems and to increase their participation in agricultural markets.

Innovation and ICT

As of 2006, ICT usage had penetrated to 80 per cent of government sector institutions and over 60 per cent of the private sector, up from about 47 per cent and 10 per cent, respectively, in 2003. The use of computers, however, is fairly widespread across all types of institutions, except for local government institutions where the level of ICT engagement is the lowest at only 42 per cent. Access to computers and ICT services in the education sector has increased. Teachers and students in teacher training colleges all have access to computers but with no access to the Internet. Overall, technology adoption is higher in urban areas than rural areas. A number of initiatives to increase the penetration of ICTs in rural areas are underway. A stable and sufficient supply of electricity remains the greatest obstacle to increasing penetration rates in rural areas.

While fixed telephone subscriptions remain low at only 21 801 at the end of September 2007, the mobile telephone subscriber base stood at more than 642 000, up from about 105 000 in 2003. In mobile telephony, Rwandatel has recently increased its subscriber base to about 120 000 thereby increasing its market share from

4 per cent to slightly below 20 per cent by end of 2008. MTN-Rwandacell's market share has thus been reduced from 96 per cent to about 80 per cent. In terms of Internet services, the order is reversed, with Rwandatel having 62 per cent of the market share on its ADSL and CDMA networks and MTN-Rwandacell at 35 per cent on the GPRS (32 KBps) and Wimax networks (64 KBps, 256 KBps and 1 MBps). Artel and ISPA share the remaining 3 per cent. Rwandatel has 3 000 dial-up subscribers. Wireless Internet services are provided by TerrAcom, Mediapost and Rwandatel who among them share 40 customers in the 2.4 GHz range, with bandwidth of 11 MBps. Rwandacell provides Voice Over IP (VoIP) on three gateways while Rwandatel's VoIP is offered on an Asterix-based VoIP using open source software.

With the availability of these services, teledensity for fixed telephones has risen from 0.24 per 100 people in 2002 to 0.30 by end of 2007. Teledensity is expected to rise further to 2 per 100 by 2010. The privatisation of Rwandatel has helped to increase competition among mobile telephone operators, leading to a decrease in costs. While current usage costs for fixed telephone lines (RWF 33/minute for both peak and off-peak calls) are not prohibitive, the installation charges of RWF 25 000 are high. For mobile telephones, Rwandatel charges RWF 50/minute for both off-peak peak hours compared to MTN-Rwandacell's RWF 81/minute during peak hours and RWF 62/minute during off-peak hours. MTN-Rwandacell also provides a pre-paid option that costs RWF 100/minute and RWF 89/minute during off-peak times. Mobile phone handsets cost a minimum of RWF 12 000. Monthly Internet subscriptions vary from RWF 75 000 to RWF 1.9 million depending on bandwidth.

The Telecommunications Law No. 44/2001 of 30 November 2001 provides the regulatory framework for the sector. It established an independent multi-sector regulatory body, the Rwanda Utilities Regulatory Agency (RURA). Among other things, the law requires networks to be interconnected. In addition, the law requires public telecommunications operators to offer individuals and organisations in all regions of the country a connection to a public telephone service. Public operators are also required to contribute to a universal access fund meant to facilitate the broadest possible access to public telephony throughout Rwanda. The regulatory body is also required to expedite the issuing of licences to operators. In 2007, 25 new licenses and renewals for VSAT, ISP, radio and television assignments, satellite telephony and pay television were issued by RURA.

A recent entrant in the sector, Artel, provides telephony and Internet services over VSATs in rural areas. Schools have also benefited from the provision of ICT laboratories and Internet access. The government has also embarked on a national programme to distribute computers to secondary schools in support of education programmes in the country. Plans are also underway to provide more computers through the World Links Project, NEPAD, and the World Bank's Human Resource Development Project (HRDP). The government has also begun to ensure the development of ICT skills to facilitate uptake. Public universities now include ICT in their curricula and private registered ICT training and testing institutions have sprung up. The public service has also made basic computer literacy a requirement, with all government ministries and agencies having an ICT training and development budget.

The government remains the leading player in promoting ICT development in Rwanda but it partners with private sector operators. One such example is the development of Kigali ICT Park, which comprises: established ICT companies, incubated companies (ICT startups) and a multi-disciplinary Centre of Excellence in ICT (MCE-ICT). At the end of 2008, the government had begun rolling-out the installation of Public Information Points, starting with Kigali Airport. The government has also developed ICT technical standards and guidelines, an activity spearheaded by the Rwanda Information Technology Agency (RITA). The standards and guidelines are meant to promote the e-government initiative through which all government ministries and agencies are expected to make optimum use of ICTs.

The government also offers tax incentives to ICT-related services and equipment. All ICT equipment is exempt from import taxes. Those involved in the leasing of computer equipment only pay taxes relating to the services provided at the time of installation and setup of the computers and information systems.

Over a four-year period, more than RWF 26 billion has been invested in the ICT sector, of which RWF 8.5 billion was realised in 2007. Projects that have benefited from these investments include Kalisimbi, the National ID Project, SmartGov, government Internet connectivity, Telecenter, Telemedecine, SchoolNet Project, Microsoft licensing and others. Korea Telecom (KT) signed a deal worth USD 40 million with the Rwandan government to implement Rwanda's national backbone project that was expected to connect the entire country on a fibre-optic broadband network by the end of 2008. During 2008, Rwandatel, owned by LapGreen Networks, a subsidiary of a Libyan Government investment arm, launched its 3G and GSM networks aiming to raise its subscriber base to 600 000 subscribers in 2009. It currently has attracted more than 120 000 subscribers in just two months of operation. A third telecommunications licence was issued to Millicom Cellular International which intends to roll-out mobile and fixed line networks at a cost of about USD 60 million.

While much remains to be done to increase access to and the affordability of ICT services, there are clear indications that the government is determined to pursue further development of the sector, with the private sector playing an increasing role.

Political Context

Nation building efforts by the government after the devastation of the 1994 genocide are continuing. The government has chosen the path of reconciliation, unity, social cohesion and development as national priorities. In October 2008, steps were taken to strengthen all Rwandan political parties to enable them to engage in interparty dialogue and improve their capacity to organise, communicate, and reach out to constituents at the grassroots level. A presidential pardon extended to former president, Pasteur Bizimungu in April 2007, three years into his 15-year sentence, has been hailed as a positive step in ongoing efforts at national healing. At the regional level, Rwanda signed a peace agreement with Democratic Republic of Congo, which, among other things, requires the latter to repatriate detainees suspected of participating in the 1994 genocide.

Following the September 2008 legislative elections the ruling Rwandan Patriotic Front (RPF) won 78.6 per cent of the vote, with the Social Democratic Party (PSD) and Liberal Party (PL) sharing the remainder of the seats. The elections also resulted in women taking 56 per cent of all parliamentary seats, making Rwanda's Chamber of Deputies the first in the world with a female majority. The elections were endorsed by international observers, and will enable the incumbent president to pursue other pressing social development matters if he is re-elected in 2010.

Rwanda ranks 111th out of 179 countries in Transparency International's Corruption Perceptions Index for 2007. In the World Bank's 2008 Doing Business rankings Rwanda was 139th among the 181 economies assessed, gaining 11 places to be listed among the world's 20 top reformers and coming only after Senegal, Burkina Faso, Botswana and Liberia as Africa's top reformer.

Social Context and Human Resources Development

The 2008 Millennium Development Goals report for Rwanda shows that the goals on poverty, provision of maternal health, biological diversity and access to telephones and computers will not be attained. Significant progress, however, has been made in education, gender equality, reducing child mortality, combating diseases and reducing debt.

Despite the high economic growth that has been experienced since 2000, Rwanda has not made much progress in reducing poverty. However, there is some evidence that economic growth is beginning to have a substantial impact on the welfare of the Rwandan population. For example, per capita income rose from USD 310 in 2006 to USD 370 in 2007, which is equivalent to a 19 per cent increase.

The 2007/08 Human Development Report observes that the Human Development Index (HDI) for Rwanda in 2005 was 0.452, resulting in the country being ranked 161st out of 177 countries. The country's HDI is consistently below the average for sub-Saharan Africa over the 1975–2005 period. Also, Rwanda's Human Poverty Index – measured in terms of living a long and healthy life, having access to education, and a decent standard of living – is 36.5, which gives it a ranking of 78th out of 108 countries.

In education, net primary enrolment rates are 97 per cent, largely due to the government's decision to make primary education free and mandatory. This move has been supported by donors. There are now 26 944 qualified primary school teachers, representing 93.7 per cent of the total number of teachers. The net enrolment rate, the rate of promotion to secondary level and drop-out rates have also improved. The drop-out rate has fallen from 15.2 per cent in 2003/04 to just 3 per cent in 2005/06, while the promotion rate was 82.5 per cent in 2005/06 compared to 64.6 per cent in 2002/03. In both primary and secondary schools, the student-teacher ratio has been increasing. For primary schools this ratio was 70 in 2005/06 compared to 59 in 2002/03. At the secondary level, private schools have lower student-teacher ratios of about 28 compared to 30 for public schools. The percentage of well trained secondary teachers, 55.5 per cent, was lower in 2005/06 than in 2002/03. All these factors combined are having a negative effect on the quality of education in Rwanda. The transition to using English as the language of instruction is also likely to aggravate the situation because educational materials are mainly in French and most teachers are not trained in English. Despite this situation, the budget allocation for the Ministry of Education as a proportion of the total central government budget will increase only marginally from 8.4 per cent in 2008 to 8.7 per cent in 2009 and 9 per cent in 2010.

Targets for gender equality in primary and secondary schools have already been met. Similarly, the target for women's participation in parliament (56 per cent in 2008) exceeds the 50 per cent mark.

In contrast, the health sector's portion of the total central government budget has been programmed to fall slightly over the 2008-10 period from 7.4 per cent to 7.1 per cent despite the inadequacies of health outcomes. While the prevalence of HIV positive people is low, greater efforts are still required to contain its spread. The United Nations 2008 report (UNAIDS 2008 Report on the Global AIDS Epidemic), estimates that 130 000 Rwandans are infected with the virus out of a population of 9.9 million, with 60 per cent of these cases being women. The same Report estimated that 7 800 deaths in 2007 were due to AIDS. According to the Treatment and Research Aids Centre (TRAC), by the end of September 2008, about 59 900 people were on anti-retroviral drugs, with 39 118 of them having been on treatment for more than 12 months. TRAC also reported that their greatest challenge is the lack of adequate personnel to deal with the problem, as 7 per cent of those that start treatment do not continue due to the failure of the health personnel to track them.

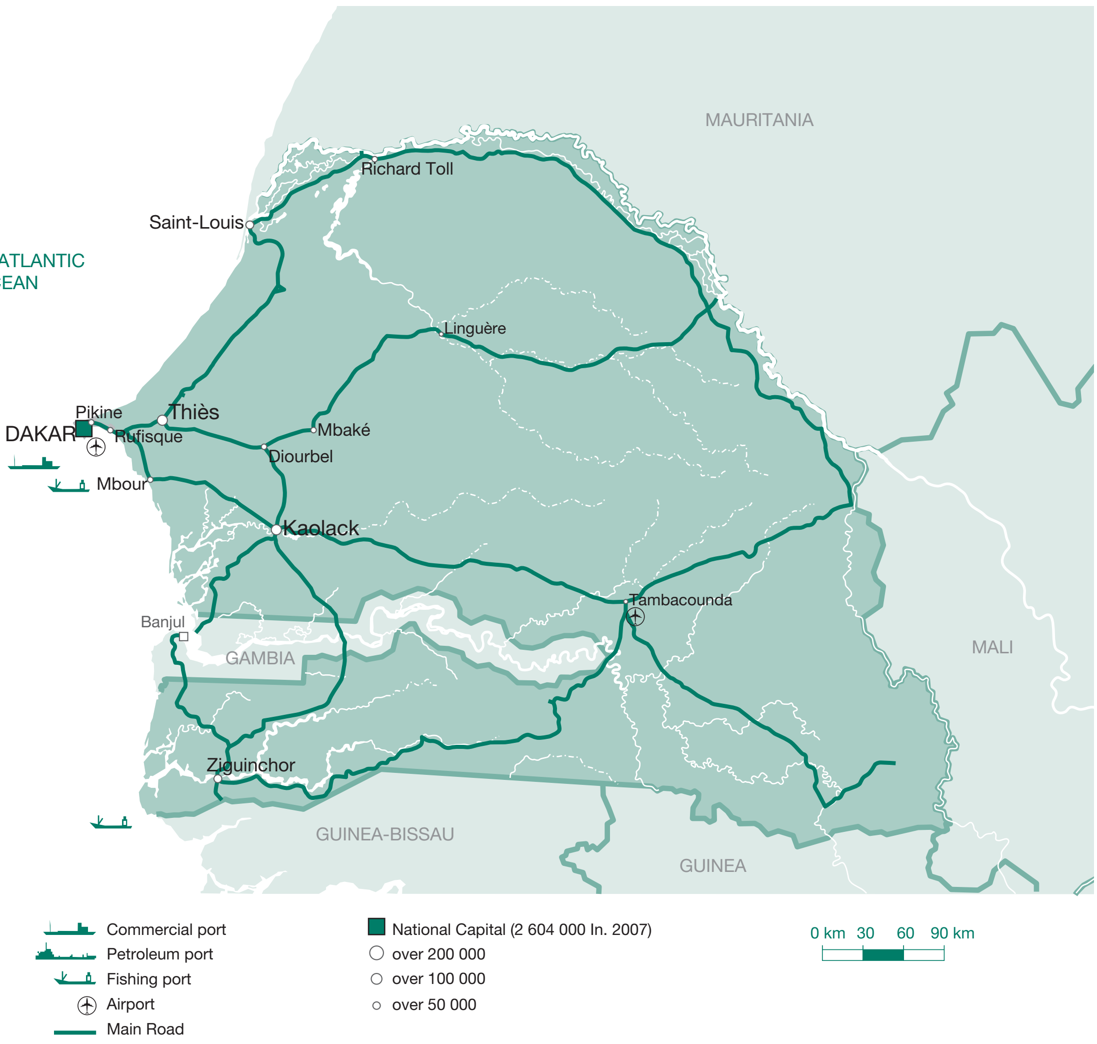
Generally, official employment data in Rwanda is considered unreliable, with only 1.2 per cent of the adult population reported as being unemployed. Approximately 100 000 young people enter the labour market every year, with less than 1 per cent of these being able to find gainful employment. The worst affected are youths and young adults (14–35 years). Given this situation, the government has agreed to change the labour code, with the aim of addressing the problem of rigidities in the labour market thereby giving employers greater flexibility to hire labour.

Senegal

key figures

- Land area, thousands of km²: 193
- Population, thousands (2008): 12 211
- GDP per capita, PPP valuation, USD (2008): 1 666
- Life expectancy (2008): 55.6
- Illiteracy rate (2008): 57

Senegal

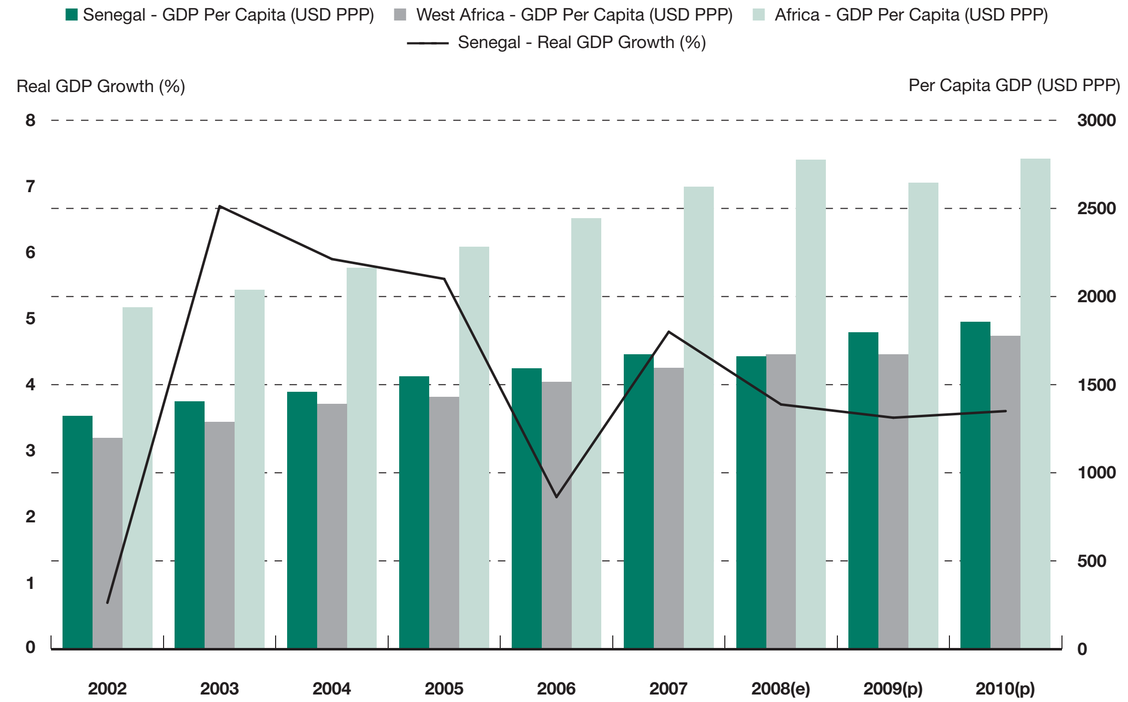

MAURITANIA
Richard Toll
Saint-Louis
NORTH ATLANTIC
OCEAN
Linguère
Pikine
Thiès
DAKAR
Rufisque
Mbaké
Diourbel
Mbour
Kaolack
Tambacounda
Banjul
GAMBIA
MALI
Ziguinchor
GUINEA-BISSAU
GUINEA
Commercial port
Petroleum port
Fishing port
Airport
Main Road
National Capital (2 604 000 In. 2007)
over 200 000
over 100 000
over 50 000
0 km 30 60 90 km

GROWTH SLOWED TO 3.7 PER CENT in 2008 (from 4.8 per cent in 2007) mainly due to more expensive imports, the global recession and the government's increasing budget problems, which led to further worrying delays in payments to private contractors. Major investment programmes, including a campaign to grow more food *(Grande offensive agricole pour la nourriture et l'abondance – Goana),* as well as upgrading roads and ports, should sustain growth over the next few years. But real GDP growth in 2009 is forecast at only 3.5 per cent because of the worldwide recession, with sharply lower world demand reducing exports by emerging and developing countries. Growth may rise slightly to 3.6 per cent in 2010.

As in 2007, growth in 2008 was dominated by strong construction and service sectors, especially telecommunications. The defining feature of the government's economic policy in 2007 and even more in 2008, was the change in course in public finance management. From a policy of generously subsidising stable food products, more prudent management was undertaken marked by ending most subsidies and reforming the state-run electricity company's rates system to help get it back on its feet. But these steps did not reduce the government's arrears or strengthen its finances and

Social demand opposes urgently needed efforts to restore fiscal health and introduce market pricing.

Figure 1 - **Real GDP Growth and Per Capita GDP**
(USD/PPP at current prices)



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

StatLink http://dx.doi.org/10.1787/570635183315

social unrest erupted that could undermine political stability in 2009. The government's main task will be to continue reorganising public finances and fight inflation while preserving social peace.

Recent Economic Developments

Economic growth weakened in 2008, to 3.7 per cent, down from 4.8 per cent in 2007 and an annual average 4.9 per cent between 1996 and 2007. It is forecast to be 3.5 per cent in 2009 and 3.6 per cent in 2010. The primary sector grew 0.5 percentage points slower in 2007 while the secondary expanded 0.3 percentage points faster. Both had already been growing more slowly in 2006 (2.9 and 1.7 per cent). The primary should grow 14.9 per cent in 2008 because of agricultural recovery due to an average 36.7 per cent more annual rainfall and the government's Goana programme. GDP growth in 2008 was once again boosted by construction and services, especially telecommunications.

The primary sector, including agriculture, forestry and fisheries, provided about 60 per cent of all jobs but only 7.4 per cent of GDP in 2007. Agricultural production is dominated by cultivation of staples (millet, sorghum and maize) and cash crops (groundnuts and cotton) and is depressed, with falling output, acreage and yield for most cereals (except maize and rice). Agricultural production growth declined an average 0.8 per cent a year between 1967 and 2006. This weak performance was due to low world prices (especially for groundnuts and cotton), inefficient harvesting and marketing, bad water management, soil deterioration, poor equipment and not enough fertiliser.

The 2008/09 harvest should be better, with sufficient rain and the help of Goana. This initiative launched by President Abdoulaye Wade on 18 April 2008 aims to make the country self-sufficient in food and it set six-month production targets in October 2008 for maize (2 million tonnes) manioc (3 million), rice (500 000) and other cereals (millet, sorghum and fonio) (2 million tonnes), all at an estimated cost of 344 billion CFA francs (XAF).

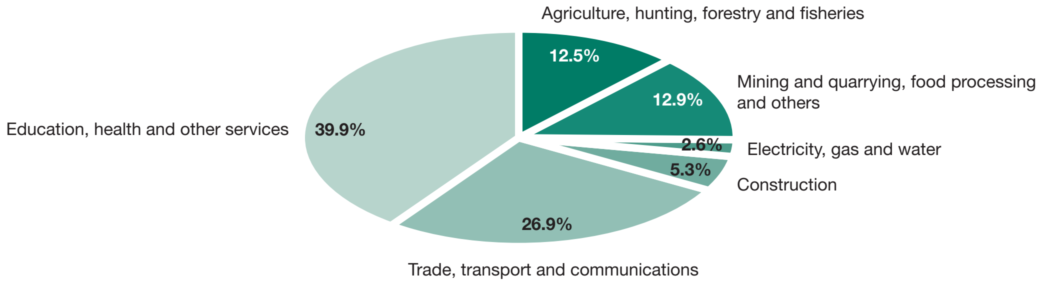
Horticulture is one of the most flourishing sectors of the economy and a variety of crops are grown throughout the country, some permanently. The 2007 harvest of 429 000 tonnes was up 39 000 tonnes on the year. Banana output in 2006/07 was 20 000 tonnes and expected to be 50 per cent higher in 2007/08 (30 000 tonnes).

Groundnuts has been the main agro-industry cash crop since independence but is declining due to low world prices and bad management of the semi-public production and marketing body Sonacos (before it was privatised in 2005), less fertile soil and erratic and less-frequent rainfall. Groundnut production fell in 2007/08 to 427 093 tonnes (from 460 481 tonnes in 2006/07), partly because of the low official XAF 150/kg price to the farmer (the black market price was higher). A record 700 000-tonne harvest was expected in 2008/09 due to much more rain.

The secondary sector is expected to shrink 0.9 per cent in 2008 due to the poor performance of the extractive industry sector and lower demand because of high food and energy prices. Growth of 5.5 per cent is predicted for 2009.

The sector, including construction, was 20.7 per cent of GDP in 2007 and grew 3.1 per cent over the year. It is largely based on mining phosphates to produce fertiliser for the local market and phosphoric acid mainly for India, producing groundnut oil and oilcake for cattle-feed, seafood-processing and construction. Industrial output was higher thanks to phosphates (up 16.2 per cent) after the reopening of the firm *Industries chimiques du sénégal (ICS),* which shut down in 2006 because of increased production costs, management problems and higher exchange rates in 2004/05. The government obtained funding from the Indian group IFFCO (which controlled 85 per cent of firm in 2008) and it gradually resumed operations. The refinery company *Société africaine de raffinage (Sar)* reopened in 2007 after closing in 2006 due to major financial problems. It managed to get a renewable loan from a group of local banks and the government greatly increased its share of the firm, to 65 per cent.

Figure 2 - **GDP by Sector in 2007** (percentage)



Source: Authors' estimates based on national data.

StatLink http://dx.doi.org/10.1787/572325433010

Construction prospered in 2007 and 2008 from government preparations for the March 2008 Organisation of the Islamic Conference (OIC) summit in Dakar, spending on Dakar's port *(Port Autonome de Dakar – PAD)*, the Dakar-Diamniadio motorway and the building of three electric power stations. Remittances from Senegalese abroad also boosted housing demand. But construction growth slowed from 11.7 per cent in 2007 to 3.6 per cent in 2008 due above all, to contractor difficulties linked to government debts. Growth is forecast at 4 per cent in 2009.

The tertiary sector (72 per cent of GDP in 2007) is dominated by telecommunications, due to a boom in mobile phone lines and trade, which increased from 390 000 in 2000 to 1.7 million in 2005 and 3.3 million in March 2007. Telecommunications accounted for about 11.4 per cent of GDP in 2008 (up 0.6 per cent from 2006). Trade was estimated at 15.3 per cent of GDP in 2008 (less than in 2006 and 2007). The tertiary sector should grow 5.6 per cent in 2009, driven mainly by trade, transport and telecommunications.

Exports continued to fall in 2007, by XAF 23.1 billion, while imports rose XAF 201.9 billion. The GDP share of goods and services exports declined from 25.4 per cent in 2006 to 23 per cent in 2007. It was estimated at 22.4 per cent in 2008 and forecast to

Table 1 – **Demand Composition**

	Percentage of GDP (current prices)		Percentage changes, volume			Contribution to real GDP growth		
	2000	2007	2008(e)	2009(p)	2010(p)	2008(e)	2009(p)	2010(p)
Gross capital formation	**20.5**	**27.1**	**7.0**	**3.0**	**6.0**	**1.9**	**0.8**	**1.6**
Public	4.5	6.5	7.0	6.0	6.0	0.5	0.4	0.4
Private	16.0	20.6	7.0	2.0	6.0	1.4	0.4	1.2
Consumption	**88.8**	**91.0**	**3.2**	**3.4**	**3.3**	**2.9**	**3.0**	**2.9**
Public	12.8	13.7	3.5	3.5	3.5	0.5	0.5	0.5
Private	76.0	77.3	3.2	3.4	3.2	2.5	2.6	2.4
External demand	**-9.3**	**-18.1**				**-1.1**	**-0.3**	**-0.9**
Exports	27.9	23.0	1.2	0.8	1.3	0.3	0.2	0.3
Imports	-37.2	-41.2	3.5	1.5	3.2	-1.4	-0.6	-1.2
Real GDP growth					**3.7**	**3.5**	**3.6**	

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

StatLink http://dx.doi.org/10.1787/576128787536

be 21.2 per cent in 2009 and 20.6 per cent in 2010. Imports were steady at 42.1 per cent of GDP in 2006, 41.2 per cent in 2007, an estimated 43 per cent in 2008 and predicted as 36.5 per cent in 2009 and 37 per cent in 2010. The problems of ICS, the groundnut sector and oil products depressed exports.

Gross fixed capital formation rose from 25.5 per cent of GDP in 2006 to 27.1 per cent in 2007 and was estimated at 28.2 per cent in 2008. The growth was due to urban renewal *(Programme d'amélioration de la mobilité urbaine – Pamu)* and infrastructure improvements. Predictions are for 26.3 per cent growth in 2009 and 27 per cent in 2010, largely because of planned investment of 1.67 billion euros (EUR) by the Arcelor Mittal group (the world's biggest iron and steel firm) in the Falémé iron mines in southeastern Senegal. This will include an ore-shipping port at Bargny, about 30 kilometres from Dakar, and a railway from the mines to the port. Israel said in December 2008 it would invest EUR 7.8 million in an industrial complex at Koubalan, in Casamance, that would include horticulture and fruit production, a dairy and a Catholic university for 3 000 students from the sub-region. Private investment was expected to slow in 2009 to 2 per cent (from 7 per cent in 2008). It should rebound to 6 per cent in 2010.

Final consumption in 2008 was estimated at 92.5 per cent of GDP (up from 91 per cent in 2007), giving a 9 per cent gross domestic savings rate. It is predicted to fall in 2009 to 88.9 per cent. Internal demand is expected to grow 5.4 per cent in 2009, chiefly due to private investment and especially foreign direct investment (FDI) (3.8 per cent of GDP).

Macroeconomic Policies

Senegal's economy has had several external shocks in the past year or so. The dizzy rise in prices of food staples and energy between 2006 and 2008 made imports more expensive. The cost of non-specific subsidies to offset these effects on the poor increased delays in scheduled government payments to the private sector just when the global recession was further undermining the economy. These various shocks have put Senegal into a difficult economic position.

Fiscal Policy

Major government overspending in the past two years has been caused by a growing trend of non-specific energy and food-staple subsidies (7 per cent of GDP between 2006 and 2008) and an ambitious investment programme whose funding was not properly controlled.

These excesses may harm the economy in the very near future. Arrears in government payments to the

Table 2 - **Public Finances** (percentage of GDP at current prices)

	2000	2005	2006	2007	2008(e)	2009(p)	2010(p)
Total revenue and grants[a]	**18.8**	**20.9**	**21.4**	**23.4**	**23.5**	**22.2**	**22.1**
Tax revenue	16.1	18.6	19.0	20.1	20.2	19.4	19.5
Grants	1.9	1.6	1.5	2.5	2.5	1.9	2.0
Total expenditure and net lending[a]	**18.3**	**24.0**	**27.5**	**27.2**	**28.0**	**26.5**	**26.8**
Current expenditure	12.3	13.7	17.1	15.7	16.2	15.3	15.3
Excluding interest	*11.0*	*12.8*	*16.2*	*15.2*	*15.4*	*14.3*	*14.3*
Wages and salaries	5.3	5.6	5.9	6.1	6.1	5.8	5.7
Interest	1.4	0.9	0.9	0.5	0.8	0.9	1.0
Capital expenditure	5.8	9.9	9.8	11.4	11.8	11.3	11.5
Primary balance	**1.9**	**-2.3**	**-5.2**	**-3.2**	**-3.7**	**-3.4**	**-3.7**
Overall balance	**0.5**	**-3.2**	**-6.1**	**-3.8**	**-4.5**	**-4.3**	**-4.7**

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

StatLink http://dx.doi.org/10.1787/577633824242

private sector were XAF 225 billion (3 per cent of GDP) at the end of October 2008 and extra-budgetary spending was XAF 74 billion. In total, overspending was estimated at XAF 300 billion in December 2008. If this debt is not quickly repaid it may have a knock-on effect in the construction and housing sectors that may be worsened by the global recession. This could reduce foreign aid, exports and emigrant remittances and damage the financial system. The overall deficit was estimated as 4.5 per cent of GDP in 2008 (3.8 per cent in 2007 and 6.1 per cent in 2006) and was expected to be 4.3 per cent in 2009 and 4.7 per cent in 2010.

Taxes were 87 per cent of government revenue and 20.2 per cent of GDP in 2008. Grants increased 62.5 per cent in 2007 but were still only 11 per cent of all revenue (9.38 per cent in 2008). Tax revenue rose in 2007 because of reforms broadening the tax-base, productivity bonuses for tax inspectors, modernisation of the tax department, and higher-priced oil and gas exports generating more tax revenue, estimated at 20 per cent of the total and 4 per cent of GDP. The government stopped subsidising diesel fuel and petrol in January 2008 as part of its true-prices policy. As well as taxes set by the West African Economic and Monetary Union (WAEMU) in all member states, Senegal imposes special oil and gas taxes, including contributions to the oil imports security fund *(Fonds de Sécurisation des Imports de Produits Pétroliers)*, a tax for the state electricity company Senelec and depreciation tax. Taxes represent two-thirds of the price of petrol at the pump. All this greatly boosted government finances in 2007 and 2008.

Total expenditure and net lending was 28 per cent of GDP in 2008, with the share of wages and salaries still rising – from 5.9 per cent (2006) to 6.1 per cent (2007), an estimated 6.1 per cent in 2008 and a forecast 5.8 per cent in 2009 and 5.7 per cent in 2010. Wages and salaries rose because of more hiring in recent years and civil service pay rises. Capital spending was up 19.1 per cent in 2007 and its GDP share was 11.4 per cent (9.8 per cent in 2006) and 11.8 per cent in 2008, with 11.3 per cent predicted for 2009 and 11.5 per cent for 2010.

Monetary Policy

Senegal belongs to the eight-nation WAEMU and its monetary policy is set by the Central Bank of West African States (BCEAO in its French acronym). The CFA franc currency (XAF) that WAEMU countries share is pegged to the euro and follows US dollar-euro fluctuations.

The euro continued to rise against the dollar in the first half of 2008 but after the world financial crisis took hold the dollar was much stronger in the second half. Inflation was 5.9 per cent in 2007 (mainly due to more than 7 per cent higher food and energy prices) and was held at 5.8 per cent in 2008 when world oil and food prices fell in the second half of the year. It was expected to slow to 4 per cent in 2009.

Net foreign assets of banks fell to XAF 674.2 billion in 2008 (from 851.2 billion in 2007) and were forecast to rise to 729.2 billion in 2009. Domestic loans rose 10 per cent and the money supply 3.8 per cent.

Domestic loans were XAF 1 324 billion in 2007 (up XAF 201.6 billion from 2006) and the net government position (NGP) rose from XAF 11.1 billion to 96.2 billion. Short-term loans were 68.2 per cent of all credit in 2008, medium-term 28 per cent and long-term only 3 per cent.

External Position

The balance of payments had an XAF 69.5 billion current account surplus in 2007 (down from XAF 99 billion in 2006). But the current account was still in deficit, at 11.3 per cent of GDP (up from 8.7 per cent in 2006), estimated at 14.2 per cent in 2008 and predicted as 8.7 per cent in 2009 and 9.8 per cent in 2010.

The trade deficit grew to 23.3 per cent of GDP in 2008 (up from 20.9 per cent in 2007 and 17.3 per cent in 2006) and was forecast to be 17 per cent in 2009 and 17.4 per cent in 2010.

The overall surplus of XAF 69.5 billion in 2007 was due to a healthier capital account and improved financial

Table 3 - **Current Account** (percentage of GDP at current prices)

	2000	2005	2006	2007	2008(e)	2009(p)	2010(p)
Trade balance	-8.9	-15.1	-17.3	-20.9	-23.3	-17.0	-17.4
Exports of goods (f.o.b.)	19.7	18.2	17.2	15.0	14.5	13.7	13.2
Imports of goods (f.o.b.)	28.6	33.3	34.5	35.8	37.8	30.7	30.6
Services	-0.4	-0.4	-0.4	-0.3	-0.3	-0.3	-0.3
Factor income	-2.4	-1.0	-0.7	-0.7	-0.7	-0.7	-0.7
Current transfers	4.6	8.7	9.6	10.6	10.1	9.2	8.6
Current account balance	**-7.1**	**-7.8**	**-8.7**	**-11.3**	**-14.2**	**-8.7**	**-9.8**

Source: National data; estimates and projections (p) based ou authors' calculations.

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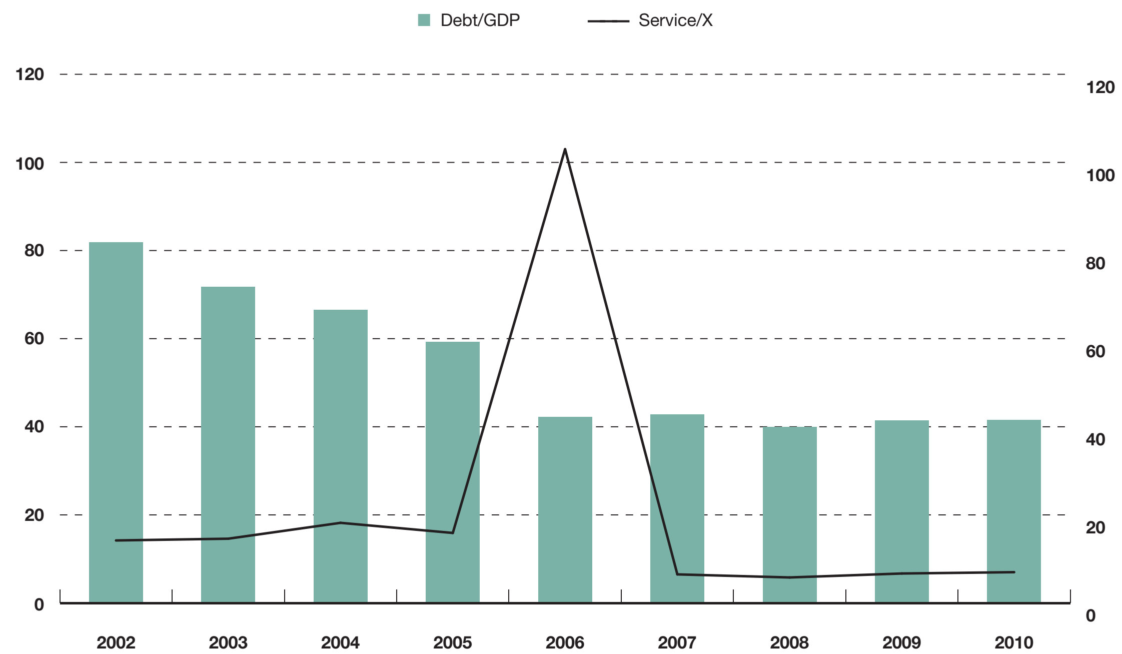
Figure 3 - **Stock of Total External Debt** (percentage of GDP) **and Debt Service** (percentage of exports of goods and services)



Source: IMF.

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operations, with substantial revenue from sale of a third mobile phone licence for XAF 100 billion to Sudatel, which promised to invest an equal sum in the country over the next 15 years.

Senegal's debt was reduced to more manageable proportions in 2006 with the help of the Heavily Indebted Poor Countries (HIPC) initiative and the Multilateral Debt Relief Initiative (MDRI). However, government debt rose slightly in 2007 and 2008, when it was XAF 1 558.2 billion and 25.8 per cent of GDP, still well below the 70 per cent ceiling set by the WAEMU, and in 2007 comprised XAF 969.3 billion external debt and XAF 301.7 billion internal.

Structural Issues

Private Sector Development

The business climate did not improve much between 2006 and 2008 to judge by international indexes. The World Economic Forum ranked Senegal 100th out of 131 countries in 2007 and the World Bank's *Doing Business* report put it 162nd in 2007 and 168th in 2008. These bad scores make the economy less competitive and discourage FDI. However, the 2009 *Doing Business* ranked Senegal 149th out of 181 countries, a jump of 19 places, and said it was one of three African states in the top 10 countries worldwide in reforming business regulations. The Bank says that to rise further up the scale, the government will have to pay off its debts to local businesses and solve the problems of power cuts and expensive electricity that reduce firms' productivity, and also tackle high transport costs.

Businesses still had difficulty obtaining bank loans in 2008 because of insufficient security, poor business practices and inadequate information, all of which held back investment. Banks funded 24.9 per cent of economic activity in 2008 with a predicted 24.7 per cent in 2009, well short of the level in emerging countries such as Tunisia (65 per cent) and Malaysia (140 per cent).

Other Recent Developments

Major public sector reforms have been made since the early 2000s after the government changed hands. The groundnut processing and marketing firm Sonacos was privatised in 2005 and later became Suneor. Senelec was meanwhile having big problems meeting customer demand because of low capacity and fuel supply difficulties. These problems were reduced in 2007 and electricity supply increased with a reorganisation plan involving XAF 65 billion worth of investment in the firm and building new power stations, one of which, an XAF 42 billion 67.5 MegaWatt plant, opened in Kounoune in January 2008. The World Bank's International Development Association (IDA) approved a USD 80 million loan in June 2008 mainly to get Senelec back on a firm footing.

The government changed its energy policy in 2007 to limit the effects of wildly fluctuating oil prices on energy supply by diversifying production sources with renewable energy and coal. Senelec signed an agreement with the Chinese firm MCC in June 2006 to build a 250 MegaWatt coal-fired station. A 30 MegaWatt plant using biomass is planned at Kaolack. Senelec plans to invest XAF 520 billion between 2005 and 2012 under which the Kounoune plant was built and a second is under construction. All these projects should boost Senelec's capacity by 600 MegaWatt by 2012.

Infrastructure work by the OIC's national agency (Anoci) has helped ease traffic congestion in recent years, mainly by widening Dakar's western corniche road and the road from Léopold-Sédar-Senghor Airport to the Hotel Méridien Président, at a cost of XAF 55 billion from the Kuwait Arab Economic Development Fund. Some of the money was advanced by Senegalese firms that had still not been paid by early 2009. This was part of the increased domestic debt, which now tops XAF 174 billion and which if not repaid will make Senegalese firms very vulnerable.

Other current projects are the Dakar-Diamniadio motorway, XAF 400 billion of infrastructure due in early 2009 from the firm Jafza for the Dakar economic development zone and XAF 300 billion of investment in the port of Dakar under a 25-year franchise granted to Dubai Ports World. But these improvements around the capital contrast with some of the country's major roads that continue to deteriorate for lack of maintenance, seriously hindering access to markets for provincial areas.

Innovation and ICT

Information and communication technology (ICT) plays a big role in the country's economic and social development, mainly through the growth of mobile phones and to a lesser extent data transmission.

The *Société nationale des télécommunications* (Sonatel) has a monopoly on fixed lines, international traffic, specialised 300-metre radius connections and packet data switch lines (the Internet). It had about 283 000 lines in 2006, according to that year's annual report of the watchdog body, the *Agence de Régulation des Télécommunications et des Postes* (ARTP). Fixed-line customers (residential and professional) declined 10.1 per cent (from 283 582 in June 2007) to 255 044 in June 2008. This gives a penetration rate of 2.4 per cent and was due to the drop in public lines at telecentres, which fell 49.5 per cent to 10 804 in 2008 (from 21 396 in 2007).

Mobile phones heavily dominate communications, especially in rural areas, where the penetration rate was 44.6 per cent in 2008, and expansion has been helped by competition between two firms, Sonatel Mobiles and Sentel (which became Tigo at the end of 2007), which between them had 4 720 835 subscribers in June 2008 (up from 3 319 616 in June 2007).

Senegal is linked to the outside world by a 1.24 Gigabips band, with Internet access mainly through a PSTN (Public Switched Telephone Network) or by broadband, supplied by Internet service providers (ISPs) Sonatel Multimédia, ARC informatique, Silicon Valley STE, Enda TM, Trade Point and Cheikh-Anta-Diop University (UCAD). Internet subscribers were 23.2 per cent up in June 2008 at 44 099 (35 806 in June 2007) and with a penetration rate of 0.42 per cent.

Call centres companies abound, run by Chaka, ANTG Telecom, Macsym Technologie ARC, Silicon Valley STE, Manobi, Sonatel Multimédia and Africatel AVS, which is the biggest in both Senegal and West Africa and also handles the appointments services for the French, Belgian, Italian, Portuguese and Chinese embassies and for government departments such as police, passports and identity cards.

Big efforts have been made to harmonise telecommunications laws and regulations within the WAEMU and the Economic Community of West African States (ECOWAS). Senegal, which belongs to both, got its first telecommunications law (96-03) in 1996 as part of privatising Sonatel and opening up the mobile phone market. A new law (2001-15) was passed in December 2001, spelling out how the sector was to work, including jurisdiction over the networks (licences, authorisations, approvals, declarations and freedoms), services and equipment. It also defined the role of the telecommunications regulation agency (ART), which in 2006 became the ARTP (law 2006-02 of 4 January 2006), which expanded the powers of the postal agency and played a big part in devising the national plan (PNS) to change to nine-digit numbers (the S ABPQ MCDU format) for fixed and mobile lines in October 2007. The rules were laid down in Law 2008-10 of 25 January 2008 guaranteeing responsible freedom of communications, digital support and data protection for individuals and legal entities.

The government wants a universal telecommunications service development plan in place by 2010, with paid access to phones in all the country's 14 206 villages.

Customer charges have dropped sharply, especially for mobile phones. The Orange and Tigo connection kits cost XAF 1 000 at the end of 2008, with call credits of XAF 2 500 and XAF 1 000 respectively. The firms offer small-denomination recharge cards – IZI for Tigo and Seddo (which means "shared" in Wolof) for Orange. This allows users to send each other credit by SMS (Short Message Service) and also recharge with amounts starting from XAF 100. Orange-to-Orange SMSs cost XAF 20, to another network 75 and international calls 100. Tigo-to-Tigo SMSs are XAF 10, to another network 30 and international 100. Fixed-line charges range from XAF 68 to 85 a minute depending on the time of day and international is XAF 153. With the growth of public access through cybercafés and community multimedia centres, Internet connections cost between XAF 150 and 300 an hour.

Sonatel and Tigo are the two main operators. Sonatel was privatised in 1997 and joined up with France Telecom, which owns a 42.33 per cent share of it, the government 27.67 per cent, institutions and the general public 20 per cent and present and former employees 10 per cent. It has a global telecommunications licence enabling it to access all networks and telecommunications services. It has three subsidiaries – Sonatel Mobiles, Sonatel Multimédia and Sonatel

Tigo, which is an offshoot of Millicom International Cellular SA and entered the mobile market in March 1999.

A third operator, Sudatel, was granted a global licence (fixed, mobile and Internet) in September 2007 but has got off to a slow start. It has about USD 50 million in funding, half of it from the Qatar bank QNB Al Islami and the rest from the Qatar International Islamic Bank (QIIB) and Al Salam Bank.

ICT use has soared, especially in higher education. UCAD has helped produce Wolof versions of Microsoft programmes and also launch the Live@edu.ucad project, stemming from a long partnership between Microsoft, UCAD and the government, that has provided 70 000 accounts to students, teachers and administrative workers as well as Internet-based interactive packeting. Baccalaureate results became accessible by SMS in 2008 as soon as they were out. South Korea has loaned the government XAF 10 million for an e-government project.

The emergence of new privately-owned TV stations such as 2sTV, RDV, Canal info and Walf TV, have also expanded the communications sector and compete with the state-owned RTS1. 2sTV and RTS are broadcast in France by broadband as part of a selection of nine African stations delivered by the ISP Neuf Cégétel.

Political Context

Senegal, which chooses its president in direct elections, switched to a bicameral parliamentary system in May 2007, with a 150-seat national assembly and 100-member senate. A constitutional amendment in 2001 reduced the president's term from seven to five years with a two-term limit. President Wade's Senegalese Democratic Party (*Parti démocratique sénégalais – PDS*) has a majority in both houses of parliament. The *Benno Siggil Senegaal* front, which includes the main opposition parties, threatened to boycott local elections but took part and successfully defeated Wade when the twice-postponed voting was finally held on 22 March 2009.

Wade's economic policy has been liberal since he came to power in 2000 and he has allowed some privatisation and opening-up of markets, but with limited means, the pace is slow. Wade wants to give the country more weight at regional and international level.

No progress has been made in settling the Casamance separatist conflict since a December 2004 peace agreement and fighting sometimes erupts between rival factions of the *Mouvement des forces démocratiques de Casamance* (MFDC), especially since the January 2007 death of its main leader, Father Augustin Senghor.

Strong social tensions persist and young people in Kédougou demonstrated against unemployment on 23 and 24 December 2008 resulting in riots in which two people died. The opposition held a "national conference" with civil society groups in 2008 to discuss the economic and social situation and propose solutions.

Corruption remains a problem and Senegal dropped to 85th place out of 180 countries in Transparency International's 2008 Corruption Perceptions Index, down from 71st in 2007.

Social Context and Human Resources Development

Significant progress has been made in adult literacy, which rose from 37.8 per cent in 2001/02 to 41.9 per cent in 2005/06 and about 43 per cent in 2007/08. The literacy budget tripled in 2007.

The government's 10-year education and training programme (PDEF) has boosted investment in the sector and improved the gross enrolment rate to around 83.5 per cent in 2008. Major educational challenges include reducing the high dropout rate, especially in rural areas and among girls, and eliminating recurrent strikes that undermine the sector. Teacher strikes over pay practically wiped out the 2007/08 state primary school year. Better training is also needed to give school-leavers a better chance of finding a job. Education's budget share in the second phase of the poverty reduction strategy paper (PRSP II) increased from

25.6 per cent in 2005 to 27 per cent in 2007 and 29 per cent in 2008. Senegal may achieve the Millennium Development Goals (MDG) on education if the gross enrolment rate can be counted as 95 per cent by including teaching of Arabic. The country is well behind the MDG health goals, with 21 per cent infant/child mortality (including 25 per cent in the first month of life) in 2008 and maternal mortality of 401 per 100 000 live births.

The government has announced new efforts to tackle unemployment and poverty. President Wade suggested a suburban youth employment programme in late 2008 and the proposal was raised at the Suburban Future Forum on 18 November 2008, when young people discussed the joblessness, poverty and lawlessness affecting their lives. Wade wants to build large-scale projects in these areas to generate 100 000 jobs a year. The programme is being tried out and 800 youths have been recruited to survey suburban unemployment. But social tensions remain high. Senelec angered the poor by increasing its rates 17 per cent on 1 August 2008 and issuing two bills during the July/August period instead of the usual one, putting big pressure on household budgets. This sparked protests by religious leaders in October and November 2008.

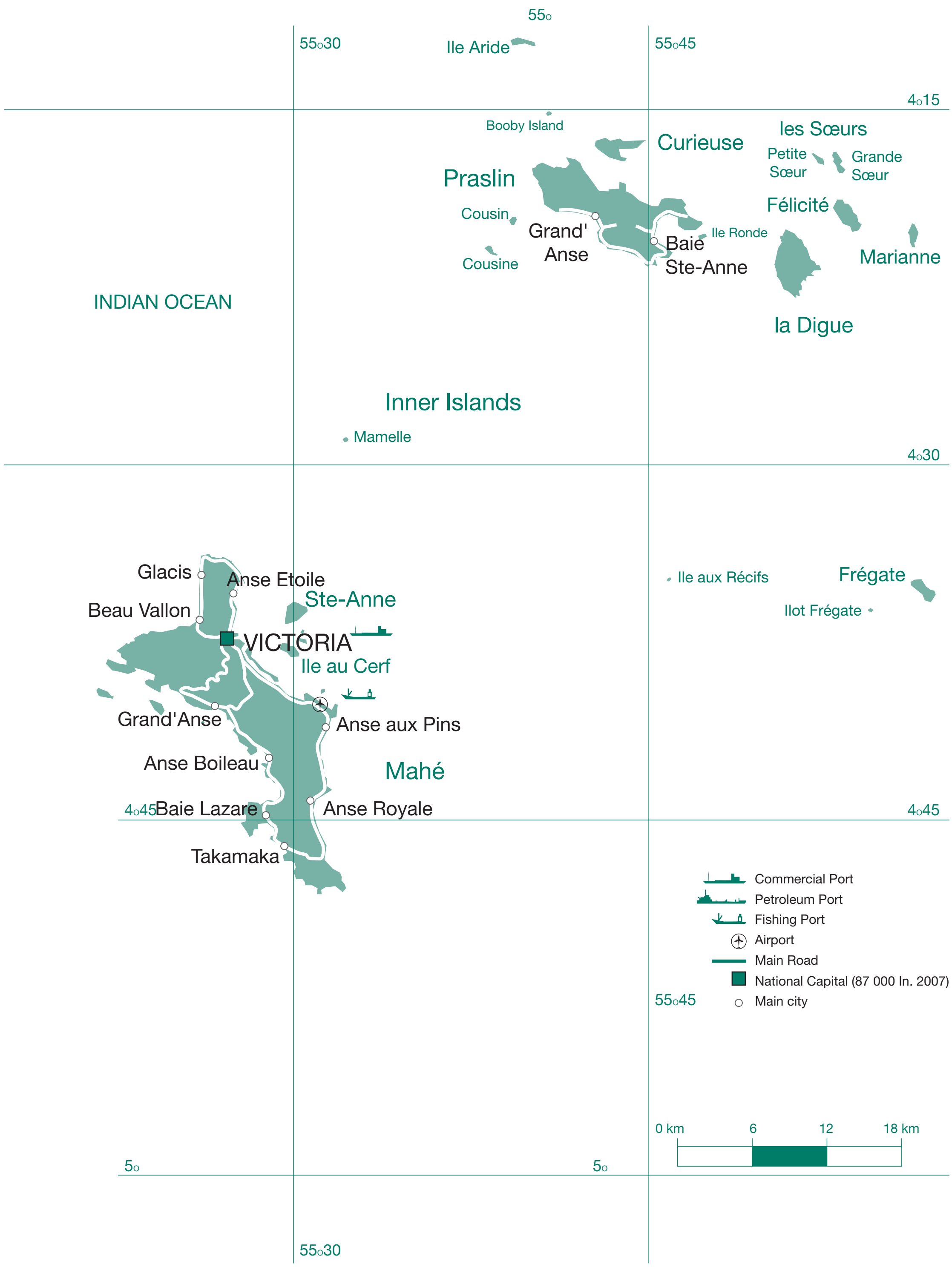
The government continued its 1998-2007 national health development programme (NHDP) which has involved legal and institutional reforms mainly concerning hospitals, medicine and pharmacies. The NHDP was implemented through the two-phase (1998-2002 and 2004-08) Integrated Health Development Programme (IHDP) to reduce maternal, infant and child mortality and control fertility. Health got 10 per cent (XAF 89.4 billion) of the national budget in 2007 and major progress has been made in the sector. National programmes combat HIV/AIDS, malaria and TB. Treatment access has improved for HIV/AIDS patients, with better trained nurses and much more information about the disease. Incidence remains low, at 0.7 per cent, though quite high among risk groups.

The country's major health problem in still cholera, with an alert about every six months, due to poor sanitation, especially in large religious towns such as Touba and Tivavouane.

Seychelles

key figures	
• Land area, thousands of km²:	0.5
• Population, thousands (2008):	84
• GDP per capita, PPP valuation, USD (2008):	16 400
• Life expectancy (2008):	73.0
• Illiteracy rate (2008):	4

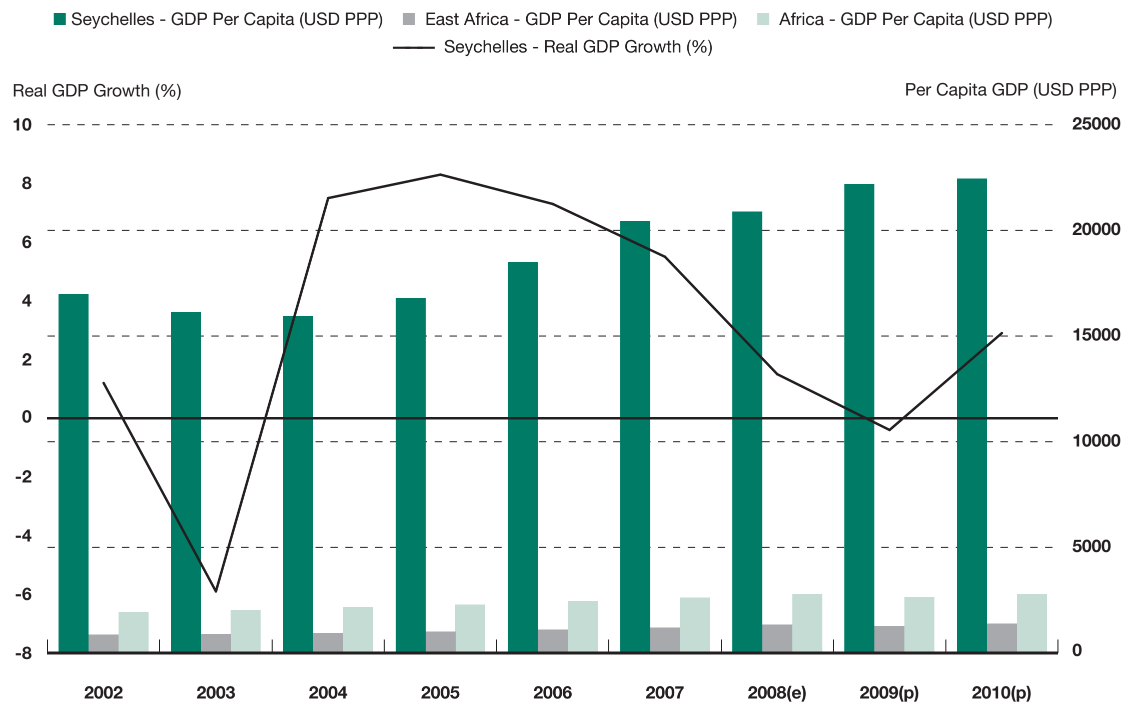
Seychelles


55°
55°30
Ile Aride
55°45
4°15
Booby Island
Curieuse
les Sœurs
Petite Sœur
Grande Sœur
Praslin
Félicité
Cousin
Grand' Anse
Ile Ronde
Baie Ste-Anne
Marianne
Cousine
INDIAN OCEAN
la Digue
Inner Islands
Mamelle
4°30
Glacis
Anse Etoile
Ile aux Récifs
Frégate
Beau Vallon
Ste-Anne
Ilot Frégate
VICTORIA
Ile au Cerf
Grand'Anse
Anse aux Pins
Anse Boileau
Mahé
4°45
Baie Lazare
Anse Royale
4°45
Takamaka
Commercial Port
Petroleum Port
Fishing Port
Airport
Main Road
National Capital (87 000 In. 2007)
55°45
Main city
0 km
6
12
18 km
5°
5°
55°30

Growth in the Seychelles slowed sharply in 2008, falling to an estimated 1.5 per cent, down from 5.5 per cent in 2007. The country suffered a severe balance of payments and debt crisis in 2008 brought on by unsustainable macroeconomic policies and imbalances that were exacerbated by external shocks. After defaulting on sovereign bond repayments in October 2008, the Seychellois authorities sought IMF assistance and an emergency stand-by agreement was reached conditional on the immediate implementation of a comprehensive fiscal reform programme. The reforms aim at fundamentally restructuring the country's policy framework and public sector, one of the most significant of these being the floating of the rupee and the lifting of all foreign exchange controls, implemented in November 2008. In 2009, GDP is expected to contract by 0.4 per cent due to the huge reductions in government spending implicit in the reform package and a drop in tourism earnings brought on by the global economic recession. However, projections for 2010 forecast a recovery as an improved global economic climate revives tourism and foreign investment and lifts GDP growth to 2.9 per cent.

The crisis has hit tourism and exports hard, but the country has already achieved most of the MDG targets.

Figure 1 - **Real GDP Growth and Per Capita GDP**
(USD/PPP at current prices)



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

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Recent Economic Developments

With a GDP share of almost 80 per cent, the service sector is the driving force of the Seychellois economy, of which an estimated 21 per cent is accounted for by tourism. Manufacturing represents the second largest sector, accounting for roughly 10 per cent of GDP, and it is dominated by the important canned tuna industry. Construction contributes almost 8 per cent and is heavily influenced by hotel and resort construction associated with the tourism industry. Seychelles' agricultural sector remains small due to limited flat terrain, poor soil and periodic water shortages.

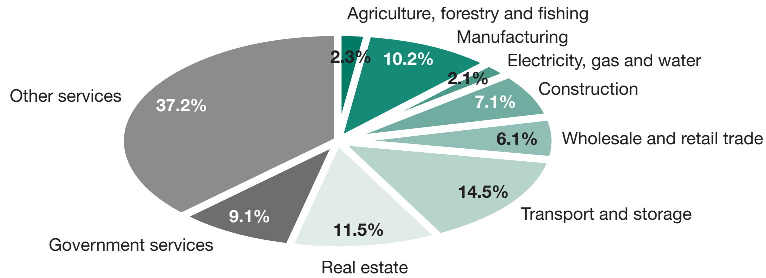
Foreign exchange shortages, disruptions in manufacturing production and less buoyant tourism contributed to a deceleration in economic growth from 5.5 per cent in 2007 to 2.8 per cent in 2008. Oil and food price shocks exacerbated the slowdown. In the first three quarters of 2008 tourist visitor numbers increased by a meagre 3 per cent, over 14 per cent growth in the same period in 2007. Arrivals totalled 161 270 in 2007 but just 120 000 for the first nine months of 2008, hinting at a decline in the total number of annual arrivals. The downturn in visitor numbers is the result of the economic recession in the key European market and is expected to continue through 2009, entailing a reduction in investment in the sector as some projects are scaled down or cancelled.

The manufacturing sector contracted due to a downturn in canned-tuna production. This sub-sector continues to decline as catches fall and demand slows in European markets. Production fell to 7 967 tons in the first quarter of 2008 which reflects a roughly 20 per cent fall over first-quarter 2007. The sub-sector is operated by the world's largest tuna company, Indian Ocean Tuna (IOT), which is 40 per cent government owned and the remaining share held by the offshore, Marine World Brand.

Tuna production is expected to remain constrained in 2009, and as tuna is priced in US dollars, production will not benefit from the rupee devaluation. It will also suffer from lower world prices, lower fish yields and delays to planned capital improvements at the cannery, although the appreciation of the euro could cushion these effects. Seychelles' envisaged WTO accession could also erode the preferential market access that it currently enjoys to its main market in Europe, further constraining tuna exports. This is expected to be further aggravated by recessions in key markets in Europe, particularly the United Kingdom and France. IOT is thus exploring opportunities to tap into new markets.

Contractions in consumption and public investment reduced GDP growth in 2008. High inflation combined with the external shocks in oil and financial markets caused an almost 5 per cent contraction in private consumption which directly translated into a downward pressure on real GDP growth of 4 percentage points. Consumption is expected to fall further in 2009 as the effects of the reforms reach their peak. The reform package caused imports to decline by 4.3 per cent,

Figure 2 - **GDP by Sector in 2007** (percentage)



Source: Authors' estimates based on local data.

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Table 1 – **Demand Composition**

	Percentage of GDP (current prices)		Percentage changes, volume			Contribution to real GDP growth		
	2000	2007	2008(e)	2009(p)	2010(p)	2008(e)	2009(p)	2010(p)
Gross capital formation	**32.7**	**32.5**	**-3.0**	**-4.5**	**1.6**	**-0.8**	**-1.1**	**0.4**
Public	9.5	5.6	-8.0	-12.0	5.0	-0.4	-0.5	0.2
Private	23.2	26.8	-2.0	-3.0	1.0	-0.4	-0.6	0.2
Consumption	**67.2**	**94.4**	**-3.2**	**-6.1**	**3.8**	**-4.1**	**-5.6**	**2.5**
Public	33.6	35.1	-0.8	-1.6	3.1	-0.2	-0.5	0.6
Private	33.6	59.3	-4.4	-8.5	4.2	-3.9	-5.1	1.9
External demand	**0.0**	**-26.9**				**6.5**	**6.3**	**0.1**
Exports	68.5	96.6	3.9	-3.3	1.0	2.9	-2.3	0.7
Imports	-68.5	-123.4	-4.3	-10.3	1.2	3.5	9.0	-0.6
Real GDP growth						**1.5**	**-0.4**	**2.9**

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

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which was offset by a 3.9 per cent increase in exports benefitting from the weak rupee. Imports are projected to fall by more than 10 per cent in 2009 and will only start recovering slightly in 2010. In 2009 the weakening tourism sector will contribute to a decline in exports, but again growth is expected to resume in 2010. Although exports will fall in 2009, imports are projected to fall further, resulting in a positive contribution of the external sector to GDP. The reforms are expected to cause a further contraction in public sector investment in 2009 but that should turn around by 2010 when public capital formation is expected to increase by 5 per cent. Investment in the private sector will follow the same general pattern, declining by 3 per cent in 2009, but then rising in response to Seychelles' transition towards a more market-driven economy.

Macroeconomic Policies

In 2008 Seychelles found itself in the midst of a severe balance of payments and public debt crisis, caused by expansionary fiscal and monetary policies that were incompatible with the country's fixed exchange rate and exchange controls. The country's competitiveness and growth had deteriorated, and public debt had risen to an unsustainable level of almost 151 per cent of GDP. After defaulting on a USD 200 million sovereign bond in October 2008, the Seychellois government turned to the IMF for assistance, which granted a USD 26 million stand-by arrangement with an immediate disbursement of USD 9 million. This agreement represents the first engagement between the Seychelles and the IMF, and includes a comprehensive economic reform programme comprising the following key pillars: full liberalisation of the exchange regime; scrapping of all foreign-exchange controls; tightening of fiscal policy; tighter monetary policy under a new market-based operating framework; replacement of universal subsidies with a targeted social safety net; and, a smaller and more efficient public sector. In accordance with these conditions, the authorities began implementing major reforms during the fourth quarter of 2008, notably ending the exchange rate peg and floating the rupee on 14 November 2008. The government has further committed to implementing a series of revenue measures including increasing the environmental levy and Goods and Services Tax (GST) on tourism from 9 to 12 per cent. These policy changes will be supplemented by the elimination or reduction of subsidies and rebates including those for agro industries, hatcheries, the Seychelles Trading Company (STC), and Coetivy prawns. Additionally the number of government employees will be reduced by 12.5 per cent in 2009. Facilities for trading T-bills, foreign exchange and deposits at the Central Bank of the Seychelles (CBS) will be introduced to support monetary policy.

Fiscal Policy

Although a number of reforms had been implemented since 2003, these were gradual and piecemeal and insufficient to address longstanding macroeconomic imbalances that were exacerbated by recent price shocks to fuel and food and the global economic slowdown. In an attempt to cushion the impact of soaring fuel and food prices, the government raised subsidies that further aggravated its fiscal burden. This higher fiscal burden in turn prompted the authorities to tighten fiscal policy in 2008. Through a combination of new measures, tight controls on nominal expenditure and revenue buoyancy, the overall fiscal balance improved from a deficit of 4.7 per cent of GDP in 2007 to an estimated 0.1 per cent of GDP in 2008. The Seychelles managed to maintain a primary fiscal surplus of 5.8 per cent of GDP in 2008. As part of the IMF programme, the government began to collect GST on all locally-manufactured and imported goods (except for 13 basic food items) and ceded its discretionary powers to grant exemptions. Additional measures were taken to strengthen tax administration and public financial management. The 2009 budget includes increases in levies and other fees and fines as well as GST on some products. The government also agreed to replace its direct and indirect subsidy interventions with a well-targeted social safety net.

A primary fiscal surplus of 8.4 per cent of GDP is projected for 2009, and a slightly lower figure in 2010, an outcome predicated on strengthened public financial management, tax administration and public debt management. But forecasts of the overall deficit indicate a further drop to about 4 per cent of GDP in 2009 and 2010. The Ministry of Finance is evaluating options to further rationalise expenditures and will institute measures to strengthen the budget preparation, implementation and monitoring processes. The government submitted a Public Debt Law to the National Assembly at the end of 2008 and formulated a medium-term public debt strategy in line with the stringent limits on the contracting or guaranteeing of new loans specified under the new stand-by arrangement.

Monetary Policy

In the past the Seychellois government has used direct price controls combined with an overvaluation of the rupee to keep inflation low and stable. In August 2008 inflation had risen rapidly to 37.5 per cent over 5.2 per cent in August 2007. Inflation for 2008 is

Table 2 - **Public Finances** (percentage of GDP at current prices)

	2000	2005	2006	2007	2008(e)	2009(p)	2010(p)
Total revenue and grants[a]	**31.2**	**44.6**	**46.4**	**36.0**	**36.9**	**35.6**	**35.2**
Tax revenue	22.5	32.2	25.7	26.8	27.6	26.4	26.2
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total expenditure and net lending[a]	**42.6**	**37.4**	**43.1**	**40.8**	**36.8**	**39.1**	**38.6**
Current expenditure	32.4	32.1	35.6	35.7	30.4	32.6	32.3
Excluding interest	*26.2*	*27.1*	*28.0*	*24.3*	*24.7*	*20.7*	*20.7*
Wages and salaries	13.7	13.6	14.2	12.7	12.3	10.1	10.0
Interest	6.2	5.0	7.6	11.4	5.7	11.9	11.6
Capital expenditure	11.4	5.2	7.6	6.1	6.4	6.5	6.3
Primary balance	**-5.2**	**12.2**	**10.9**	**6.7**	**5.8**	**8.4**	**8.2**
Overall balance	**-11.5**	**7.2**	**3.3**	**-4.7**	**0.1**	**-3.5**	**-3.4**

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

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expected to average 37 per cent as a result of the nominal depreciation of the rupee in 2006/07 and rising international food and oil prices. The sharp rupee depreciation that followed the floating of the currency in November 2008 is forecast to keep inflation at around that level in the short run. Inflation is expected to peak at 41 per cent in the second quarter of 2009 before declining to 22 per cent by the end of the year for an annual average of 23.4 per cent.

The real exchange rate is forecast to depreciate on average in 2009, to be followed by a small appreciation in 2010. Following floatation and the lifting of exchange controls, the Seychelles rupee (SCR) depreciated by almost 100 per cent in one month, to SCR 16.5 to the dollar. By January 2009, the rupee had strengthened somewhat to SCR 15.9 to the dollar. Despite its recent rise, the rupee will continue its downward trend in 2009 as foreign exchange earnings remain low due to the slowdown of the tourism sector. The dollar/SCR exchange rate should average 16.9 in 2009.

The floating of the rupee in November 2008 was complemented by a tightening of monetary policy aimed at minimising the over-shooting of the exchange rate, reducing any second-round inflationary effects and ensuring that the fall in the nominal exchange rate translates into increased external competitiveness.

Until recently, the CBS was hampered in its monetary policy efforts by the complex system of restrictions and controls of its pegged exchange rate regime, fiscal dominance and the absence of direct instruments of monetary control. However it is taking steps to change this. Early in 2008 the CBS began trading government securities in the secondary market and in September it introduced weekly auctions for Treasury bills and a CBS deposit facility in October. These steps were part of the CBS' move towards a market-based monetary policy framework, directed at achieving price stability through greater emphasis on reserve money management.

External Position

The current account deficit is estimated to have widened from 29.1 per cent of GDP in 2007 to 40.9 per cent in 2008 owing to a significant deterioration in the trade balance as the high import bill (partially caused by expensive food imports) offset tuna exports and petroleum re-exports. Official reserves fell to about USD 14 million by mid-October 2008 and the balance of payments gap was financed by external arrears accumulation.

The current account deficit is forecast to fall to about 21.5 per cent of GDP in 2009, and to fall slightly further in 2010. Imports are expected to decline by about 3 point in percentage of GDP in 2009, due to both a drop in merchandise imports prompted by the rupee depreciation and a decline in foreign direct investment (FDI) related imports. But they should recover in 2010 and beyond as GDP growth resumes. The volume of exports of goods and services is forecast to fall by about

Table 3 - **Current Account** (percentage of GDP at current prices)

	2000	2005	2006	2007	2008(e)	2009(p)	2010(p)
Trade balance	-15.8	-33.9	-30.0	-46.8	-57.8	-42.6	-41.1
Exports of goods (f.o.b.)	26.4	39.7	43.4	43.3	51.9	62.4	58.4
Imports of goods (f.o.b.)	42.2	73.6	73.4	90.1	109.8	105.0	99.5
Services	15.9	15.2	16.1	19.9	20.7	24.5	24.3
Factor income	-4.5	-4.5	-4.5	-7.9	-9.8	-9.3	-8.4
Current transfers	1.4	3.5	4.5	5.7	6.1	5.9	5.2
Current account balance	**-3.1**	**-19.7**	**-13.9**	**-29.1**	**-40.9**	**-21.5**	**-20.0**

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

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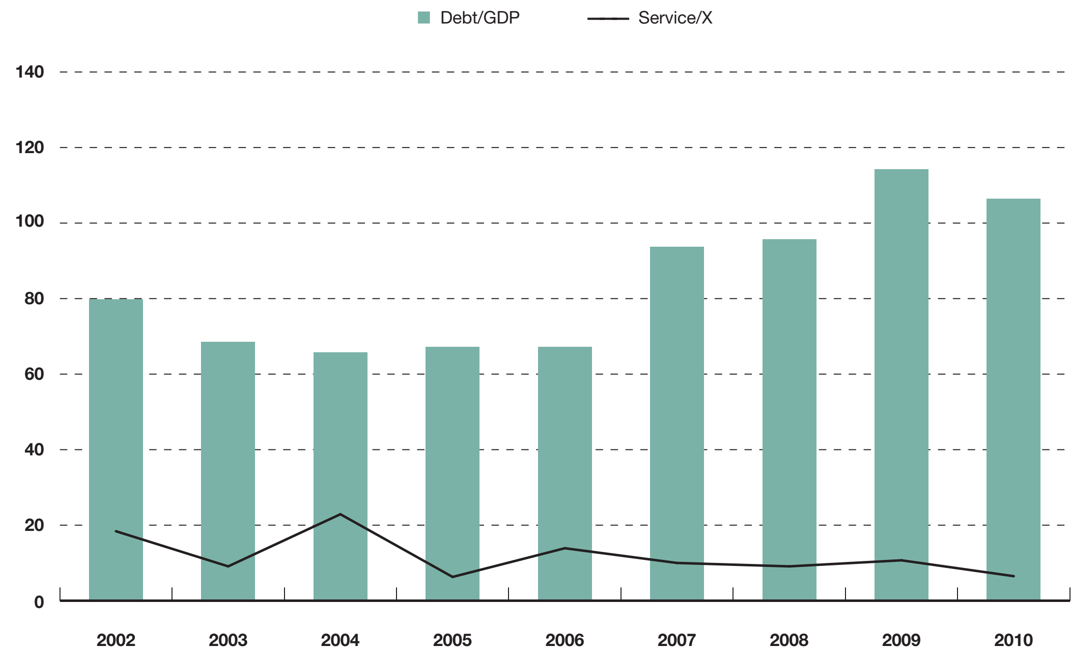
Figure 3 - **Stock of Total External Debt** (percentage of GDP) **and Debt Service** (percentage of exports of goods and services)



Source: IMF.

StatLink http://dx.doi.org/10.1787/573871506013

3 per cent in 2009. Over the medium term service exports, particularly tourism, are expected to grow more strongly with a rise in FDI, improved competitiveness, and the elimination of exchange restrictions.

Seychelles restarted its negotiations with the World Trade Organization (WTO) in 2007 after the country's accession failed in 1995 due to a lack of capacity. A steering committee was scheduled to submit a Memorandum of Foreign Trade in January 2009. The government's main goal for WTO accession is to obtain more order in foreign investments and protection from foreign investors who strong-arm the country to guarantee preferential treatment. Seychelles has been a member of COMESA since 1987 and it was expected to join the COMESA Free Trade Area in January 2009. As part of the implementation, the Seychelles will construct a list of sensitive goods such as cottage cheese, juice, milk, tea, coffee, vegetables, fruits, oil and motor vehicles for which tariffs are to be phased out over a five-year period.

Structural Issues

Private Sector Development

Seychelles' score on Transparency International's Corruption Perceptions Index improved to 4.8 out of 10, placing it 55th out of 180 countries, compared with 57th place in 2007. Its score remains just below the 'clean' threshold of 5.0, but its recent rise reflects both the government's gradual reforms and a weakening of the close ties between the ruling party and the private sector. Further improvements are expected in light of both the ongoing reforms and a new wealth declaration that was due to be submitted by public officials and signed by the president and his cabinet in early November 2008. The CBS established a Financial Intelligence Unit in July 2008 within the framework of the Amendments to the Anti-Money Laundering Act. It should promote greater transparency in financial dealings, notably cross-border flows. Nevertheless there remain cases of rent-seeking activities occasioned by the government's approach to economic management that involves picking winners who are rewarded with foreign exchange, commercial contracts, employment in the public service, and government housing.

Seychelles fell in the latest World Bank's *Doing Business* rankings to 104th out of 181 countries. However the country's actual scores on the ten measures underlying the index were largely unchanged from last year, suggesting its slide reflects a relative improvement in other countries rather than a deterioration in its own business conditions. Seychelles achieved its best evaluation with respect to paying taxes (40th in the world), protecting investors (53rd), registering property (55th), dealing with construction permits (56th) and enforcing contracts (62nd). The lowest scores were achieved on starting a business (68th), trading across borders (90th), employing workers (120th), getting credit (163rd) and closing a business (181st).

The limited availability of foreign exchange remains one of the major constraints investors face. In addition, trade license procedures are cumbersome and investors require annually renewable licences for nearly every type of business. Compared to trade licenses, regulations on entry into business and business licensing procedures are less complicated. However, some other procedures associated with contract implementation and hiring and firing workers constrain investors by hindering their flexibility. Entrepreneurs also face a limited supply of qualified labour as most tertiary education is carried out overseas and often at very high cost. The narrow labour market also hinders long-term professional development and forces the country to rely heavily on expatriates.

Other Recent Developments

The public sector currently plays a large role in the Seychelles economy. It accounts for about 40 per cent of total employment. Moreover, public enterprises accounted for a net drain on the budget of 2.8 per cent of GDP as of end-2007, and government guarantees on parastatal loans amounted to 5.2 per cent of GDP as of mid-2008. As part of its reform programme, the government aims to gradually reduce the size of the public sector by eliminating duplicate functions, outsourcing to the private sector, and reducing public employment. Moves to cut the public-sector workforce by 12 per cent have begun. In 2008 most units of the Seychelles Marketing Board were privatised and additional public enterprises in the trade sector are scheduled for privatisation in 2009. Other near-term privatisation plans include the divestiture of the Seychelles Savings Bank, Seychelles Agro Industries, the Animal Feed Factory and the Coetivy Prawn Farm.

Shipping plays a key role in the Seychelles economy, both as the main conduit for trade and due to the revenue earned by providing services for international cruise liners, fishing vessels and freight carriers. In addition to its position as an important tuna transshipment port, Seychelles also offers repairs and represents an important refueling point with two-thirds of petroleum imports being re-exported. Regular shipping services to and from Seychelles are provided by the French company Delmas. It offers four services: Midas Line (from West and South Africa), the Indian Ocean Line (from Europe), Swahili Line (between East Africa, Dubai and India) and the ASEA line (linking East Asia and East Africa). The international airport at Pointe Larue, Victoria handled 189 000 passengers in 2006 and 6 883 tonnes of freight. The state-owned carrier, Air Seychelles, flies between Seychelles' many islands and owns two long-range Boeing 767s, flying to London, Rome, Milan, Johannesburg, Singapore and Mauritius. Via code sharing it also has routes between Paris and Frankfurt and in 2008 routes were opened to Mumbai and Maldives. Kenya Airways, Emirates Airline and Qatar Airways also offer service to the Seychelles. The total road network amounted to 502 kilometres at the end of 2006, of which 482 kilometres was surfaced. The government has made continuous road improvements in recent years, but the scope for building new roads is limited since vehicle imports are regulated by an annual quota system.

With regards to environment sustainability, Seychelles is taking a proactive role in balancing economic development with the preservation of natural resources. Seychelles is a member of the United Nations

Convention on Biological Diversity (UNCBD). Over 50 percent of the total land area is protected, including two world heritage sites, the Vallée de Mai Reserve and the Aldabra Atoll.

Mountainous terrain, poor soils and water shortages in years of low rainfall represent the main physical constraints to development. In 2002 the government commenced a USD 29 million investment in desalination plants. However continued consumer complaints about water quality and periodic water shortages led the government to begin construction of a major new dam at Grand Anse (west Mahé) which is expected to be completed in 2010.

Innovation and ICT

Among African countries, Seychelles shares first place with Mauritius on most telecommunications indicators, including fixed line and mobile phone subscriptions, personal computers and Internet use. The sector has gained in economic importance and contributes roughly 5 per cent of GDP.

The ICT sector consists entirely of private companies and is regulated by the Department for Information, Communication and Technology, which provides guidelines for service providers, approves tariffs and issues five-year licenses. In 2008 the license fee amounted to 12.5 per cent of providers' annual turnover for mobile phones and fixed lines and 2 per cent of annual turnover or SCR 40 000 (whichever is larger) for Internet companies. These fees have a deleterious effect on investment in the sector as providers consider them too high. The regulatory framework of the ICT sector is currently under review and changes to introduce unified licenses and more competition are being considered.

Cable & Wireless has long dominated the Seychelles market and owns the largest share of fixed lines. The company has faced new competition from Air-Tel (owned by India's Bharti Group) since the Broadcasting and Telecommunications Act of 1998 allowed for a second operator. In addition, there are two mobile phone service providers and three Internet service providers in the Seychellois market. Increased competition and the introduction of mobile phones and the Internet have driven rapid growth in the sector. The share of mobile phone subscribers rose from around 91 per cent as of end-2007 to more than 100 per cent in mid-2008. Different types of contracts and SIM cards are offered to meet the different needs of locals and tourists. In 2008 the ratio between prepaid cards and contracts was 2:1.

The ICT infrastructure includes fixed-line connections between and within islands, overland fibre-optic cables, and antenna towers for mobile service in both rural and urban areas. Only some of the outer islands have mobile phone and Internet connections but radio connections exist on all islands.

The Seychellois ICT sector faces two main challenges: lack of foreign exchange, which has the effect of constraining investment in the sector; and, bandwidth scarcity. The sector relies on a privately owned satellite and renting bandwidth is expensive. Currently only 70 Mbps of broadband are available for the whole of Seychelles but the target rate is at least 120 Mbps. The introduction of a sub-marine fibre-optic cable connecting Seychelles with the rest of the world (e.g. via Mombasa) would boost broadband width to 250 Mbps. To date, there are no binding commitments from the government to undertake this investment. The country will most likely depend on private investors to help shoulder costs, currently estimated to range between USD 35-90 million.

ICT already plays an important role in the country's health care system. Tele-medicine is frequently and commonly used to consult with medical doctors overseas (particularly in India). Seychelles is a member of a network of 53 countries forming a Pan-African e-network funded by the Indian government. This network involves 12 specialty hospitals and 1 hour per day is reserved for online consultations and other conferences or lectures. For an island state like Seychelles this represents an important facility since it can substantially reduce the costs associated with sending patients for treatment overseas.

Political Context

The last presidential election in July 2006 was won by the incumbent James Michel of the Seychelles People's Progressive Front (SPPF) with nearly 54 per cent of the votes. The rest of the votes, 46 percent, went to the main opposition party, the Seychelles National Party (SNP). In May 2007 legislative elections followed, showing on almost identical outcome. At least for now, bipartisan efforts to address the country's economic crisis have supplanted the usual political tensions between the ruling SPPF and the SNP. The SNP is expected to support the reform programme in order to maintain the support of the IMF. However the reforms are likely to cause a significant fall in living standards that could affect the SPPF's popularity among voters.

The crisis in war-torn Somalia spilled over into Seychelles as marine piracy impacted the fishing industry. In mid-September 2008, 30 of the 50 tuna trawlers that operate out of Victoria, the main tuna port, had to remain in dock due to the danger of piracy following attacks on two foreign trawlers in early September. Though the Seychellois government attempted to initiate an anti-piracy force, its efforts failed due to its limited capacity to act alone.

Seychelles rejoined the Southern African Development Community (SADC) in August 2008, an act that should strengthen ties to the African mainland. In addition, the government will continue to strengthen its links to India, China, and other Indian Ocean states.

Social Context and Human Resources Development

Seychelles is classified as an upper middle-income country and has achieved most of the Millennium Development Goals (MDG) or is on track to achieve the remaining ones by 2015. In the latest 2007 Global Human Development Report, Seychelles achieved a Human Development Index of 0.843 and ranked 50th out of 177 countries. Seychelles is now considered a "high human development" country.

Opportunities and protections for both men and women are defined in the Seychellois Constitution and several other policies and laws are in place to promote gender equality and the empowerment of women. The constitutional rights of women include the right to own property, the right to equal protection by law, the right to education without discrimination and equal opportunity to employment. Maternity benefits were recently extended to a total of 12 weeks paid maternity leave and day care facilities are provided to enable women to take up full time employment while fulfilling their family responsibilities. In recent years the Seychelles have boasted one of the highest percentages of women in parliament in Africa (24 per cent), despite the absence of a quota system. However women continue to have lower status jobs and are clustered in unskilled and lower paid occupations. While nearly all adult females are classified as economically active, most are engaged in subsistence agriculture. Domestic violence against women is reportedly widespread but is rarely prosecuted and only lightly punished.

Education and health care have been priorities for the ruling SPPF administration since 1977, with the result that Seychelles now enjoys some of the highest literacy rates and one the best health care systems in Africa. According to official figures, 96 per cent of the population was literate at the end of 2007 and the figure is almost 100 per cent for school-aged children. Education is free, and compulsory between the ages of 6 and 16. This applies to both males and females and there is no gender imbalance in enrolment figures. According to World Bank figures, the combined gross enrolment rate for primary, secondary and tertiary education was 82.2 per cent in 2005. There are non-tertiary secondary educational facilities, such as trade or professional schools available on the islands, including the Seychelles Polytechnic, the Seychelles Hospitality and Tourism Training Centre, and the Maritime Training Centre.

With a good primary health care program, child and maternal mortality in Seychelles has been low for the past decade. Infectious and communicable diseases, such as HIV/AIDS, malaria and leptospirosis still pose a challenge and call for concerted and integrated actions for control and prevention. Lifestyle-related diseases such as cardiovascular diseases and diabetes are becoming increasingly common as are drug problems particularly among youths. Therefore the Ministry of Health has adopted an integrated disease surveillance approach to improve planning, resource allocation, early detection and response. Because of the heavy restructuring of the public sector, the sector will most likely have to cope with severe budget cuts.

Currently, students seeking a university education must travel abroad. Depending on their grades approximately 11 per cent of students (about 50 students) start college each year. Those who do attend overseas universities receive grants that cost the government around USD 80 million. Not all college students will come back to apply their skills for the benefit of the Seychellois economy, creating the potential for brain drain. The government is planning to change this by building a university with a capacity of 2 000 to 3 000 students that will be jointly organised with the University of Manchester. So far SCR 17 million has been raised for the university project. As part of its Middle Income Country (MIC) initiative, the AfDB has nearly completed its assessment of the institutional and human capacity needed to support a university in Seychelles. The AfDB is now financing a needs assessment study to lay the grounds for the establishment of a University of Seychelles.

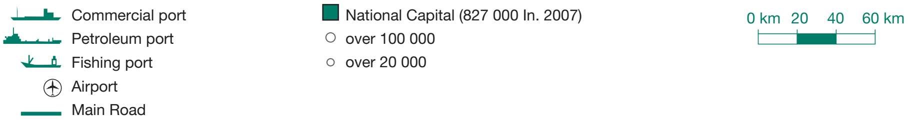
The IMF's reform package is likely to have a mixed impact on Seychelles' education system. On one hand, greater decentralisation could reallocate resources away from administration towards teaching staff, leading to quality improvements particularly in secondary education. On the other, the country is heavily dependent on expatriate teachers and there are concerns that the end of the exchange rate peg and shrinking wages could drive them away. The reforms might also make fundraising for the planned university more difficult and delay its construction.

Sierra Leone

key figures

• Land area, thousands of km^2:	72
• Population, thousands (2008):	5 560
• GDP per capita, PPP valuation, USD (2008):	677
• Life expectancy (2008):	47.6
• Illiteracy rate (2008):	62

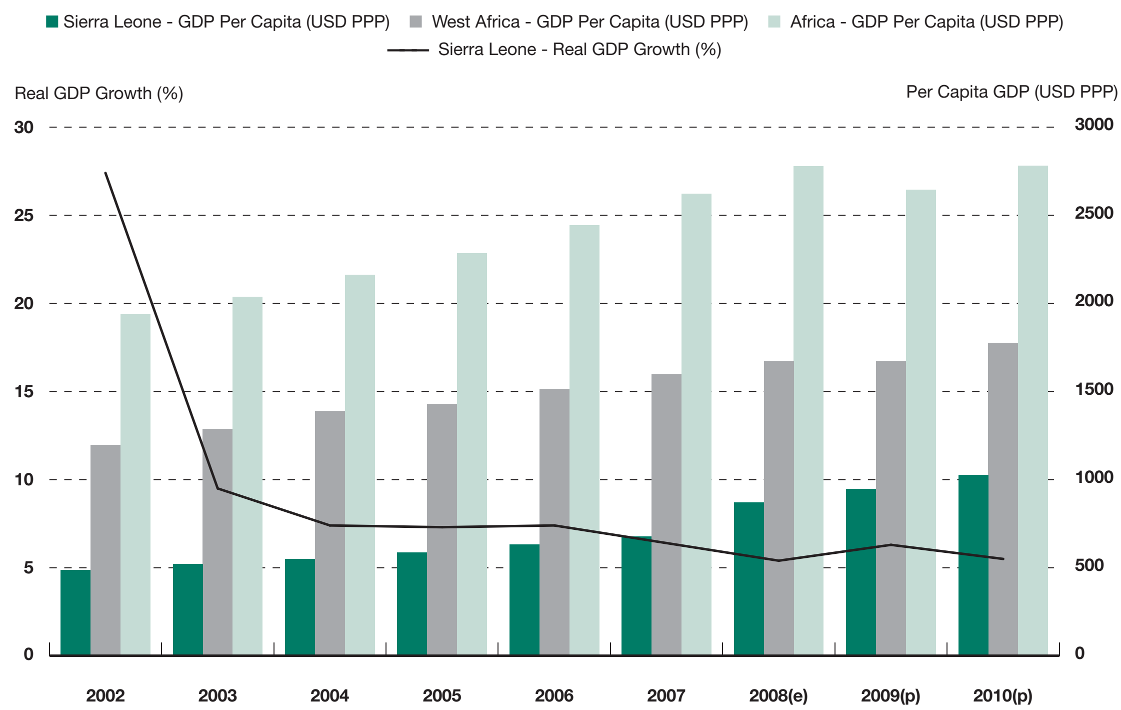
Sierra Leone



SIERRA LEONE POSTED RELATIVELY STRONG growth in 2008 with GDP increasing by an estimated 5.4 per cent despite high oil prices. GDP is projected to rise by 6.3 per cent in 2009 and by 5.5 per cent in 2010. The country is still reconstructing following the 1991-2001 civil war and while recent positive performances may in part reflect catch-up growth they are to be commended given Sierra Leone's dependence on food and oil imports in a time of global price increases. The challenge going forward will be to consolidate growth and to address the enduring risk factors for conflict such as widespread unemployment and poverty. Reining in inflation, which was 13 per cent in 2008, is also important.

Although civil peace has been restored, the country still faces recession and poverty.

Figure 1 - **Real GDP Growth and Per Capita GDP**
(USD/PPP at current prices)



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

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Recent Economic Developments

Agriculture accounted for 58 per cent of GDP in 2007 and it grew by about 5 per cent in 2008 (down from a 14 per cent increase in 2007 led by crops). Sierra Leone remains a net importer of food despite agriculture's large share of GDP and employment. The sector has been dominated traditionally by subsistence agriculture and it suffers from a number of constraints: production and marketing are entirely privately handled, poor infrastructure (especially roads) hinders access to markets, extension services are weak impeding the delivery of training and information to farmers, irrigation and financing are limited, and storage facilities are poor. In addition, weak institutional capacity, including access to information, undermines policy formulation and co-ordination of stakeholder activity. Critics also contend that the rural land tenure system, which precludes free-holding, inhibits investment as land is either communally or family owned.

The government is making efforts to address these problems and to boost agricultural productivity by promoting the use of equipment and inputs, extending irrigation, providing post-harvest facilities (storage facilities, drying floors, rice mills and threshers) as well as animal feed mills and abattoirs, setting up community banks and financial services associations and improving marketing infrastructure by constructing and rehabilitating feeder roads and community markets.

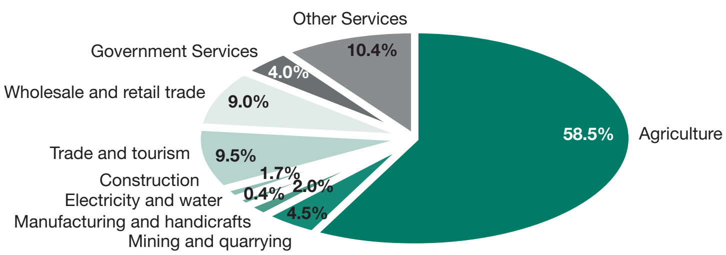
Sierra Leone also has substantial marine resources with a 560 kilometre-long shoreline. Fishing is undertaken at the industrial and artisanal levels. However, widespread poaching of Sierra Leone's territorial waters is a major problem.

Services accounted for 34 per cent of GDP in 2007. Having contracted by 6 per cent in 2007, services rebounded in 2008 with 5 per cent growth. The financial sector continues to expand, with the number of commercial banks increasing to 13 in 2008. Tourism is at present very limited but it is growing and shows good potential. The government has a critical role to play in planning and promoting the sector, particularly in improving the country's external image and attractiveness as a tourist destination. More fundamental constraints include poor infrastructure, especially electricity, and the difficulties of accessing the country's only international airport on the Lungi Peninsula, which can be accessed only by ferry or by helicopter.

Industry contributed only about 9 per cent to GDP in 2007, of which mining accounts for more than half. Industry growth remained constant, increasing by about 6 per cent in both 2007 and 2008. Sierra Leone's mineral resources include diamonds, rutile (titanium ore), bauxite, iron ore and gold. The sector's importance to Sierra Leone is understated in national accounts however, as mining accounts for over 90 per cent of export revenues. It is also the second largest employer providing employment to an estimated 300 000 people. Semi-industrial production of Kimberlite diamonds began in 2003 but production was halted throughout 2008 following violent protests against the main producer. Before then, diamond production was largely undertaken on an artisanal basis with its attendant environmental and physical risks. A large proportion of artisanal miners live in poverty hampered by problems of access to finance and markets. Establishing secure property rights for these miners and their families is also a challenge, to address which the government is establishing a mining cadastre to provide information on land rights and use.

The government participates in the Kimberly Diamond Certification Process, which aims to combat trade in conflict diamonds. It also participates in the

Figure 2 - **GDP by Sector in 2007** (percentage)



Source: Authors' estimates based on Statistics Sierra Leone data.

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Extractive Industry Transparency Initiative, which seeks to improve the management of mineral resources by publishing information on government revenues from natural resources. Changes to the structure of the Ministry of Mines are planned and the government intends to consolidate regulations.

Sierra Leone possesses one of the largest rutile reserves in the world as well as significant bauxite reserves, and prior to the war they were the largest contributors to tax revenue (40 per cent and 20 per cent, respectively). Having been suspended in 1995, rutile and bauxite mining operations resumed in 2006 although rutile production was scaled down in 2008 following the collapse of one of the two dredges used to mine the mineral. Other identified minerals in Sierra Leone include gold, iron ore, platinum, chromite, lignite, clay, copper, nickel, molybdenum, lead and zinc. Gold is currently mined and a contract has been signed to commence iron ore mining.

The mining sector in Sierra Leone faces several challenges ranging from the legal and regulatory framework, capacity constraints, and environmental, health and child-labour concerns. It needs both to attract and retain more foreign investment while also ensuring that a share of the profits benefit the wider population and the communities in the vicinity of the mines.

Manufacturing accounted for just 2 per cent of GDP in 2007 reflecting the country's low level of industrial development.

Despite the onset of the global recession towards the end of 2008, real GDP increased 5.4 per cent in 2008, with 6.3 per cent and 5.5 per cent growth anticipated for 2009 and 2010, respectively. In 2008, growth was due primarily to an 8.2 per cent increase in private consumption, made possible by the increases in agricultural production in 2007 and 2008 and this trend is predicted to continue in 2009 and 2010. Gross capital formation is forecast to increase faster than consumption in 2009 and 2010, more than doubling its 2008 growth rate to 12.1 per cent in 2009, and expanding even further by 14.3 per cent in 2010. In particular, public investment is expected to triple in 2009 to rise by 15.2 per cent, with private investment predicted to be slightly lower at 11.1 per cent. As such, gross capital formation is anticipated to contribute 1.1 per cent to real GDP growth in 2009 and 1.3 per cent of growth in 2010, though this remains small relative to the effect of total consumption on growth. On the other hand, the trade deficit widened in 2008

Table 1 – **Demand Composition**

	Percentage of GDP (current prices)		Percentage changes, volume			Contribution to real GDP growth		
	2000	2007	2008(e)	2009(p)	2010(p)	2008(e)	2009(p)	2010(p)
Gross capital formation	**8.0**	**13.5**	**5.0**	**12.1**	**14.3**	**0.4**	**1.1**	**1.3**
Public	5.2	3.5	5.0	15.2	15.0	0.1	0.3	0.4
Private	2.8	10.0	5.0	11.1	14.0	0.3	0.7	0.9
Consumption	**113.3**	**93.9**	**7.9**	**8.2**	**6.1**	**8.4**	**8.8**	**6.7**
Public	14.3	10.5	2.6	2.5	3.3	0.2	0.1	0.2
Private	98.9	83.4	8.2	8.5	6.3	8.2	8.7	6.5
External demand	**-21.3**	**-7.4**				**-3.4**	**-3.6**	**-2.6**
Exports	18.1	20.9	-2.6	8.2	1.1	-0.4	1.1	0.2
Imports	-39.4	-28.3	10.4	15.5	8.3	-3.0	-4.7	-2.7
Real GDP growth						**5.4**	**6.3**	**5.5**

Source: Statistics Sierra Leone data; estimates (e) and projections (p) based on authors' calculations.

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as exports fell 2.6 per cent and imports rose 10.4 per cent, exerting a 3.4 point negative effect on GDP. The global recession is expected to put downward pressure on exports, remittances, and foreign aid, causing the trade deficit to widen further.

Macroeconomic Policies

Macroeconomic policy is directed in the context of a Poverty Reduction and Growth Facility (PRGF) with the IMF that is designed to maintain macroeconomic stability and lay the foundations for growth and poverty reduction.

The potential risks of the global economic recession to Sierra Leone include a decline in official development assistance, foreign direct investment, export volumes and prices and remittances. As Sierra Leone's banking sector (like much of Africa's) is less integrated with the rest of the world, the financial crisis is unlikely to affect the banks directly. Indirectly however, the combined effects of the global financial crisis and food and oil price rises could reverse recent gains in macroeconomic stability, economic growth and poverty reduction. In the first three quarters of 2008, food and oil price increases led to inflationary pressures, loss of purchasing power by households, weak fiscal and balance of payments positions, and a reduction in foreign exchange reserves.

Despite these difficulties, fiscal and monetary policies were within targets set by the PRGF enabling the protracted second review by the IMF to be completed in July 2008. The PRGF arrangement is now back on track, and the third bilateral review of the programme was successfully concluded in December 2008.

Fiscal Policy

Fiscal policy faces many challenges due to huge post-war expenditure needs, a low revenue base, and the recent food and fuel crises. With grants, the 2008 budget was balanced; before grants it exhibited a 6.5 per cent deficit. In order to cushion consumers from the impact of the food and fuel price hikes, the government reduced import tariffs on petrol, diesel, kerosene, rice, wheat, flour and sugar. Ad valorem taxes on imported petroleum products were also replaced with specific rates of taxation: the import duty on petroleum products was reduced from 5 per cent of the cost, insurance, freight (CIF) value to USD 20 per metric tonne. The government also introduced a temporary ban on exports of rice and palm oil that it lifted once world prices eased late in 2008. Taxes on petroleum products were

Table 2 - **Public Finances** (percentage of GDP at current prices)

	2000	2005	2006	2007	2008(e)	2009(p)	2010(p)
Total revenue and grants[a]	**19.4**	**21.9**	**32.0**	**42.8**	**16.8**	**15.3**	**14.0**
Tax revenue	10.8	11.1	10.9	10.4	10.2	9.6	9.4
Grants	8.0	10.0	20.4	32.4	6.5	5.6	4.5
Total expenditure and net lending[a]	**28.7**	**23.6**	**22.7**	**17.6**	**16.8**	**16.0**	**15.6**
Current expenditure	22.7	17.7	17.6	14.1	13.4	12.6	11.9
Excluding interest	*16.4*	*14.1*	*13.8*	*11.8*	*11.4*	*10.6*	*10.3*
Wages and salaries	6.7	6.5	6.4	6.0	5.6	5.3	5.1
Interest	6.3	3.6	3.8	2.3	2.1	2.0	1.6
Capital expenditure	6.1	5.9	5.1	3.5	3.4	3.5	3.7
Primary balance	**-3.0**	**1.9**	**13.2**	**27.5**	**2.0**	**1.3**	**0.0**
Overall balance	**-9.3**	**-1.7**	**9.3**	**25.2**	**0.0**	**-0.7**	**-1.5**

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

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also subsequently restored to their 2006 levels. In spite of these reversals, government expenditures on food and fuel for ongoing activities also rose relative to initial budgetary allocations.

Sierra Leone's tax-to-GDP ratio (10.2 per cent in 2008) is one of the lowest in sub-Saharan Africa, in spite of the country's potentially large domestic revenue base of minerals, marine resources and agriculture. The country remained heavily dependent on trade levies, which contributed almost 50 per cent to public revenues in 2008. Revenues from mineral resources are generally low, totalling less than 0.50 of a percentage point of GDP and the government has set a low export tax rate at 3 per cent in order to limit incentives for smuggling. Further, the Treasury only receives 0.75 of a percentage point of the 3 per cent tax as the balance is shared among the diamond-producing community, a government diamond valuator and the Ministry of Mineral Resources.

The wage bill for 2008 was slightly lower than expected at 5.6 per cent of GDP, due to stringent control measures and efforts to eliminate non-existent 'ghost' workers, especially teachers. The government also intends to scale down subsidies to poorly performing public enterprises.

Revenues are projected to fall sharply in 2009 and 2010 as Sierra Leone adjusts its tariffs down to the common West African external tariff. A harmonised tariff structure could reduce the incentive to smuggle imports, however, implementation has been uneven across countries, raising doubts about whether objectives are being met. Grants are also expected to decline. The authorities are planning to launch a three-year modernisation programme of the National Revenue Authority (NRA) and to finalise preparations for the introduction of a value-added tax.

Sierra Leone is highly dependent on aid with budgetary support accounting for half of the government budget. Aid management remains a major challenge, however and just four donors provide support. Shortfalls and delays complicate planning and often prompt domestic borrowing, pushing up Treasury bill rates. There are widespread fears that the global financial crisis will reduce aid flows and support has already been indirectly affected via the sharp 30 per cent depreciation of the pound sterling (the currency of Sierra Leone's largest donor) relative to the leone (SLL) between December 2007 and December 2008.

Domestic debt shot up by more than 50 per cent in 2008, which the government blames on revenue shortfalls and delays or shortfalls in donor budgetary support. Interest payments fell slightly to 2.1 per cent of GDP from 2.3 per cent in 2007. Efforts to improve debt management include: clearing arrears to domestic suppliers; lengthening the maturity profile of debt instruments by introducing 182, 273 and 364-day securities; and, the gradual introduction of longer term instruments, i.e., 2, 3 and 5-year Treasury notes.

Monetary Policy

The inflation rate increased slightly in 2008 to 13 per cent, over 12.1 per cent in 2007. It is projected to fall to 11 per cent in 2010 however, as food and oil prices recover. In recent years, the primary goal of monetary policy has been to contain inflation using the target of reserve money. The Central Bank has limited instruments at its disposal however as the financial sector is underdeveloped. Secondary markets are virtually non-existent and rural regions are under-banked. The Bank's primary monetary tool is the weekly auction of Treasury bills but these bills tend to reflect the government's need for domestic borrowing rather than the Bank's attempt to control liquidity. Until 2010, monetary policy will continue to aim at mitigating the second-round effects of the food and fuel crisis.

In response to the emergence of new sophisticated and complex financial products, the Central Bank is enforcing the capital requirements for commercial banks, moving from compliance-based to risk-based supervision. In contrast to most African countries, the leone has not depreciated substantially following the global financial crisis and the currency has remained more or less stable to the dollar (depreciating just 3 per cent between January 2006 and December 2008). The stability of the leone/dollar exchange rate has prompted the IMF to observe that the exchange rate approximates a conventional peg, with the Central Bank intervening actively on the foreign exchange market. The government's position is that its weekly auction of foreign currency is a transparent mechanism for selling foreign currency from foreign aid inflows rather than being a price-setting mechanism. Nevertheless, the authorities acknowledge the need to increase exchange rate flexibility and the Bank intends to participate in the foreign exchange market as a buyer, and not just as a seller.

In June 2008, the government hosted the 22nd meeting of the Convergence Council of Ministers and the Committee of Governors of the West African Monetary Zone (WAMZ). WAMZ represents a group of West African countries that are not members of the CFA zone and that are trying to establish a single common currency by December 2009.

External Position

Sierra Leone's primary exports are diamonds, rutile and bauxite, with diamonds accounting for more than half of all exports. The main imports are petroleum products and food. The oil and food price increases, the suspension of Kimberlite diamond mining operations, and the scaling down of rutile mining, have impacted negatively on the trade balance. Belgium, as the centre for the global trade in rough diamonds, is the principal recipient of the country's exports.

Higher world food and fuel prices in the first half of 2008 pushed up import values to 22.9 per cent of GDP. Exports declined from 17.1 per cent of GDP in 2007 to 15.6 per cent in 2008. The services balance also deteriorated, contributing to a widening of the current account deficit, to an estimated 5.9 per cent of GDP in 2008 from 3.8 per cent in 2007. In 2009 and 2010, improvements in the trade deficit, services and net factor income are expected to narrow the deficit to the 4.5 per cent range.

Gross foreign reserves amounted to USD 211.4 million (equivalent of about three and half months of import cover) as of September 2008.

Sierra Leone reached the Heavily Indebted Poor Countries (HIPC) completion point in 2006. Total external debt stock stood at USD 599 million in September 2008, with commercial creditors accounting for about USD 254 million. With debt relief, debt service payments have fallen from USD 45 million in recent years to USD 13 million for 2009. The government is attempting to obtain debt relief from external commercial creditors under the enhanced HIPC Initiative. A debt sustainability analysis conducted in April 2008 showed that Sierra Leone's external debt remains sustainable in the medium to long term. However, the country is still faced with a moderate risk of debt distress in the event of a serious external shock. With this rating, Sierra Leone is now eligible to access International Development Association (IDA) and African Development Fund (ADF) resources.

Table 3 - **Current Account** (percentage of GDP at current prices)

	2000	2005	2006	2007	2008(e)	2009(p)	2010(p)
Trade balance	-10.1	-12.2	-6.6	-6.0	-7.3	-5.0	-4.9
Exports of goods (f.o.b.)	11.4	17.6	19.3	17.1	15.6	15.6	15.2
Imports of goods (f.o.b.)	21.5	29.8	25.9	23.2	22.9	20.6	20.1
Services	-11.1	-1.0	-1.1	-1.4	-2.1	-1.8	-1.6
Factor income	-1.3	-5.2	-4.1	-2.1	-2.0	-1.7	-1.6
Current transfers	13.8	11.3	8.2	5.7	5.5	4.1	3.6
Current account balance	**-8.8**	**-7.1**	**-3.5**	**-3.8**	**-5.9**	**-4.4**	**-4.5**

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

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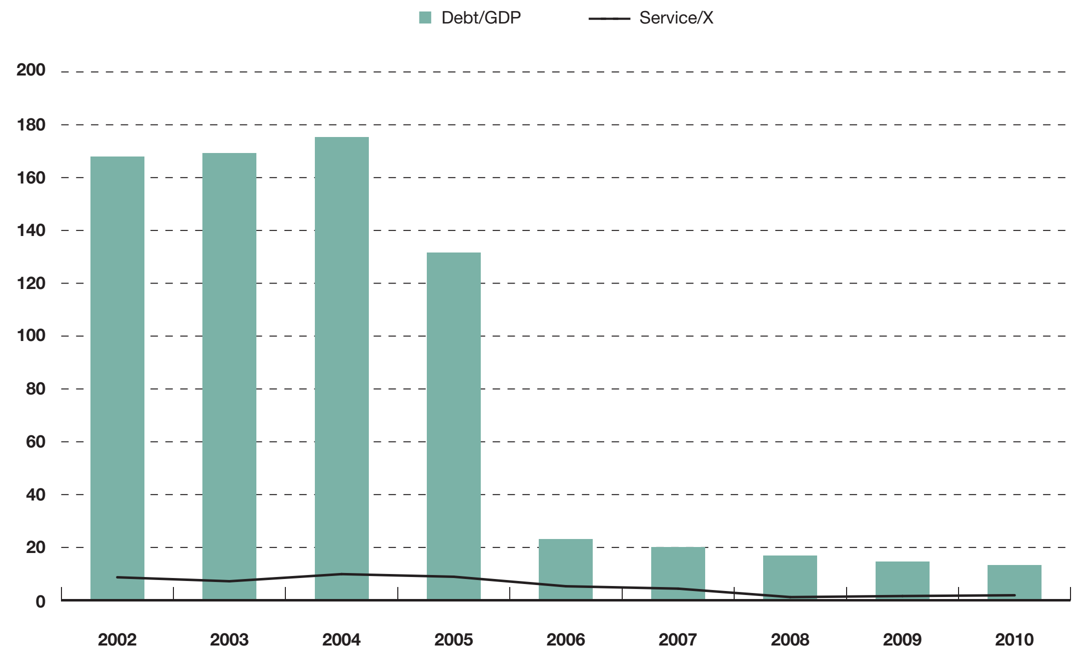
Figure 3 - **Stock of Total External Debt** (percentage of GDP) **and Debt Service** (percentage of exports of goods and services)



Source: IMF.

StatLink http://dx.doi.org/10.1787/574046201331

Structural Issues

Private Sector Development

The Sierra Leonean economy is market-oriented with the private sector accounting for over 90 per cent of GDP. However, the private sector faces a number of constraints. Despite some recent improvements, the costs of doing business in Sierra Leone remain relatively high. The World Bank *Doing Business* index for 2009 ranked Sierra Leone 156th out of 181 countries, an improvement by seven places relative to 2008. In the coming years, the government intends to focus on areas where the country ranks poorly on the index (employing workers), as well as improving access to finance and infrastructure. Legislation it intends to enact in 2009 include a bankruptcy bill, a revised companies act in 2009, anti-money laundering measures, and legislation to combat the financing of terrorism.

The financial sector continued to deepen in 2008 with the number of commercial banks increasing to 13, up from 6 in 2003, and the number of community banks increasing to 6. More community banks are expected to be created supported by the International Fund for Agricultural Development (IFAD) and the United Nations Industrial Development Organization (UNIDO). The Arab Gulf Programme for United Nations Development (AGFUND) is also planning to launch a Sierra Leone 'bank for the poor'. Plans to establish an apex bank to supervise community banks and reduce the Central Bank's involvement in their operations are also being formulated. The Sierra Leone stock exchange was granted a license to begin operating in September 2008 with support from the Bank of Sierra Leone. In view of the increasing number of financial institutions and products, the Bank of Sierra Leone has submitted an interim financial sector development strategy to the IMF, while work on the comprehensive financial sector development plan is ongoing, supported by the World Bank's Financial Sector Reform and Strengthening Initiative (FIRST) and the Microfinance Investment and Technical Assistance Facility (MITAF).

Other Recent Developments

Public sector reforms have been initiated and Public Expenditure Tracking Surveys (PETS) are also routinely conducted. A public financial management programme was launched aimed at strengthening budget planning and execution; improving the capacity of accounting, reporting, monitoring and control systems; and, reforming public procurement. A new Integrated Financial Management Information System (IFMIS) has also been introduced in key ministries, departments and agencies to facilitate expenditure control and accounting. In due course, this will be extended to local councils and it is expected that the new system will contribute significantly to strengthening expenditure control. Under new regulations, government ministries, departments and agencies must set up procurement and internal audit units and contracts above a certain threshold must be published. A National Public Procurement Authority has also been established to monitor procurement activities.

Poor infrastructure, especially unreliable electricity supply, is a major obstacle to private sector development. President Koroma's new government launched an emergency power supply project, which increased electricity supply from 5 megawatts to 25 megawatts in the capital Freetown in 2008. It achieved this by contracting with private electricity providers to produce electricity, while the National Power Authority – the former monopoly provider – collected dues from consumers. The government concedes that the National Power Authority's financial performance remains weak, stemming mainly from technical and commercial losses and it intends to restructure the Authority "to ensure its operational and financial sustainability". It also intends to improve revenue collection by installing 200 000 pre-pay meters. Two new electricity generation projects are also planned: the Bumbuna Hydroelectric project, with an electricity generating capacity of 50 megawatts due for completion in 2009, and a 5 megawatt power station at the airport. These projects will mainly supply Freetown. A new dam and additional water supply systems are also planned and several trunk and feeder roads as well as some major roads will be rehabilitated or constructed in 2009.

Sierra Leone participates in the Economic Community of West African States (ECOWAS) West African Power Pool Project that seeks to connect all 15 member states in an ECOWAS-wide electricity power pool.

Innovation and ICT

There are a number of critical issues for information and communication technology in Sierra Leone: determining the appropriate number of operators in the industry; poor infrastructure especially electricity supply; the relatively weak institutional framework; human resource constraints; and the future of the Sierra Leone Telecommunications (Sierratel) company, the state-owned monopoly of fixed-line telephony.

There are four mobile telephony providers operating in 2008, with some offering wireless broadband Internet services. Four additional licensed mobile telephony providers were not yet operative and about 50 privately installed VSAT (very small aperture terminals) exist across the country. The quality of mobile phone services varies widely across the four providers which all use second generation technology. For some, coverage is mainly limited to Freetown, the national capital.

Sierratel, the state-owned monopoly fixed-line telephony provider, has had its share of problems as much of its infrastructure was damaged during the war and has not been replaced. Although Sierratel has been slated for privatisation for several years, progress has been slow. Contentiously, since 2006 Sierratel has held a monopoly on the international gateway channelling calls into and out of the country. This was extended for five years in October 2008 even though critics argue that Sierratel lacks the capacity to administer the monopoly (which is subcontracted to a private company), and that it only serves to create rents. They also point to a high degree of illicit trafficking of calls into and out of the country. Zain, the leading mobile phone provider, has cited its inability to operate its own gateway as the major factor hindering the launch of its pan-African One Network service in Sierra Leone. Sierratel meanwhile, plans to introduce a CDMA (Code Division Multiple Access) wireless land and mobile telephony service for 100 000 customers in Freetown and 13 major provincial towns in 2009.

Until recently, the government had an open-door market-access policy for mobile telephony providers. Unfortunately, some contracts were negotiated when the country was emerging from conflict and there was a pressing need to attract foreign investment, often on very unfavourable terms to the country. The licence fee is just USD 50 000 and the comparatively low entry costs could account for the presence of a relatively large number of service providers. Existing mobile phone providers argue that the market is highly liberalised and profit margins are tight or negligible. This and the inadequacies of previous legislation has prompted the government to cease issuing new licences until the regulatory body National Telecommunications Commission, NATCOM, can "regularise certain anomalies of previous registration procedures". Some of these anomalies refer to frequencies and spectrum allocations.

In 2006 the government set up the National Telecommunications Commission (NATCOM) with responsibility for licensing and spectrum management, among other things. However, the division of labour between NATCOM and the Ministry of Information and Communication (which is responsible for ICT matters), is unclear. An information and communication technology policy is currently being developed under the aegis of a national ICT policy committee, chaired by the country's vice president.

In terms of human resource development, the University of Sierra Leone has a computer centre that teaches basic computer skills to all staff and students. The centre also offers Internet and electronic library services. At the secondary school level, very little computer infrastructure exists and as a result, ICT is not universally taught. In 2007, the Institute of Public Administration and Management (IPAM), of the University of Sierra Leone, became the first institution in the country to receive Cisco Certified Networking Associate (CCNA) accreditation.

Poverty is a major constraint to ICT human resource development and many lack the necessary resources to be computer literate, particularly in rural areas. The urban-rural divide in this regard is high and mobile telephone coverage is also generally restricted to the major towns.

Political Context

Sierra Leone has made significant political gains since the end of its devastating 1991-2001 civil war, including holding two peaceful post-war elections in 2002 and 2007. The opposition All People's Congress (APC) won the 2007 presidential and constituency elections, leading to the investiture of President Ernest Koroma. A relatively vibrant civil society and mass media have emerged. Some 50 newspapers are published daily or weekly while many private radio stations are operative.

At the end of the conflict, a disarmament, demobilisation and reintegration (DDR) programme was launched under which some 72 490 combatants were disarmed and 71 043 demobilised by February 2002. Of these, 56 000 participated in reintegration activities. Security sector reforms have also been undertaken and a civilian-led security co-ordinating architecture has been established. The police and military have been restructured, retrained, and re-equipped with UK assistance, with the military diminishing from a force of over 13 000 at the end of the war, to a projected 8 500 troops by 2010.

The DDR provided displaced persons with transportation to their community and a resettlement package, including food and shelter items. Tractors and free seedlings were made available to farmers. Hundreds of schools and health units were constructed or reconstructed and free basic education was introduced.

A decentralisation process was launched and elections for newly established local councils were first held in 2004, and then again in 2008. Service-delivery responsibilities – for agriculture, feeder roads and small bridges, rural water and sanitation, urban traffic and solid waste management – have been transferred to the councils.

The Anti-Corruption Act adopted in September 2008 greatly boosted the powers of the Anti-Corruption Commission (ACC). The new law integrates both local and international statutes on fighting corruption, including those enshrined in the UN Convention against Corruption and the African Union's Convention on Preventing and Combating Corruption. The government has recently announced that an inquiry will be conducted into the financial malpractices committed by the previous regime.

Social Context and Human Resources Development

Sierra Leone has low human development indicators and is not on track to meet several of the Millennium Development Goals (MDGs). It ranked last among the countries covered in the United Nations Development Programme (UNDP) 2007 Human Development Index. At current trends, the MDG of "eradicating extreme poverty and hunger" will not be met. According to national sources, about 70 per cent of the population was estimated to be below the USD 1per day poverty line in 2004. The percentage for urban areas was 56 per cent compared with 79 per cent in rural areas.

According to national sources about there has been some progress with respect to universal primary education. The net primary school enrolment rate rose from 41 per cent in 2001 to 69 per cent in 2005. The figure for girls rose from 39 per cent in 2001 to 69 per cent in 2005 while the figure for boys rose from 43 per cent in 2001 to 69 per cent in 2005. The female-to-male enrolment ratio for primary school was 1.01, counting positively towards promoting gender equality, another MDG. This was somewhat offset by the female-to-male enrolment ratio for secondary school of 0.78. However, other indicators suggest limited progress is being made: the female literacy rate is reported to have increased from 16.7 per cent in 1996 to 23 per cent in 2004.

The government has adopted the following measures to improve access to education: free tuition, provision of teaching and learning materials, adoption of the 2004 Education Act and 2007 Child Rights Act; and, school feeding in selected schools. The government plans to make school feeding universal and to introduce take-home rations as an incentive for increasing attendance rates for girls. A code of conduct for education personnel and a reporting mechanism will be developed and enforced especially for sexual harassment of girls. The government also intends to improve on the school environment for girls by enforcing the policy of providing separate toilet facilities for boys and girls. Schools are being constructed or rehabilitated by the government and its partners and education curricula revised.

Currently, 40 per cent of primary school teachers are untrained and unqualified and there is an acute shortage of qualified teachers, particularly in rural areas. The teaching force is also gender imbalanced (approximately 30 per cent and 20 per cent of primary and secondary teachers are female, respectively). A ceiling on teacher recruitment is a clear constraint, however, the government intends to review its policy on teacher recruitment.

Progress on reducing child mortality has been modest. The infant mortality rate was 102.6 per 1 000 live births in 2008, compared with 162 per 1 000 in 2000. Maternal mortality was reduced from 1 800 per 100 000 births in the early 2000s to 1 600 in 2005. However, much greater effort is required to achieve the MDG target for maternal mortality. Finally, with regard to HIV/AIDS, malaria and other diseases, national sources indicate that the HIV prevalence rate has been increasing, from 2.9 per cent in 2003, to 4.4 per cent in 2007.

In terms of HIV/AIDS, the population could become more vulnerable. The focus is therefore on preventing new infections as well as treating sexually transmitted infections, promoting condom use, voluntary testing and preventing mother-to-child transmission. Care, treatment and support will also be provided to people living with HIV/AIDS including orphans and vulnerable children.

These efforts form part of the government's strategy to improve health care. It also addresses reproductive and child health issues by focusing on family planning (to address problems of teenage pregnancies and child marriage), essential and emergency obstetric care including prenatal, delivery and post natal services, integrated management of neonatal and childhood illnesses, and preventive services including immunisation and school health.

The underweight prevalence rate was 31 per cent in 2005, compared with 29 per cent in 1989/90. Nutritional services will focus on the promotion of early and exclusive breastfeeding, infant and young child feeding, promotion of local salt iodation, provision and distribution of micro nutrients to both pregnant women and children, and periodic provision of de-worming treatment. Community identification and management of acute malnutrition will be strengthened.

Surveys show increasing incidences of mental health conditions especially among youths. This is generally attributed to the post war effects and substance abuse. There is gross understaffing in the area of mental health; Sierra Leone has just one mental health specialist and health staff are not provided with training. In the short term, consultant trainers will be recruited to provide mid level training of staff. Community based rehabilitation services will be provided or strengthened.

The financing of health care remains a big challenge and most of the population cannot afford basic care. The government is planning to introduce a National Social Health Insurance Scheme that will ensure access and affordability of quality health care service to all Sierra Leoneans although it is yet unclear how this will be financed.

Deforestation and pollution are now major environmental problems in Sierra Leone and natural rainforest coverage has plummeted from 60 per cent of the country to just 3 per cent. Illegal logging and timber extraction, fuel wood and charcoal production, land claims for construction as well as unsustainable agricultural practices, such as shifting cultivation have all contributed to deforestation. Sound institutions to manage environmental concerns are needed. The government has stated its intention of integrating principles of sustainable development into its policies and programmes in order to reverse the loss of environmental resources. It also intends on reducing the loss of biodiversity and cutting the rate of disappearance by 2010. By 2015, it also aims at halving the proportion of the population without access to safe drinking water and basic sanitation.

A key challenge to reducing poverty in Sierra Leone is to strengthen the links between poverty reduction and management of the environment. In the medium term, the government is focusing on land degradation, deforestation and biodiversity loss, mined-out lands, urban degradation and pollution and erosion from road construction and urbanisation. An Environmental Protection Agency mandated to harmonise the legislative, policy and institutional framework for natural resource management has also been established. In addition, the forestry division of the Ministry of the Environment will be restructured and the country's remaining high forests will be inventoried and mapped.

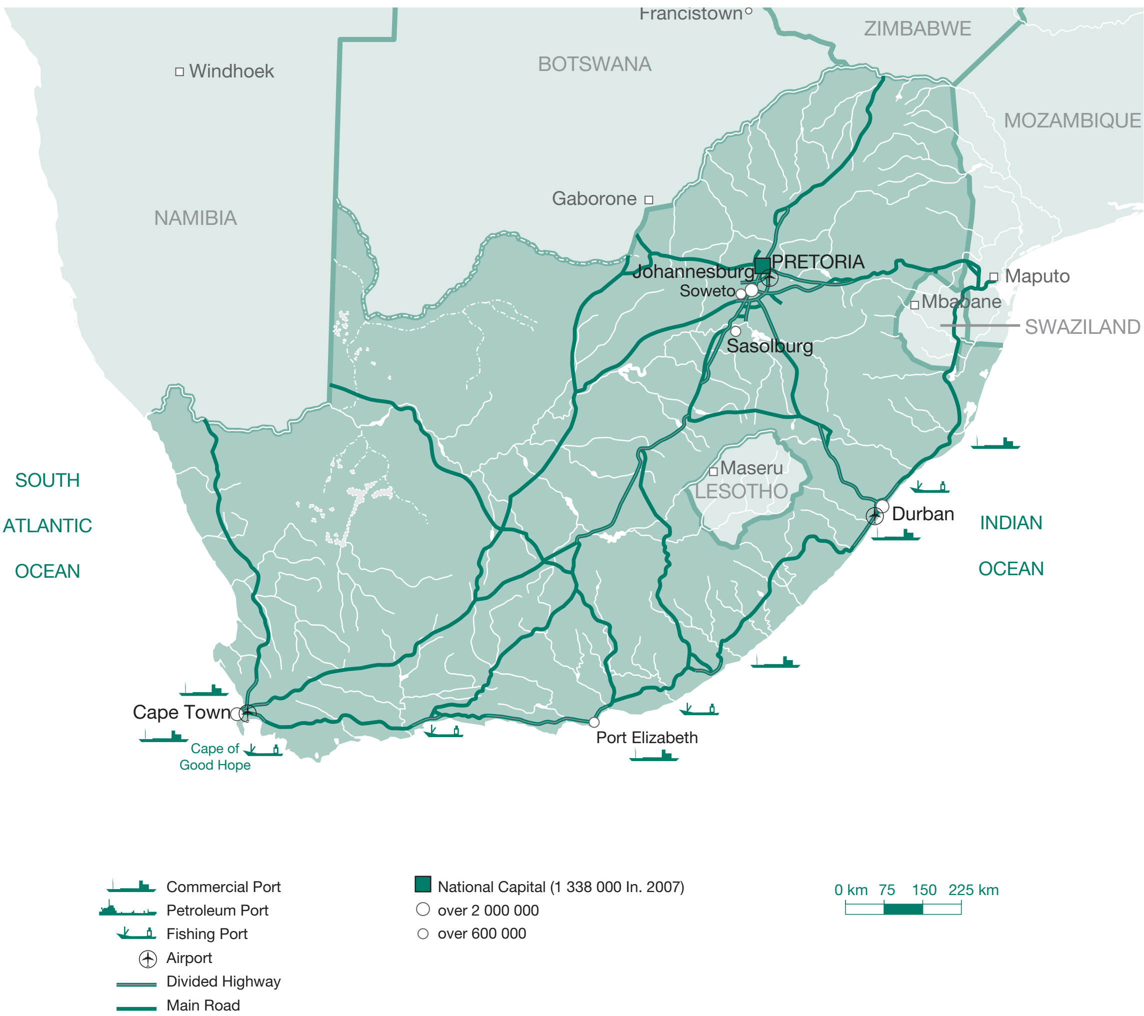
While there is an urgent need to conserve the remaining natural rainforests, the government will also explore possibilities for investment in sustainable financing mechanisms, e.g. through carbon markets and trading schemes, under the current and future Climate Change protocols, as well as by signing up to future Reducing Emissions from Deforestation and Degradation (REDD) programmes.

South Africa

key figures

- Land area, thousands of km^2: 1 214
- Population, thousands (2008): 49 668
- GDP per capita, PPP valuation, USD (2008): 9 736
- Life expectancy (2008): 51.6
- Illiteracy rate (2008): 12

South Africa



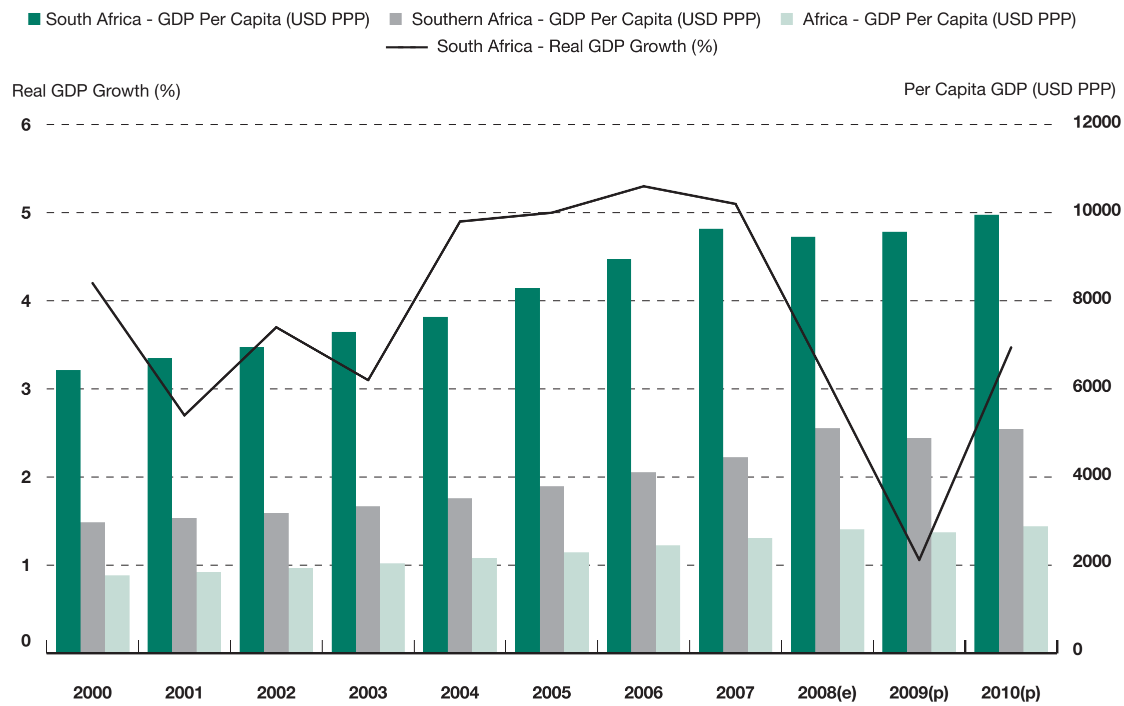
After several years of robust economic growth of around 5 per cent, growth dropped to 3.1 per cent in 2008. Economic activity was adversely affected by severe energy shortages, slowing domestic consumption and the worsening world recession. In 2009, growth is expected to weaken further to 1.1 per cent while inflation should be curbed as the oil- and food-price increases of the first half of 2008 are reversed. Although its banking system was not directly affected by the international financial crisis, South Africa was affected by the fall in global demand for its mineral exports. Depreciation of the rand and the decline in the price of oil, however, are expected to ease pressure on the trade balance in the medium term.

The prudent macroeconomic policies of the last decade have provided room for more expansionary monetary and fiscal responses to the slow-down and for continued increases in public investment in infrastructure and social services. If the rebalancing between consumption and investment started in 2007 is continued, the growth rate is likely to rise.

The crisis has put an end to the robust growth of recent years, but the country seems well placed to respond.

The recent slow-down is amplifying South Africa's development challenges. Infrastructure has suffered from 20 years of under-investment and lack of competition. In addition, unemployment, lack of skills

Figure 1 - **Real GDP Growth and Per Capita GDP**
(USD/PPP at current prices)



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

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and poverty remain dire problems. The Accelerated and Shared Growth Initiative for South Africa (AsgiSA) launched in 2006 aims at halving unemployment and poverty by 2014. Despite substantial funding, the results of AsgiSA have been limited by the weak capacity of the various ministries and agencies and a lack of co-ordination among them.

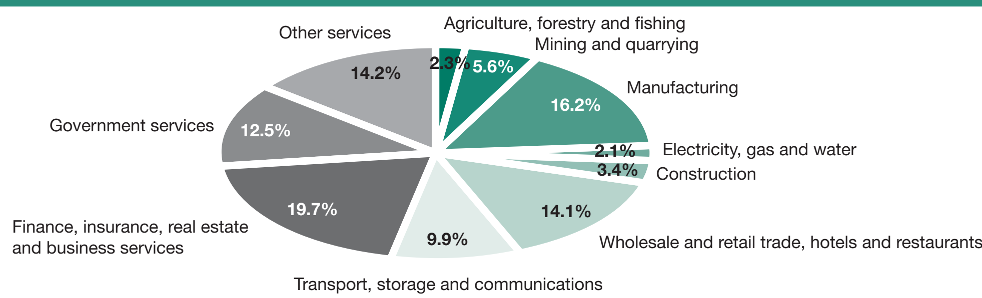
Recent Economic Developments

In 2008, the economy grew by 3.1 per cent, well below the average 5 per cent rate of the previous three years. The slowing of economic activity was the result of several negative factors: unprecedented power shortages; the hike in global oil and food prices in the first six months of the year; the slow-down of private consumption; and the decline in foreign investment and in exports due to the world financial crisis. Growth is expected to drop further to 1.1 per cent in 2009 due to continued contraction of domestic demand. It is anticipated to rebound to 3.5 per cent in 2010, however, thanks to the stimulus expected from the soccer World Cup.

Good and timely rains boosted agriculture, with output increasing by almost 18.8 per cent in 2008, as against the corresponding period in 2007. Agriculture was led by horticulture, animal products and especially maize, the output of which jumped by around 70 per cent. Rising prices spurred planting and expansion of cultivated land. Although agriculture only accounts for a 3.2 per cent share of GDP and a 5.2 per cent share of employment, it is one of the priority sectors of AsgiSA. The new Land Use Management Bill, designed to simplify the regulatory framework for land use, was finalised in 2007 and should make investment in agriculture more attractive.

The mining sector accounts for 8.4 per cent of total value added and is led by gold (25.7 per cent of total production), platinum (27.6 per cent) and coal (20 per cent). After declines of 20 per cent and 12.4 per cent in real fixed investment in 2004 and 2005, respectively, mining investment increased by 48.2 per cent in 2006 and by about 30.8 per cent in 2007. A marginal 1.2 per cent growth in fixed investment was recorded in 2008 as the impact of electricity-supply curtailment and the unfolding global economic crisis affected that year. Higher levels of investment have not yet translated into increased production and, following an already turbulent 2007, mining output declined by 6.5 per cent in 2008, due mainly to electricity shortages, tighter mine-safety procedures and steeply falling prices. Gold, platinum and diamond output slumped, but iron ore and coal grew moderately. To respond to slowing demand, several mines started cutting production in the last quarter of 2008, while the fall in the international prices for diamonds and platinum also put new investment into question. A new platform for the sector will have to be defined if South Africa wants to take better advantage of the next upward cycle in commodities and boost its exports.

Figure 2 - **GDP by Sector in 2007** (percentage)



Source: Authors' estimates based on local authorities' data.

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The construction sector is booming because of infrastructure projects under way in transport and electricity, and projects related to the hosting of the soccer 2010 World Cup, including several new stadiums and hotels. On the other hand, residential building has suffered from higher mortgage interest rates and declining demand. Overall, construction grew by 14 per cent in 2008, after a 17.1 per cent growth in 2007, and is expected to remain dynamic in the coming years.

Manufacturing in South Africa remains constrained by low productivity and capacity constraints (near-record capacity utilisation of 85.3 per cent as of September 2008). Manufacturing output increased only by 1.2 per cent in 2008, down from 4.5 per cent in 2007. This somewhat disappointing outcome reflects electricity shortages and declining domestic demand. Manufacturing output fell in the second half of 2008 and is expected to remain weak in 2009. In addition, the automotive sector in particular has suffered from falling domestic demand since mid-2007, as well as from the global crisis in the auto industry. On the other hand, the new Automotive Production and Development Programme ensures continued government support through to 2020, with production subsidies of ZAR 870 million over 2009/11. Depreciation of the rand could also mitigate the adverse consequences of the deterioration of international economic conditions.

Tertiary industries account for almost 65 per cent of GDP led by financial services, and wholesale and retail trade. Following a growth rate of 5.4 per cent in 2007, the tertiary sector grew by only 1.5 per cent in the first three quarters of 2008, with weak performances in the leading sectors as well as in insurance, real estate and business services.

The year 2008 was characterised by a continued rebalancing between investment and consumption, a process started in 2007. At the current pace, the objective of reaching an investment-to-GDP ratio of 25 by 2014 is likely to be achieved earlier than expected. Household-consumption growth slowed sharply as a result of higher interest rates, high indebtedness and tighter lending conditions triggered by the 2007 National Credit Act and exacerbated by the international credit crunch. A negative growth rate in household consumption will likely be recorded in 2009 as a consequence of decreasing disposable income due to rising unemployment and is projected to rebound to 2.8 in 2010. Public investment expanded by 15 per cent in 2008 and is expected to continue expanding briskly at 12.5 per cent on average in 2009-10, led by preparations for the 2010 World

Table 1 – **Demand Composition**

	Percentage of GDP (current prices)		Percentage changes, volume			Contribution to real GDP growth		
	2000	2007	2008(e)	2009(p)	2010(p)	2008(e)	2009(p)	2010(p)
Gross capital formation	**15.9**	**21.9**	**7.1**	**1.9**	**8.4**	**1.6**	**0.4**	**1.9**
Public	4.3	6.2	15.0	14.5	11.0	0.9	1.0	0.9
Private	11.6	15.8	4.0	-3.5	7.0	0.6	-0.6	1.1
Consumption	**81.1**	**81.2**	**1.7**	**0.4**	**3.2**	**1.4**	**0.3**	**2.6**
Public	18.1	19.7	3.4	5.9	4.6	0.6	1.1	0.9
Private	63.0	61.4	1.2	-1.2	2.8	0.8	-0.7	1.7
External demand	**3.0**	**-3.1**				**0.1**	**0.3**	**-1.1**
Exports	27.9	31.5	1.7	-0.6	2.0	0.5	-0.2	0.6
Imports	-24.9	-34.6	1.1	-1.3	4.9	-0.4	0.5	-1.6
Real GDP growth						**3.1**	**1.1**	**3.5**

Source: Statistics South Africa (Stats SA) data; estimates (e) and projections (p) based on authors' calculations.

StatLink http://dx.doi.org/10.1787/575411356010

Cup and large infrastructure projects. Representing 72 per cent of total investment in 2008, private investment grew at a solid 4 per cent in 2008 but is expected to suffer from international liquidity restrictions in 2009 before recovering in 2010. Exports and imports both stalled in 2008 and are projected to remain weak in 2009 due to low foreign and domestic demand.

Macroeconomic Policies

Fiscal Policy

South Africa's prudent fiscal policy since the end of Apartheid has resulted in a strong revenue base and low levels of public debt, allowing expansionary responses to the current slow-down in the form of increased social spending and public investment.

Total revenue and grants increased to 27.1 per cent of GDP in 2007/08 from 23.8 per cent in 2000/01 thanks to rising incomes, improvements in tax collection and the widening of the tax base, particularly for income taxes. In 2008/09, decreasing incomes are expected to cause a decline in revenues to 26.4 per cent of GDP.

Expenditure in 2008/09 is expected to increase to 27.4 per cent of GDP, with social grants, wages and recruitment increasing by 17 per cent, in step with nominal GDP. Social spending, representing 53 per cent of total expenditure, is expected to increase by 17 per cent; investment spending, mainly led by state-owned enterprises (SOEs), represents 8 per cent of total expenditure and is expected to increase by 37 per cent.

As a result of the expansionary policy implemented since the end of 2008, the 2008/09 fiscal balance is likely to record a 1 per cent deficit instead of the planned surplus of 0.1 per cent of GDP, following a 0.9 per cent surplus in 2007/08.

The new budget law announced in February 2009 confirmed the priorities for macroeconomic policy set in 2004 and renewed in the October 2008 Medium Term Budget Policy Statement (MTBPS), which are to boost economic growth and employment while increasing funding for poverty reduction.

Given the worsening economic conditions, the surplus forecasted in the 2007 MTBPS for the period 2008/10 seems unattainable. In 2009/10, South Africa is expected to have a fiscal deficit of 3.7 per cent of GDP due to continued increases in social spending, job creation and investment in infrastructure. Spending will slow down in 2010/11, reducing the expected deficit slightly to almost 3 per cent of GDP. South Africa's deficits are not a major concern, given the state

Table 2 - **Public Finances** (percentage of GDP at current prices)

	2000/01	2005/06	2006/07	2007/08	2008/09(e)	2009/10(p)	2010/11(p)
Total revenue and grants[a]	**23.8**	**26.3**	**26.9**	**27.1**	**26.4**	**26.1**	**27.3**
Tax revenue	23.4	25.8	26.3	26.6	25.9	25.5	26.7
Total expenditure and net lending[a]	**25.8**	**26.7**	**26.3**	**26.3**	**27.4**	**29.8**	**30.1**
Current expenditure	25.3	27.8	26.3	28.5	28.3	28.9	27.4
Excluding interest	*20.7*	*24.5*	*23.4*	*25.9*	*26.0*	*27.3*	*27.3*
Wages and salaries	9.8	9.8	8.7	9.7	9.8	10.1	9.8
Interest	4.7	3.3	2.9	2.6	2.3	1.7	0.4
Capital expenditure	1.4	1.7	1.3	2.1	2.3	2.5	2.7
Primary balance	**2.7**	**2.9**	**3.5**	**3.5**	**1.3**	**-2.0**	**-2.5**
Overall balance	**-2.0**	**-0.3**	**0.6**	**0.9**	**-1.0**	**-3.7**	**-2.9**

a. Only major items are reported.
Source: South African Reserve Bank (SARB) and IMF data; estimates (e) and projections (p) based on authors' calculations.

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of the economy and the moderate level of public debt, at around 23 per cent of GDP in 2008, suggesting ease of financing in the domestic markets.

In 2007, 12.4 million people benefited from social-assistance grants. Thanks to the recent measures included in the 2009 budget involving an increase of ZAR 13.2 billion, the number of beneficiaries will exceed 13 million. The government is planning to introduce a new social-security system, to be financed by a mandatory tax. The current economic situation, however, might delay its implementation to 2010.

Despite an expected overall budget execution of over 90 per cent, execution remains erratic at local and provincial levels, especially for capital investment, with huge under-spending as well as over-spending. In order to improve the efficiency of public expenditure, a monitoring and evaluation system was introduced in 2008. The government is also pursuing devolving expenditure management to municipalities and provinces.

Due to a weakening economy and a deteriorating external position coupled with uncertainty linked to the 2009 elections, Moody's and Fitch, two major credit-rating agencies, revised South Africa's outlook from stable to negative but have so far kept their ratings unchanged. During the first three quarters of 2008, the country risk premium on South African government bonds over US Treasury bonds widened, but then narrowed by 25 per cent from July 2008 (681 basis points) to end-November 2008 (519 basis points).

Monetary Policy

Average inflation rose sharply in 2008 to 11.5 per cent and has remained well above the upper limit of the 3-to-6 per cent target range since April 2007, mainly due to domestic pass-through of the surge in world oil and food prices. Increases in excess of 20 per cent in administrative prices, wage increases, a weaker rand and capacity constraints have also contributed to inflationary pressure. In the last months of 2008, inflationary pressure eased, thanks to the moderation of the prices of oil and other commodities, and to the slow-down of aggregate demand.

Monetary policy continued to be restrictive in early 2008, with the repurchase (repo) rate increasing 1 percentage point to 12 per cent, bringing the cumulative increase in interest rates to 5 percentage points since 2006. In December 2008 and February 2009, the South African Reserve Bank (SARB) lowered the repo rate by a cumulative 1.5 percentage points to 10.5, reflecting the fact that lower growth replaced inflation as the primary concern. Further cuts are likely.

In 2009, the inflation rate is likely to continue edging to lower levels thanks to a moderating domestic demand and falling oil and commodity prices, and despite wage increases and increased administrative prices for energy. Inflation is expected to average 6.7 per cent in 2009 and 5.9 per cent in 2010. In February 2009, the national statistical office, StatSA, rebased and reweighted the reference index from the CPIX (consumer-price index – CPI – excluding mortgage-interest cost for metropolitan and other urban areas) to the CPI to include mortgage costs. Projected inflation could decline by 0.9 per cent during the first quarter of 2009 due to this adjustment.

If inflationary pressure continues to recede, the SARB will probably institute further interest-rate cuts during the first half of 2009 to stimulate economic activity. Household indebtedness remains at all-time record highs at around 76 per cent of disposable income in 2008, although it has been declining due to high lending interest rates.

The growth of credit to the private sector slowed to 17 per cent in September 2008, down from 21.3 per cent in June due to the decline in demand for mortgages and stricter consumer-credit rules dictated by the 2007 National Credit Act. In contrast to 2007, credit to the corporate sector has also contributed to the reduction of private-credit growth in 2008.

The 12-month growth rate of broad money (M3) was halved to 15.5 per cent in September 2008 as a consequence of shrinking credit. The rand was volatile in 2008. The heightened risk aversion in global markets put downward pressure on the rand, which depreciated by around 30 per cent against the US dollar between July 2008 and December 2008.

External Position

High oil and food prices during the first half of 2008 drove up the import bill. Export volumes were adversely affected by the energy shortages in early 2008, which cut mining production drastically, preventing South Africa from taking full advantage of the high prices of gold, platinum and diamonds. The effect of the fall in oil prices on imports in the second half of 2008 was more than offset by the fall in prices of export commodities. The price of platinum, the largest export, fell by about 60 per cent between March 2008 and January 2009. As a result, the current account continued to deteriorate, despite the sharp depreciation of the rand to 7.8 per cent of GDP from 7.5 per cent in 2007, driven by the worsening trade balance. Income and service balances deteriorated marginally, due to rising repatriations of dividends, and payments for technical and other production-related services.

The current-account deficit is projected to remain high in 2009 and 2010, with a slight improvement in 2009 due to a temporary drop in profit repatriations. The service deficit will decline in 2010 thanks to tourism inflows linked to the soccer World Cup. The surplus in the capital account has been largely sufficient to finance the shortfalls in the current account. In the first 9 months of 2008, however, South Africa experienced a net portfolio outflow of ZAR 0.9 billion, against a net inflow of ZAR 107.4 billion in 2007. This has been compensated by new loan financing and repatriation of foreign assets by the banking sector, making it possible to maintain the balance in surplus and to raise international reserves to almost USD 34.1 billion at the end of December 2008, covering more than twice the country's short-term foreign-currency-denominated external debt. However, at the end of January 2009, this level had fallen to USD 30 billion.

South Africa remains overly dependent on volatile portfolio flows and has been less successful than similar emerging economies in attracting long-term external financing such as foreign direct investment (FDI), which represents only 20 per cent of total financial flows. In 2008, FDI inflows increased thanks to the sale of Vodacom, the second largest mobile operator, to the British Vodafone.

South Africa's total outstanding foreign debt increased from 26.6 per cent of GDP at the end 2007 to 29.6 per cent at the end of 2008 and is expected to exceed 32 per cent of GDP by 2010. The ratio of rand-denominated debt to total debt increased slightly in 2008, from 42.0 per cent to 43.4 per cent.

The trade-liberalisation programme pursued by South Africa since 1994 has resulted in a more open economy. In 2007, total exports and imports of goods and services amounted to 31 per cent and 35 per cent of GDP, respectively, compared to 23 per cent and 22 per cent of GDP in 1995. Between 1994 and 2002,

Table 3 - **Current Account** (percentage of GDP at current prices)

	2000	2005	2006	2007	2008(e)	2009(p)	2010(p)
Trade balance	3.5	-0.4	-2.4	-2.0	-2.2	-2.0	-2.9
Exports of goods (f.o.b.)	24.1	22.9	25.1	26.7	30.5	30.0	27.2
Imports of goods (f.o.b.)	20.5	23.3	27.5	28.7	32.6	32.0	30.1
Services	-0.6	-0.4	-0.9	-1.1	-1.4	-1.6	-1.0
Factor income	-2.4	-2.0	-2.1	-3.1	-3.1	-1.7	-2.8
Current transfers	-0.7	-1.2	-1.1	-1.2	-1.1	-1.0	-1.0
Current account balance	**-0.1**	**-4.0**	**-6.4**	**-7.5**	**-7.8**	**-6.4**	**-7.6**

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

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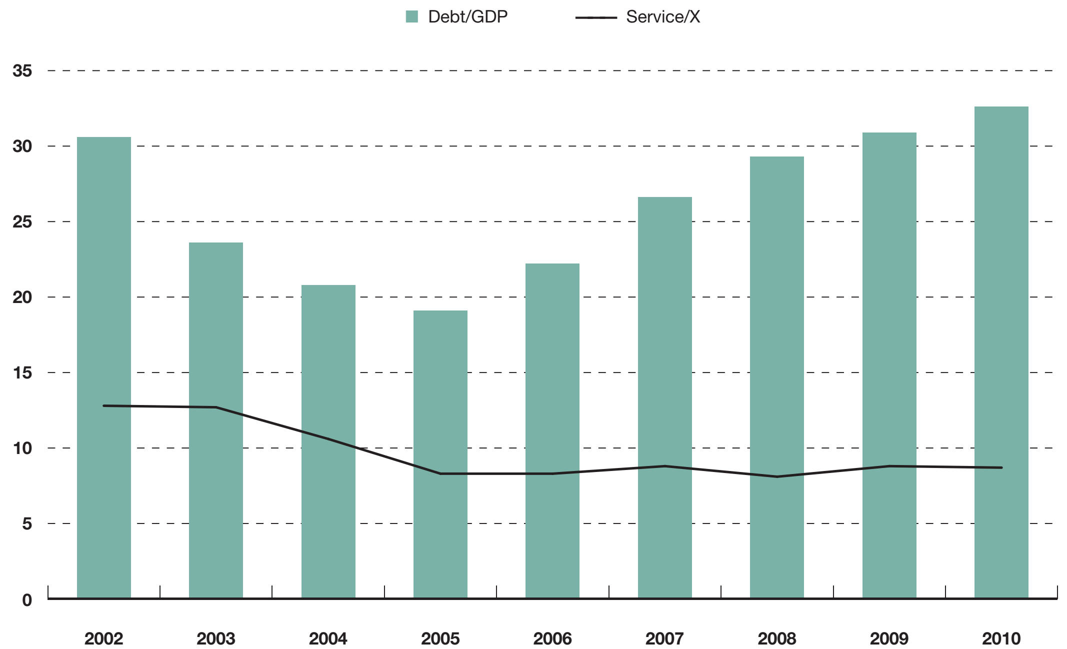
import penetration and export-orientation ratios rose in all 28 sectors of the standard industrial classification; in 10 of these sectors export orientation more than doubled. Nonetheless, South Africa has not yet experienced the long-hoped-for export-led growth boom in labour-intensive manufacturing

About half of South Africa's imports enter duty free, and the unweighted average applied tariff (excluding rebates) was only 8.2 per cent in 2006, rendering the tariff regime on aggregate reasonably liberal by developing-country standards. South Africa's tariff structure does remain complex, however, with 10 per cent of tariff lines classified as tariff peaks (those exceeding 15 per cent) and 9 per cent representing more than three times the average applied rate. These high rates are residues of the import-substitution strategy of the Apartheid era. Under the aegis of the new National Industrial Policy Framework (NIPF) adopted in 2007, a review of the tariff structure is under way. This exercise is apparently oriented towards reducing tariffs on upstream inputs in sectors identified as strategically important and on raising tariffs to bound levels for some final goods. Details are scarce, as the trade-policy reference group advising the Department of Trade and Industry is conducting its work behind closed doors. Critics, including some in the Treasury Department, argue that such a strategy would increase effective rates of protection for final goods, exacerbate the complexity of the system and impede export growth. The Treasury's position is that additional trade liberalisation and greater labour-market flexibility to enhance South Africa's export diversification would be more beneficial than protectionism and costly subsidies. The change of administration is likely to affect the industrial-policy strategy.

In 2008, the only concrete measure to implement the NIPF was the Automotive Production and Development Programme (APDP). The APDP will be in effect from 2013 to 2020 and will replace the Motor Industry Development Programme (MIDP), which expires at the end of 2012. The APDP removes the MIDP export subsidies, banned by the WTO, and replaces them with production subsidies, import-duty

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



Source: IMF.

StatLink http://dx.doi.org/10.1787/572870130273

exemptions and protective tariffs. Although successful in fostering production and exports, MIDP was costly. The cost of the new APDP is difficult to determine due to its complexity.

In February 2007, South Africa joined the negotiating body of the Southern Africa Development Community (SADC) as a participant in the negotiations with the European Union (EU) over an Economic Partnership Agreement (EPA), with the understanding that South African access to the EU market would remain distinct from that of the rest of the SADC group, owing to the country's status as a more developed economy. South Africa's trade with Europe is currently governed by a bilateral trade, development and co-operation agreement. In negotiating the EPA, South Africa put up a strong resistance to the inclusion of so-called "new generation" issues, consisting of services trade, investment, competition policy and government procurement. By the interim deadline of mid-December 2007, all members of the SADC group except South Africa and Angola had signed the interim EPA. As Botswana, Lesotho, and Swaziland have opted to negotiate the new-generation issues, notably services, the EPAs have put an intense strain on the viability of the South African Customs Union, which included these three countries and South Africa.

Structural Issues

Private Sector Development

Some improvement has occurred in the business climate. In the World Bank's 2009 *Doing Business* indicators, South Africa ranks 32nd, up from 35th in 2008. While public monopoly persists in transport and energy, court decisions finally launched the long-delayed liberalisation in telecommunications, opening the sector to private competitors. In addition, amendments to the competition law are under way, giving authorities more power to prosecute anti-competitive behaviour.

The Black Economic Empowerment (BEE) initiative was launched following the end of Apartheid in order to provide greater opportunities for black South Africans and redress the legacies of Apartheid. BEE requires businesses to have representation of disadvantaged groups in higher-level positions but has been criticised as primarily benefitting a small group of well-connected people. BEE was revised in 2003 with the Broad-Based Black Economic Empowerment (BBBEE), increasing emphasis on affirmative action, corporate responsibility and skills development. Common codes of conduct were formulated in 2007, with precise criteria and methods to measure corporate-compliance efforts and a requirement for all firms to comply by 2009. Sectoral charters, elaborated in 2002, are currently under revision and should be adopted by March 2009. While necessary and widely accepted by the private sector, compliance with BBBEE remains costly and complex, and the government has failed to provide firms with adequate assistance to ease the process. Small and medium-sized enterprises (SMEs) are exempt from some of the BBBEE requirements.

South Africa's banking system is well-regulated and has limited exposure to the toxic assets damaging financial firms in developed countries. Capital controls have been liberalised but still remain in effect and have helped to insulate the South African economy from the turmoil in global financial markets. Although bad debts have gone up from 1.1 per cent in 2007 to 3 per cent in 2008 due to household over-indebtedness and rising borrowing costs, they are still manageable, and debt/income ratios are now declining. Introduced in 2007 and including new prudential rules in line with the Basel Capital Accord (Basel II), the National Credit Act constrains risk taking by financial institutions. The slow-down in private-credit expansion in the last part of the year (to 17.5 per cent in October, down from 24 per cent at the beginning of the year) has reduced the profitability of banks.

Other Recent Developments

The government initiated a large-scale USD 56.8 billion infrastructure-development plan through to 2010, related to the upcoming 2010 soccer World Cup and the electricity shortages. At the beginning of 2008, power blackouts paralysed the economy for several weeks. Although it had been foreseen some 10 years ago, the current energy crisis reflects lack of investment combined with rising demand, which has eroded South Africa's relatively developed infrastructure.

State-owned Eskom dominates the electricity sector, producing about 96 per cent of the electricity used in South Africa. The rest derives from self-producers and municipalities. Distribution networks are also owned by Eskom and the municipalities. With a large surplus capacity until recently, Eskom's prices were among the world's lowest for many years. New investment in plants and grid by Eskom was forbidden for almost a decade, however, in a failed attempt to foster private-sector participation. With low prices and a difficult business climate, foreign investors did not find South Africa's electricity market attractive. The situation deteriorated sharply in 2007 and 2008, when power cuts increased and there were forced cutbacks in mining and manufacturing output, typical in much of Africa, but shocking in South Africa.

The government has now elaborated an accelerated development plan for the energy sector, including greater use of renewable energy, strengthening of the grid, efforts to attract Independent Power Producers (IPPs) and government investment in energy production. Prices increased by over 52 per cent in 2008, and further increases are slated for 2009. However, a 2 100 MW deficit is expected to persist until 2012.

Unfortunately, the global financial crisis has made it difficult for Eskom to secure financing for its investment plan. Following the downgrade of its credit rating in August 2008, Eskom has been forced to scale down its projects. In early December 2008, the company announced that it had cancelled a USD 5 billion project for a new nuclear power station. A USD 346 million loan from Germany's KfW IPEX-Bank and a USD 500 million grant from the African Development Bank were secured, and a USD 5 billion loan from the World Bank is under consideration. Additional funds have been allocated to Eskom by the government 2009 budgetary law, but a shortfall remains.

Although transport infrastructure is still the best in the continent, it suffers from uneven geographic coverage dating from the Apartheid era and exacerbated by two decades of under-investment. Insufficient rail connections to the coast, the gateway to the rest of the world, overburden the already stressed road network, while ports lack the capacity to handle rising trade. As a result, freight transport costs are high, at 15 per cent of GDP, frustrating South Africa's ambition to be the region's central logistics hub and impeding the export-led growth strategy.

Transnet, the parastatal enterprise responsible for rail and maritime transport, has received ZAR 78 billion from the Treasury to invest in rail and ports in the next three years. Transnet Freight Rail (TFR) alone spent ZAR 9.2 billion on capital investment in 2008. Currently, more than 80 per cent of all freight transport within South Africa is by road despite the higher costs. The mining sector will be one of the biggest beneficiaries of improved rail transport. The recently announced Sishen-Saldanha rail project of ZAR 7.3 billion over the next five years will expand capacity and develop the Saldanha iron ore terminal.

Transnet's National Port Authority is budgeting ZAR 28 billion for improvements in South Africa's major ports over the next five years. Ports handle approximately 98 per cent of merchandise trade. Container vessels serviced by South African ports are small, as the ports do not have the capacity to handle bigger cargos. This, together with high inland transport costs, forces shipping lines to make multiple calls in several ports, raising overall costs and risking delays. Projects include ZAR 2.6 billion to widen and deepen the entrance channel of the port of Durban (currently handling 65 per cent of total vessels) to increase its capacity by 42 per cent; the development of Ngqura, a new deep-water port at the Coega Industrial Development Zone near Port Elizabeth; the expansion of the port of Cape Town, doubling capacity by the end of 2012; the Richards Bay coal terminal completed ahead of schedule and within budget; and new works are foreseen.

The World Cup in 2010 has also increased attention to the problem of passenger public transport. The first phase of the ZAR 25 billion rapid rail project, the 80-kilometre-long Gautrain, linking O.T. Tambo International Airport, Johannesburg and Pretoria, is nearly complete. The first trains should start running by 2010 and the project will be completed by 2011, dramatically reducing the commuting time between Pretoria and Johannesburg. Another intervention on the same axes, a toll highway replacing the current N1 freeway, is slated for completion in 2009. The first phase of the Johannesburg Bus Rapid Transit (BRT) system is scheduled to start in June 2009, but may be delayed as the tender for bus suppliers was postponed to the end of 2008. An expansion of major South African airports is also ongoing. South African Airlines, whose restructuring is expected to end in March 2009, will open new international and intercontinental routes.

Innovation and ICT

Telecommunications infrastructure in South Africa is good by African standards, in particular for mobile phones. Penetration rates are among the highest in the continent for all types of telecommunications and the Internet. While the mobile-subscriber growth rate was extremely high in the last few years, growth in fixed-line subscriptions, hence in Internet availability, was much lower. Mobile-line penetration rates approach 100 per cent, while fixed lines are below 55 per cent. The Apartheid regime built the fixed-line backbone to reach the white population, but limited progress has occurred in extending it to the rest of the population.

National telecommunications policy objectives were defined in the 1990s by the Department of Communications. These objectives include access to telephones within 500 metres of residences, availability of fixed-line or cellular services in every household by 2010 and access to the Internet for at least 25 per cent of the population, also by 2010. The first two objectives were reached thanks to the growth of mobile telephones, but the number of Internet users was estimated at only 4 million in 2007, about 8.2 per cent of the population. The Universal Service and Access Agency of South Africa (USASA) was created in 1997 to increase Internet use but has not been effective, nor have their community-centre projects.

Despite the continued growth experienced by the sector, the potential of ICT to contribute to growth and development has not yet been realised, as it is hampered by policy failures and regulatory burdens. If access does not seem to be a problem for most of the country, at least in the area of telecoms, the structure of the market and its regulation has kept communication prices unnecessarily high.

South Africa has adopted a policy of *managed liberalisation*, with gradual liberalisation and limited competition. This has also reflected AsgiSA's emphasis on the role of the state and of SOEs in driving economic growth, as a consequence of the view that the market alone was unable to redress the distortions introduced by the Apartheid regime. As a result, there have been high levels of state ownership and control.

Skill shortages and poor co-ordination, including between the regulator and the Competition Commission, prevented the state from delivering the expected results. After several waves of reforms, there were still gaps in the regulatory framework (no wholesale regulation), a slow fixed-network extension and the creation of private monopolies, resulting in very high communication costs. The regulator, Independent Communications Authority of South Africa (ICASA), set up in 2000, suffers from a lack of capacity and from interference from the Department of Communications, resulting in procedural complexity and delays in licensing.

Nevertheless, some liberalisation has occurred, starting with the 1996 Telecommunications White Paper. The partial privatisation of Telkom, the state-owned incumbent for fixed-line voice services and network (public switched telephone network) occurred one year later. As part of a second wave of reform, the Telecommunications Amendment Act of 2001 gave Telkom exclusive control over all fixed-line telecommunications until end of 2003, after which a competitor for service provision and network building was to be introduced. Nonetheless, several failed licensing rounds and delays in granting and issuing the licence to a second network operator, the Indian-owned Neotel, postponed Neotel's entry to 2006, and Telkom still holds a dominant position in 2009.

The government did not intend to provide Telkom with a monopoly on Internet-service provision, but the company was the only one allowed to own and build its own network, requiring any Internet-service provider to lease network connections from Telkom. The limited expansion of the fixed network, moreover, constrained the introduction of enhanced and broadband services.

A third wave of reforms was launched in 2006, with the Electronic Communications Act (or Convergence Bill), superseding previous legislation and setting up a regulatory framework and licence regime intended for the convergence of broadcasting and telecommunications infrastructure. According to these new regulations, conversion to universal licences is necessary because of a new horizontal market structure now allowing Internet service provision, network building and broadcasting. The process stagnated, however, until 2008, when several court decisions mandated that ICASA issue licences to all sector operators, finally introducing more competition and paving the way for more investment.

It was decided in 1998 that a duopoly would be permitted for mobile phones, with a third additional licence to be issued within two years. The duopoly consisted of Vodacom, originated in the 1980s and partially owned by Telkom, and MTN, a private South African provider. In 2001, a third operator, Cell C, owned by a Dubai-based company, was licensed after protracted disputes around alleged irregularities in the bidding process.

Vodacom controls 51 per cent of the mobile market; MTN has 35.8 per cent and Cell C 12.3 per cent. Cell C's late entry has made it difficult for it to increase its market share because of insufficient infrastructure coverage and high interconnection fees. In 2006, a joint venture between Cell C and British Virgin Group gave birth to Virgin Mobile South Africa, which is still small, but expanding steadily.

The technology employed for mobile telecommunications has rapidly evolved from early analogical technology to Global System for Mobile communications (GSM) with international roaming capacity. Today, South Africa is the only country in the continent to have begun deployment of third-generation Universal Mobile Telecommunications System (UMTS) technologies, allowing faster connections and data transmission.

Access to the Internet is available through mobile phones, satellite, Assymetric Digital Subscriber Line (ADSL) and fibre-optic cable. South Africa Telkom owns, together with France Télécom, the underwater cable Sat3, running along the west coast of the continent. The price for other countries to buy access to the broadband is well above cost, at around USD 2 000 per megabyte, which inhibits its use. Completion of two new underwater cables in south-east Africa – SEACOM and the Eastern Africa Submarine Cable System (EASSy) – will probably break this monopoly. With the issuing of universal licences, every operator can now lay down its fibre-optic cable, and three more projects are underway.

South Africa has been a pioneer in innovative telecommunications usage, in particular for e-banking. Two important e-banking initiatives exist. Since mid-2005, MTN has offered an e-banking service targeted at the middle class, which allows people to transfer money using a bank account opened at Standard Bank. A pilot initiative is currently under way to reach out to rural areas. WIZZIT offers a similar service targeting the unbanked lower classes, with the support of the South African Bank of Athens. The latter initiative had attracted several hundred thousand clients by early 2009.

Political Context

The political dispute within the ANC over the succession of Thabo Mbeki ended with the victory of Jacob Zuma in December 2007. President Mbeki was forced to resign in September 2008 over alleged high-level interference in Zuma's indictment on corruption charges (dropped before elections). The subsequent split within the ANC led to the creation of a new party, the Congress of the People (COPE), in December 2008. Elections are planned for 22 April 2009.

Although Kgalema Motlanthe, serving as caretaker until the elections, is attracting increasing support in the ANC, at the time of going to press Zuma was considered the front runner. A Zuma presidency is not likely to entail a major shift in economy policy, as the importance of fiscal- and monetary-policy discipline is widely recognised.

Although this split in the ANC is introducing a certain degree of instability, it is also indicative of South Africa's maturing democratic system.

South Africa ranks quite well in Transparency International's Corruption Perceptions Index, at 54th out of 180 countries. In 2008, anti-corruption actions were reinforced in public tenders, especially in the construction sector. South Africa's Construction Industry Development Board, the construction sector regulator, began suspending fraudulent contractors from its register of eligible companies. In October 2008, the governance index published by the Mo Ibrahim Foundation ranked South Africa the fifth best-governed African country.

Social Context and Human Resources Development

In 2008, the presidency of South Africa produced a review of policies since 1994. In addition to the economic achievements of solid growth while maintaining macroeconomic stability, the review notes progress in democracy building, governance, poverty alleviation, service delivery, skills development and crime prevention. Nevertheless, considerable shortcomings remain in all these areas. In view of this, the new budget law for 2009/10 allocates additional funds to priority sectors.

Public services have certainly improved, with substantial increases in funding. Despite an annual increase of 14 per cent in the budgetary allocation since 2006, several studies point to the poor performance of primary- and secondary-school systems, which fail to provide useful employment skills, hence prolonging the severe skill gap inherited from Apartheid, and hampering economic development and reduction of unemployment. The gap between disadvantaged (black) and advantaged (white) schools persists, with dramatic differences in repetition and drop-out rates.

The 20 per cent real increase in spending in 2008 for health care since 1998 has translated into an increased number and upgrading of health facilities. As a result, more than 1 600 hospitals were built, and 95 per cent of South Africans now live within 5 kilometres of a health centre. A new strategy was adopted in 2006 to address the chronic shortage of health professionals. Health indicators have improved in some areas, for instance in that of malnutrition of children, but have stagnated for others, such as in that of child and infant mortality, and even deteriorated for some, such as for adult mortality. In addition, huge provincial disparities persist in terms of the availability of medical staff and the quality of services, while the costs of treatment are generally high.

South Africa has one of the highest HIV/AIDS prevalence rates in the world. The results of the national HIV survey among pregnant women released in 2008 do show an encouraging decline in prevalence rates (15.9 per cent in 2005 to 13.5 per cent in 2006 among women younger than 20 years, 30.6 per cent in 2005 to 28.0 per cent in 2006 among those between 20 and 24 years). In KwaZulu-Natal, prevalence is still 39.1 per cent, while in the Western Cape it is 15.1 per cent. After years of government disregard for scientific evidence about the causes of the disease and inadequate efforts to fight the disease, improvements are expected with the departure of Mr. Mbeki and his widely criticised views on the causes of HIV/AIDS. The share of patients with advanced HIV infection receiving anti-retroviral therapy increased to from 46 per cent in 2006 to 55 per cent in 2007. These improvements still fell short of the intermediate objectives of the 2007-11 National Strategic Plan (NSP) of 80 per cent coverage by 2012. Launched in 2007, NSP implementation is already delayed, while Global Fund disbursements were blocked due to the Ministry of Health's lack of compliance with its selection criteria.

The effective delivery of transfers to over 12 million people in 2007 for child support, unemployment and pensions had an important impact on mitigating poverty. However, using a ZAR 322 poverty line, the poverty rate fell by only 7 percentage points, from 63 per cent in 1995 to 56.3 per cent in 2005. The absence of an official poverty line is at the source of a multitude of statistics and contributes to generating confusion and some frustration. StatSA, the national statistical office, is currently working on the formulation of a national poverty line.

The government established a land-restitution scheme in 1994. The target is to transfer 30 per cent of white-owned agricultural land by 2014. As of 2008, however, only between 5 and 7 per cent of land had been transferred, raising doubts on the achievability of the target. In addition, the absence of post-settlement support has resulted in the failure of many land transfers, in addition to lowering productivity. A further problem is that most urban black South Africans are highly concentrated in suburban townships, far from economic opportunities; high transport costs and crime inhibit job searching in townships.

South Africa has long had to contend with both high unemployment of unskilled workers and shortages of skilled workers. By March 2008, the unemployment rate (narrow definition, not including discouraged job seekers) was still at 23.5 per cent, despite several years of sustained economic growth. The current economic downturn is likely to push up unemployment. The 15-to-35 age group represents two-thirds of the unemployed, most of them being women. Unemployment among black South Africans is as high as 30.5 per cent. Labour absorption in agriculture and manufacturing has been disappointing. The Department of Public Works plans to expand its programmes, set to generate 4 million new jobs in the next five years.

Development of skills is a high priority. Businesses and government agencies are required to conduct skills surveys to determine the education levels of their staff and to institute skills-development plans. Fees that companies contribute to the Skills Development Levy can be rebated when satisfactory training programmes are set up. Despite some shortcomings, these programmes are promising.

Recent demonstrations of discontent, sometimes assuming violent tones, are a reflection of South Africans' increasing anger about the failure of economic growth to translate into greater employment, higher incomes and improved public services. Xenophobic attacks in the first half of 2008 against several migrants from nearby countries are a dramatic manifestation of the public's anger. The government response has been slow, and fears of social instability linger despite fewer attacks in the second half of 2008. The economic downturn could exacerbate social tensions.

Sudan

key figures

• Land area, thousands of km²:	2 376
• Population, thousands (2008):	41 348
• GDP per capita, PPP valuation, USD (2008):	2 088
• Life expectancy (2008):	58.2
• Illiteracy rate (2008):	n.a.

Sudan

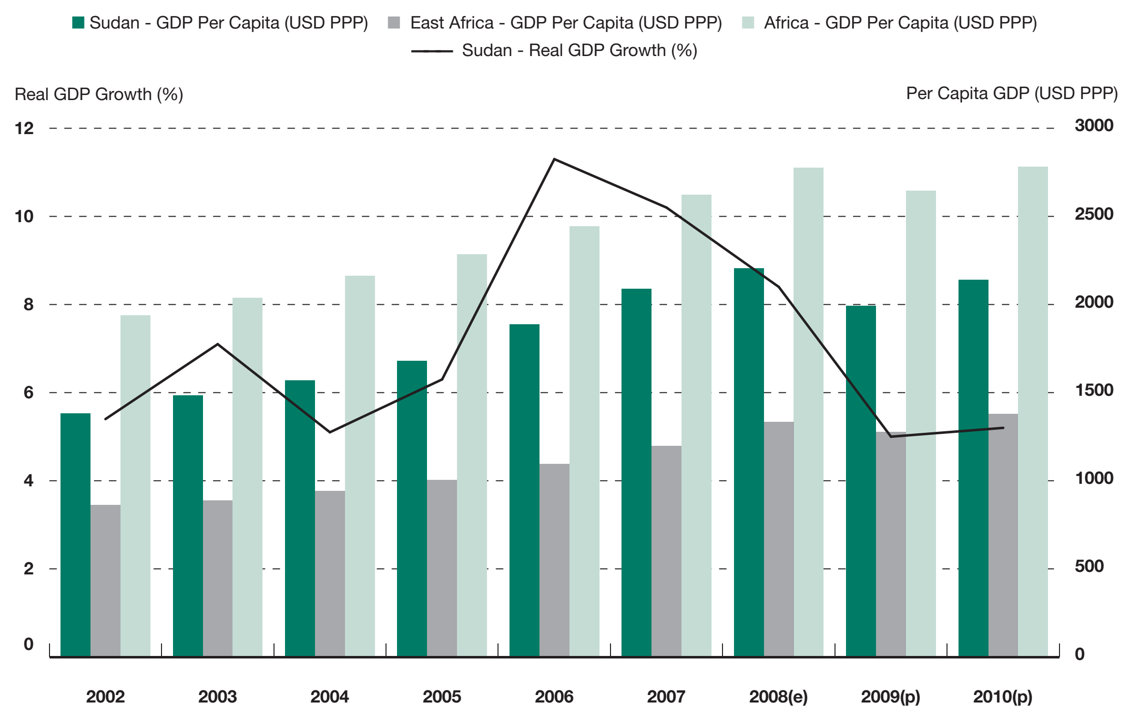
Commercial Port
Petroleum Port
Fishing Port
Airport
Main Road
National Capital (4 754 000 In. 2007)
over 500 000
over 200 000
over 50 000
0 km
90
180
270 km
EGYPT
LIBYA
CHAD
RED SEA
SAUDI ARABIA
ERITREA
ETHIOPIA
C. AFRICAN REP.
D. R. OF THE CONGO
UGANDA
KENYA
Wadi Halfa
Port Sudan
Tokar
Atbara
Omdurman
Khartoum North
KHARTOUM
Kassala
Wadi Medani
Gedaref
El Fasher
El Obeid
Kosti
Nyala
Juba

SUDAN HAS BEEN EXPERIENCING AN economic upturn, characterised by a long positive episode of growth and relatively low inflation. Real GDP growth was 8.4 per cent in 2008, but is projected to slowdown to about 5.0 per cent in 2009 reflecting the impact of the global financial crisis. The exploitation of oil reserves and "the peace dividend" were the main drivers of this economic success. Direct foreign investment has stimulated recent growth as well as a boom in the service sector, especially transportation and communication. Outside the oil sector, Sudan's economic growth is narrowly based and limited in reach. The rise of the oil economy also presents new challenges to macroeconomic stability. Some symptoms of a "Dutch Disease" are unfolding with the Sudanese Pound appreciating and traditional exports, such as cotton and gum Arabic, in decline. But the outbreak of the global financial crisis in the second half of 2008 saw the Sudanese Pound (SDB) begin to stabilise and even slightly depreciate against the US dollar (USD).

The fiscal deficit of this undiversified economy is swelling due to the collapse of oil prices.

Despite the recent success at macroeconomic stabilisation and the pro-market reforms under an IMF-monitored program, the governance of the oil sector and the management of windfalls present substantial risks. Most of the new employment opportunities are concentrated in the service sector, mainly the urban informal sub sector. Increased

Figure 1 - **Real GDP Growth and Per Capita GDP**
(USD/PPP at current prices)



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

StatLink http://*dx.doi.org/10.1787/571086880670* investment, however, in labour-intensive infrastructure and construction projects and trade in services (e.g. education, health, transportation and distribution) provide opportunities for employment generation and broad-based growth.

The implementation of the Comprehensive Peace Agreement has improved the prospects for enhancing political stability and has provided a framework for wealth and power sharing. However, the civil strife in Darfur and border disputes between the South and the North, especially over the oil-rich Abyei area, are major threats to political stability and economic and social development in the country. These threats have recently been intensified by the decision of the International Criminal Court (ICC) to issue an arrest warrant for Sudanese President Omar al-Bashir for war crimes and crimes against humanity.

Economic and political challenges notwithstanding, Sudan has managed to normalise its relations with neighboring countries, such as Ethiopia, Uganda and Kenya, as well as with its development partners. The sustained high rate of growth made possible by oil production has led to a sizeable increase in per capita income, a rising literacy rate and a reduction in the child mortality. Sudan has devoted a sizeable proportion of public expenditure to infrastructure such as roads, telecommunication, and electricity. But widespread poverty, highly skewed income distribution and inadequate delivery of social services remain serious problems. The surge in economic growth has been associated with increasing urban poverty. Conflict and drought have created a high rate of rural-urban migration and an informal urban economy. Sudan needs to improve governance - particularly in the oil sector, access to basic services and, in general, do more to create sustainable, diversified and equitable growth.

Recent Economic Developments

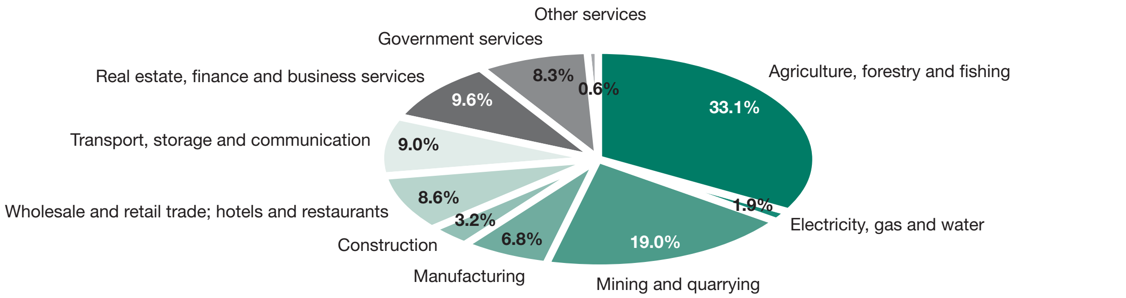
Real GDP grew by 8.4 per cent in 2008, up from 10.2 per cent in 2007. The industrial sector accounted for 24.7 per cent of total GDP in 2007, mainly due to oil production (17.2 per cent of GDP), which grew at 19 per cent in 2008. The manufacturing sub-sector grew by 4 per cent in 2008 compared to 2 per cent in 2007. Most successful industries are in food processing, notably sugar refining, as well as in arms and vehicle manufacturing. The construction boom and increased demand for building material also contributed to growth in manufacturing output.

The services sector accounted for 41.7 of aggregate output in 2007 and grew at 7.5 per cent in 2008 thanks mainly to continued expansion in the financial sector, construction, transportation and communication and trade. The transport, storage and communication sub-sector grew by 16 per cent in 2008 due to the rehabilitation and upgrading programme adopted in the wake of the 2005 Joint Assessment Mission (JAM). The construction sector recorded growth of 18 per cent, one percentage point higher in 2007. The dynamic growth of construction can be attributed to improvements in infrastructure and the rise in demand for private residential and business property.

Agriculture accounted for 34 per cent of GDP in 2007, and provides employment for about 70 per cent of the population. It also provides inputs to many manufacturing industries. It was encouraging that growth in the sector rebounded to 7.5 per cent in 2008 after experiencing a period of slow growth. The occurrence of floods in several states and inadequate infrastructure in the rural and southern parts of the country are factors preventing even more rapid growth. The rain-fed sub-sector suffered most due to a decline in its share of public expenditure, lack of modern technology and inputs, high fluctuations in output prices and migration to urban areas caused by frequent droughts and on-going conflicts especially in Darfur.

Yields in agriculture and livestock are low by comparative standards. To raise the income of the poor, especially those engaged in rain-fed agriculture, requires first and foremost an increase in agricultural productivity. A recent World Bank study has shown that agriculture has tremendous potential to lead a rebound in non-oil growth in Sudan. Enhancing agricultural productivity and transformation in the country requires, among

Figure 2 - **GDP by Sector in 2007** (percentage)



Source: Authors' estimates based on data from the Central Bureau of Statistics.

StatLink http://dx.doi.org/10.1787/572868175743

other things, substantial investment in rural infrastructure, increased expenditure on agricultural research, increased use of irrigation, tractors and land conservation measures, improved seeds and fertilisers as well as sustainable and affordable rural credit services. Promoting agricultural processing and agribusiness will stimulate growth in agricultural production and will bring an increase in rural employment and income.

The continued growth in private and public investment was the main source of the recent upsurge in GDP growth. The two together accounted for 4.7 percentage points of growth in 2008. The oil sector attracted substantial FDI for production and further exploration. Private investment continued to increase in agriculture and services, mainly transport, communication, hotel and restaurants. The contribution of total consumption to real GDP growth was only 2.8 percentage points in 2008. The contribution of private consumption was greater than that of government consumption. The external sector contributed 0.9 percentage points to real GDP growth in 2008. Obviously, growth in government consumption can stimulate growth but is often unsustainable.

Table 1 – **Demand Composition**

	Percentage of GDP (current prices)		Percentage changes, volume			Contribution to real GDP growth		
	2000	2007	2008(e)	2009(p)	2010(p)	2008(e)	2009(p)	2010(p)
Gross capital formation	**18.3**	**26.6**	**14.0**	**6.6**	**9.2**	**4.7**	**2.3**	**3.3**
Public	2.3	9.6	26.5	12.0	15.0	3.2	1.7	2.3
Private	16.0	17.0	7.0	3.0	5.0	1.5	0.6	1.0
Consumption	**84.1**	**77.2**	**3.4**	**4.2**	**3.6**	**2.8**	**3.3**	**2.8**
Public	7.6	15.6	3.1	4.8	3.7	0.7	1.1	0.8
Private	76.5	61.6	3.5	3.9	3.6	2.0	2.2	2.0
External demand	**-2.4**	**-3.8**				**0.9**	**-0.6**	**-0.9**
Exports	15.3	20.1	22.6	5.1	6.5	3.6	0.9	1.2
Imports	-17.7	-23.9	8.3	4.7	6.4	-2.7	-1.5	-2.1
Real GDP growth						**8.4**	**5.0**	**5.2**

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

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Macroeconomic Policies

Economic policy in Sudan is largely based on the Comprehensive Peace Agreement (CPA) and the Joint Assessment Mission (JAM). They represent the road map for policy through 2011. The CPA-JAM's target outcomes for 2011, building on a 2005 baseline, aim at maintaining good macroeconomic performance with a focus on policies that benefit the poor. The challenges of CPA are: managing the oil sector; maintaining external debt sustainability and improving central banking and the financial system to be more supportive of economic growth. The Joint Interim Poverty Eradication Strategy (J-PES) has been initialised and approved. Consultation and analysis for the full J-PES is underway. Public expenditure review cycles have been initiated and a plan is being implemented to strengthen macroeconomic policymaking.

Fiscal Policy

The 2008 budget benefited from a huge windfall in oil revenue due to high oil prices in the first half of 2008. The overall fiscal balance moved into surplus in 2008 after exhibiting a deficit of 5.4 per cent in 2007. However, the focus remained on addressing the stock of domestic arrears accumulated in 2007, in order to reduce pressure on banks and private firms, create room for new private sector credit, and improve the prospects for diversifying the sources of economic growth. The 2008 budget reflected reforms to the social security fund, financing of government universities, and the student support fund. They are expected to improve monitoring and increase transparency.

The maneuverability for effective pro-poor spending and undertaking critical infrastructure in rural areas remains limited given the situation in Darfur and the focus on strengthening state and local governments to promote fiscal decentralisation. In addition, the peace-related expenditures for implementing the (CPA), the Darfur Peace Agreement (DPA), and the Eastern States Peace Agreement (ESPA) are substantial.

Sudan's tax effort (6.7 per cent of GDP in 2008) is low for its level of development and high recent growth rates, but substantial steps were made to improve revenue collection in 2008 and beyond. These steps include reducing or removing many tax exemptions, widening the tax base, and improving tax administration. The government fully understands the volatility associated with oil revenue due to wide fluctuations in international oil prices, and the uncertainties associated with oil production and shipment. Activation of the oil stabilisation fund and frequent reviews of expenditure commitments are

Table 2 - **Public Finances** (percentage of GDP at current prices)

	2000	2005	2006	2007	2008(e)	2009(p)	2010(p)
Total revenue and grants[a]	**10.3**	**23.0**	**21.0**	**20.7**	**25.1**	**17.8**	**17.8**
Tax revenue	5.0	7.9	7.4	7.0	6.7	6.8	6.7
Oil revenue	4.4	13.6	11.2	11.7	16.4	8.9	9.1
Grants	0.0	0.0	0.5	0.6	0.5	0.7	0.6
Total expenditure and net lending[a]	**11.0**	**25.1**	**25.6**	**26.1**	**24.5**	**28.4**	**28.7**
Current expenditure	8.7	21.8	21.1	21.3	19.1	22.3	22.2
Excluding interest	*7.6*	*20.5*	*20.0*	*20.3*	*17.9*	*20.8*	*20.8*
Wages and salaries	3.3	5.2	5.8	6.8	5.3	6.0	5.7
Interest	1.1	1.3	1.2	1.0	1.2	1.5	1.3
Capital expenditure	2.1	3.5	4.1	4.9	5.5	6.1	6.5
Primary balance	**0.3**	**-0.9**	**-3.4**	**-4.4**	**1.7**	**-9.1**	**-9.5**
Overall balance	**-0.7**	**-2.1**	**-4.6**	**-5.4**	**0.5**	**-10.6**	**-10.9**

a. Only major items are reported.
Source: Central Bureau of Statistics and Ministry of Finance data; estimates (e) and projections (p) based on authors' calculations.

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essential for ensuring fiscal sustainability. Sudan expects its oil revenues to fall by 43.7 percent in 2009 as the global financial crisis continues to unfold. Oil accounted for 65.3 per cent of total revenue in 2008.

The fiscal deficit is expected to increase to 10.6 per cent of GDP in 2009 as the global recession drives down the price of oil. Despite the fall in oil revenues, there are political and social pressures for increased expenditure. The unbalanced distribution of infrastructure and development projects across states has created political tensions and prompted the federal government to include several road and energy projects in Darfur and Kordofan in the 2009 budget. In the 2009 budget speech, plans were announced to raise duties on imported vehicles and indirect taxes on telecom services. The budget also reflects an intention to sustain allocations for social services at their 2008 levels.

Monetary Policy

Major challenges in 2008 included the accumulation of non-performing loans (21 per cent), the slowing growth of private-sector credit, falling foreign currency reserves, and high inflation. Monetary policy in 2008 focused on maintaining exchange rate stability, keeping the rate of inflation below the limit of 8 per cent, and maintaining reasonable growth of money supply. To attain these objectives the Bank of Sudan (BoS) focused on liquidity management through the use of indirect instruments suitable to the dual monetary arrangements outlined in the CPA. These arrangements allow for a profit-and-loss based banking system in the North and a traditional interest-based system in the South.

The BoS used profit rates and margins on *Ijarh* Certificates; Government *Musharaka* Certificates (GMCs) and other Government *Sukouks* to influence the operations of Islamic financial institutions and interest rates in treasury bonds for conventional banks.[1]

BoS often intervenes in the foreign exchange market to reduce exchange rate volatility related to fluctuations in oil production and foreign capital inflows, especially FDI. Foreign exchange sales were also used by the BoS as key monetary instrument for liquidity sterilisation to keep money supply and inflation under control.

The supply of broad money increased by 21 per cent in 2008 compared to 10.3 per cent in 2007. This was somewhat lower than the target growth rate of 24 per cent, meant to reflect the monetisation of government debt in the aftermath of the conflict in Southern Sudan. In 2007, the BoS reduced the reserve requirements from 13 to 11 per cent to avoid a contraction of lending to the private sector and in 2008 commercial banks were given the choice to keep only 8 per cent of the reserves in cash and 3 per cent in the form of government bonds, treasury bonds or the Central Bank *Ijarah* Certificates. To increase credit to the private sector the BoS also encouraged commercial banks to form lending consortiums and made more funds available to them through clearance of government arrears. Nevertheless, growth in private sector credit was 20 per cent in 2008, substantially less than the target of 36 per cent.

Commercial bank financing remains concentrated in the trade sector (36.1 per cent of total lending) and banks are reluctant to allocate 12 per cent of their credit for microfinance activities as specified by the BoS. The higher risk of financing microfinance activities and lack of more flexible collateral were singled out as the main reasons for this lack of enthusiasm. The BoS suggested "Non-Traditional Collaterals" for microfinance lending and proposed alternatives such as solidarity group and precious property mortgage. However, the *Murabaha* mode continues to be most preferred among Islamic banks. They hold such certificates to maturity, avoiding the risks associated with other investment vehicles or credit creation mechanisms.

1. In Islamic interest-free finance, *Ijara* refers to a leasing contract in which some specified assets (e.g. tractor) are leased for use by a farmer/client according to an agreed price and for a specific period of time. *Musharaka* is a joint venture in which there is more than one contributor to the financial capital of a project, and realized profit or loss is shared as agreed in advance. *Sukouks* are the Islamic equivalent of government bonds; instead of a predetermined rate of return, they pay a profit or loss upon maturity according to the rate of growth of activities financed through them.

A major challenge for monetary policy relates to the weaknesses of the financial sector as reflected in its low capitalisation. BoS issued a directive to commercial banks to secure a minimum paid-in capital of SDB 50 million in 2008. While improving the soundness of some banks, this measure probably contributed to the slower than expected growth in bank lending. Another problem relates to Islamic banking which accounts for 71 per cent of the total assets of the banking sector; Islamic financial instruments are not flexible enough to allow banks which use them exclusively to meet all business needs for short-term credit, such as payroll and marketing expenses. This is due to the fact that Islamic financial instruments are based on profit-and-loss sharing while the profit/loss related to working capital is difficult to assess.

The steep rise in oil and food prices in the first half of 2008 contributed to mounting inflationary pressures. Although these prices began to decline in the second half of the year, consumer price inflation averaged 14.2 per cent in 2008, up from 8.8 per cent in 2007. This is well above the targeted rate of 8 per cent. Inflation in Sudan is expected to remain high at 8.3 per cent in 2009 due to high food prices. Government spending will remain high as a result of political conflicts and the need to finance peace programmes in some parts of the country. Also Sudan continues to import substantial amounts of food products, while the Sudanese pound depreciated toward the end of 2008, which will raise the domestic prices of imports. Overall however, the nominal exchange rate depreciation in the second half of 2008 implies that the real exchange rate is returning to a more competitive level after having been over-valued during in the previous three years.

External Position

Sudan's exports have witnessed a remarkable structural shift with oil becoming the main export. Cotton, the traditional commodity export, dropped to fourth position in 2008, after oil, edible oil seeds, and meat. Its export share declined by 35 per cent in volume and 10 per cent in value in 2008 compared to 2007. The symptoms of the "Dutch Disease" are reflected in a 27.5 per cent real term appreciation of the Sudanese pound versus the US dollar between 2005 and mid-2008, significantly eroding the competitiveness of non-oil exports. Furthermore, there was an increase in the CPI and a notable reduction in the share of manufacturing in real GDP over the same period.

The overall current account deficit stood at 3.4 per cent of GDP in 2008 compared to 16.3 per cent in 2007 thanks to the increase in oil prices in early 2008. Non-oil exports declined by about 5 per cent on a year-to-year basis. Current transfers remained unchanged in 2008 at 1.3 per cent of GDP. The overall current account deficit is expected to widen in 2009 as a result of the global recession leading to slowing export volumes and falling prices. International reserves of the BoS declined by almost one-third in 2008, mainly due to increased foreign exchange sales to mop up the excess liquidity created by fiscal expansion and the injection of money into the banking system.

Table 3 - **Current Account** (percentage of GDP at current prices)

	2000	2005	2006	2007	2008(e)	2009(p)	2010(p)
Trade balance	1.9	-3.9	-3.5	2.6	11.2	-0.6	0.4
Exports of goods (f.o.b.)	15.1	17.8	16.0	19.3	26.8	14.6	14.9
Imports of goods (f.o.b.)	13.2	21.7	19.5	16.7	15.6	15.2	14.5
Services	-8.8	-7.5	-8.1	-10.0	-6.0	-6.0	-5.7
Factor income	-8.8	-7.5	-8.1	-10.0	-9.9	-9.7	-11.9
Current transfers	2.8	6.3	3.8	1.3	1.3	2.4	1.3
Current account balance	**-13.0**	**-12.6**	**-15.9**	**-16.3**	**-3.4**	**-13.8**	**-15.9**

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

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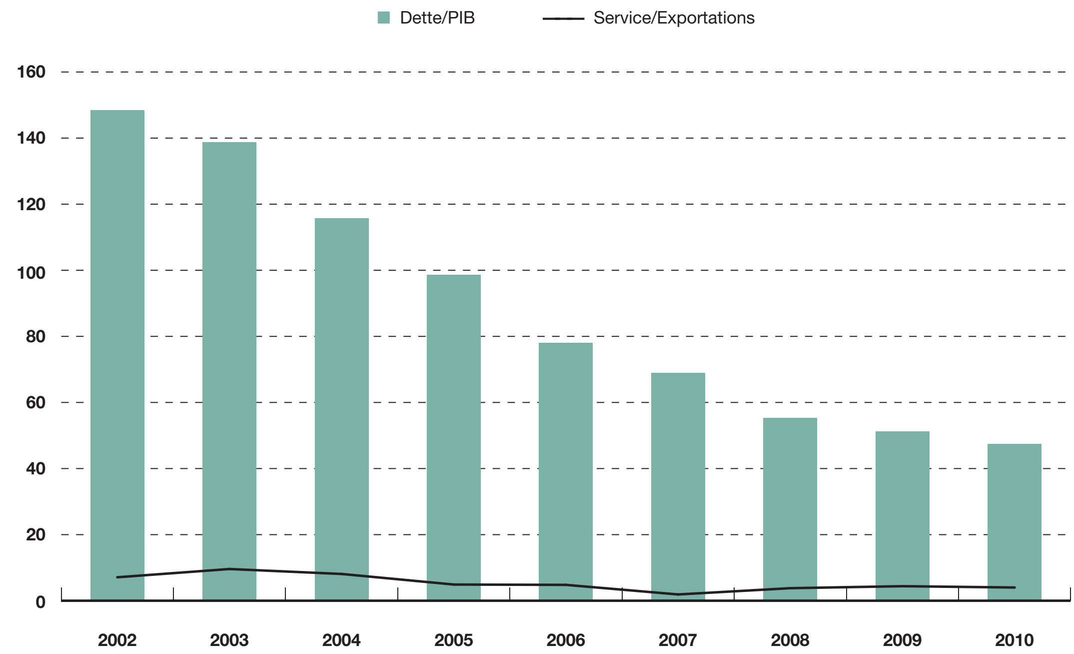
Figure 3 - **Stock of Total External Debt** (percentage of GDP) **and Debt Service** (percentage of exports of goods and services)



Source: IMF.

StatLink http://dx.doi.org/10.1787/574287252100

Sudan's total external debt was USD 31.9 billion or 55.3 per cent of GDP in 2008 compared with 68.9 per cent in 2007. But debt services as a ratio of exports of goods and services increased from 1.9 per cent to 3.8 per cent (figure 3). The large rise in debt services relative to exports in 2008 was due to a bunching of payments on principal, which also partly explains the fall in external debt relative to GDP by the end of the year. The other main reason for the latter is the fact that GDP grew at a higher rate than the external debt in 2008.

Sudan's external debt has been rising in absolute terms mainly due to accumulated interest arrears. Pressure from the main international creditors, especially the IMF and the World Bank, on Sudan to repay its remaining accumulated debt arrears from previous years continues to contribute to the deterioration of the external reserves position of the country. In addition to the loss of the seal of approval from these key multilateral institutions, the flow of bilateral aid remains limited. The deterioration in the human rights situation in Darfur and the International Criminal Court (ICC) procedures against high-level Sudanese political leaders have also contributed to slowing aid flows. Sudan does not yet qualify for debt relief under the Heavily Indebted Poor Countries (HIPC) initiative and the Multilateral Debt Relief Initiative (MDRI).

Structural Issues

Private Sector Development

In 2002, the government created a dedicated ministry of investment to attract domestic and foreign investment in various sectors. The Ministry has successfully championed an investment act intended to promote competition, setting up one-stop business registration and a trust fund to promote micro-credit for small businesses.

Despite these efforts, the global ranking of Sudan in 2009 in the World Bank Doing Business indicators fell from 142th to 147th (out of 181 countries). Sudan performed marginally well with respect to trading across boarders and enforcing contracts, but performed poorly on dealing with construction permits, getting credit and starting business. The business environment in Sudan is characterised by corruption and a lack of transparency in enforcement of regulations. Only one major privatisation outside the banking sector took place in 2008, namely the sale of the River Transport Corporation to private investors.

Four new banks were licensed in 2008. These are the National Bank of Qatar, Elgazira Al-Ordini, El-Osra, and the Arab-Sudanese Bank. The first three banks were launched and opened for business in the same year. Another major development in the banking sector was the adoption of an electronic payments system that facilitates not only ATM transactions but also electronic check clearance across the states. BoS also granted approval for bank mergers and acquisition as well as privatisation. Bank of Khartoum has been privatised and El-Sudan Bank has been merged with El-Emarat Bank. Directives were also issued to privatise El-Nilein Bank, and Omdurman Bank is undergoing assessment for possible restructuring or privatisation. In fact many banks are in distress due to the lack of efficient, transparent and accountable lending practices as well as weak monitoring and supervision by the BoS. Accordingly, the BoS is undertaking reform to improve commercial banks' compliance with supervisory regulations and to develop a credit information system to help them implement a client coding system to reduce non-performing loans.

The BoS established a dedicated Microfinance Unit in 2007 and allocated USD 40 million to encourage the creation of new microfinance banks and investment by existing commercial banks in microfinance. The programme gathered momentum in 2008 through the establishment of the Sudan Microfinance Development Facility (SMDF) with a total capital of USD 20 million provided by development partners (USD 10 million) and BoS (USD 10 million).

Other Recent Developments

Other recent developments in Sudan relate to infrastructure, especially road and energy, and agricultural sector development through irrigation and increased foreign investment.

In 2008, Sudan completed the construction of five intercity roads, totaling 1869 kilometers: Hia-Port Sudan road (274 km); Atbara-Karima road (260 km); Karima-Dongla (176 km); Gedarif-Douka-Galabat (156 km); and Alkhwai-Alnhood road (103 km). Subair International Airport in Genaina was also completed, and preparatory work for the new International Airport in Omdurman was begun.

In the power sector, the first stage of the Marawi Dam was completed in 2008. It can now produce 250 Megawat per year or one-fifth of its capacity upon completion. Agreements were signed in 2008 to heighten the Elroseris Dam. These dams will do more than just increase the production of electricity; they will also expand irrigated agriculture in the Gezira and Rahad Schemes and in the River Nile State in the North. 2008 saw work begin on the rehabilitation of the railway line between Babanousa and Wau. Sudan and China have also signed a contract to upgrade the railway line between Khartoum and Port Sudan, converting it to a dual carriage line that meets international standards.

The government recently launched the Green Mobilisation Program (GMP), with a planned expenditure of USD 5 billion for 2008-2011, to revitalise agriculture. It is mainly focused on farm technology, irrigation, improved inputs, and access to credit and assistance for marketing in major agricultural areas in the country. While there is no information on implementation so far, this initiative is likely to encounter serious financial constraints as a result of falling oil revenue and slowing FDI flows in the aftermath of the global financial crisis. Saudi Arabia, Egypt and the United Arab Emirates (UAE) have also shown keen interest in Sudanese agriculture and have held talks with authorities to consider agricultural projects of their own.

The government and the Sudan People's Liberation Movement (SPLA) are still far from implementing a transparent management of the oil sector as stipulated in the CPA. But the ruling National Congress Party and SPLM have reached an acceptable arrangement on the sharing of oil revenue between the North and the South. The lack of transparency creates significant coordination problems that hamper, or at least delay, the licensing of new companies to work on oil exploration or production. With an estimated forest area of 28 per cent of total land in 2007, and deforestation rate of 0.86 per annum, Sudan qualifies for the Clean Development Mechanism (CDM) and the Reducing Emissions from Deforestation programme (RED) under the United Nations Framework Convention on Climate Change. A country case study is needed to identify large potential projects, which would allow Sudan to participate in the growing environmental market for carbon credits.

The percentage of the population with access to improved drinking water sources was 58.7 in Northern Sudan and 48.3 in Southern Sudan in 2008. But only 39.9 per cent of the population in the North and 6.4 per cent in South have access to improved sanitation.

Innovation and ICT

Sudan's telecommunications infrastructure includes an optic fibre national backbone that covers most of the country (11000 Kilometres) and extends to the borders with Egypt, Ethiopia, Eritrea and Chad. It is complemented by a digital microwave network and a domestic satellite system. The national system is connected via submarine cable link across the Red sea to Saudi Arabia and thereafter to international cable systems. The system is designed with protective geographical redundancy.

There are two major operators that provide fixed line services (Sudatel and Canar) and three companies that provide mobile services (Sudani, Zain and MTN). Sudatel provides mobile services through a separate sister company, Sudani. The fixed-line network infrastructure uses copper and optic fibre. Canar and Sudatel each have their own network ring. Copper is being gradually phased out and replaced by wireless systems. The radio network infrastructure consists of mobile networks relying on CDMA and GSM technology, which includes base transceiver towers with antennas, microwave systems and other types of networks, namely WLL, WiMAX, WiFi and gateways.

The Internet technology used in Sudan encompasses cable, optic fibre, mobile phones, ADSL, LDSL and GSPR. Most institutional subscribers use ASDL and optical services, whereas individual subscribers mainly use LDSL and dial-up services provided by wireless or copper networks. Only Sudatel and Canar have Internet Gateways and will continue to enjoy a monopoly over them until the end of 2009. Usually the Gateways owned by Sudatel and Canar are shared with other operators on special services agreements. Although all operators must have their own towers, the law does not prohibit the sharing of other resources. Environmental and health hazards related to the proliferation of telecom towers and other telecom infrastructure are subject to regulations that are issued and enforced by the National Telecommunications Corporation (NTC).

Telecommunications services in Sudan are available in over roughly 80 per cent of the country, covering all major urban and rural settlements. But only 46 per cent of localities (rural and urban) have access to public Internet centres. Operators believe that where there is demand for their services, supply will follow, implying that infrastructure needs can be fully met. The service is highly efficient in terms of speed, absence of delays and rationing. But it is relatively expensive. For example, the average Internet café price per hour in Sudan is USD 0.9, while the corresponding rate in Nigeria is USD 0.6.

There are no major technical or financing challenges to telecommunications infrastructure development. However, the penetration rate remains relatively low due to limited demand for services other than telephones. Demand for other services is constrained by disposable income and work practices. A flat VAT rate of 15 per cent on calls is a factor that contributes to high charges and constrains demand. Other challenges relate to a lack of transparency in some regulations governing licensing, regulatory and other fees, monitoring and the types of services provided.

Sudan's national information and telecommunications strategy is integral to its national comprehensive development strategy. The country has developed laws that govern all aspects of the telecommunications sector. The sector is regulated by the National Telecommunications Company (NTC) established by the national telecommunications bill in 1996. NTC has an autonomous identity with a budget approved by the Ministry of Finance and does not regulate other utilities such as electricity and gas. In addition to funding from the Ministry of Finance, NTC sources of funding include license fees, spectrum fees, regulatory fees, fines and penalties.

The telecommunications sector is almost completely liberalised with government ownership limited to 20 per cent of Sudatel, the second largest operator. By regional comparisons, the sector performs well in terms of coverage, quality and efficiency. Competition has resulted in an increasing range of choices for consumers as well as significant reductions in charges over the years. However, there are signs of an emerging natural monopoly with Canar already accounting for 43 per cent of the industry.

There is no national telecommunications universal coverage and affordability policy. However, NTC, in collaboration with operators, has established a "National Telecommunications Support Fund" that provides support to individuals to build and operate commercial universal telecommunications service centres; assist schools and universities in acquiring computers and Internet connectivity; and help poor families to acquire computers. Beneficiaries are responsible for the running costs and operators generally charge a flat rate for all users. All operators have commercial strategies or are currently implementing broadband networks that would support converged services. These include DSL and EVDO and GPRS.

There is a unified service neutral licensing regime for fixed-line and mobile services. Based on this licensing system, Sudatel had to establish its mobile services in a separate company (Sudani). Before the entry of other operators, Sudatel, the oldest operator, used to determine fees in consultation with NTC. Currently fees are freely determined by operators. They have flat rates that vary only according to the volume of services and according to negotiated agreements with institutions like universities.

There are no subsidies or price caps imposed by the regulator. The law prohibits common ownership between the fixed line and mobile phone operators. Various frequency bands are used by the operators, including WiFi 2.8 and CDMA 45-55. Roaming services are available through Zain and MTN but restricted to a few African and Gulf states. As mentioned earlier, telecommunications services and equipments such as mobile phones are subject to a flat VAT rate of 15 per cent, but computers can be imported duty free. Regulatory risks stem mainly from a lack of transparency and accountability in enforcement and appear to have no significant impact on operators's investment decisions.

As mentioned previously, the operations of the telecommunications services in Sudan has been almost fully privatised with no public intervention in priority setting, financing and pricing. The operators rely on self-funding obtained through their operations as well as funding from mother companies such as Etisalat of UAE in the case of Canar, Kuwait telecom in the case of Zain or MTN-South Africa in the case of MTN-Sudan. In addition to retained earnings, Sudatel rely on debt financing through banks as well as equity financing through the sale of shares in the market. Operators do not see financing as a major constraint on their expansion and quality of services and none of them has so far gone out of business.

The use of ICT in Sudan still remains concentrated on communication. Other uses, however, are expanding rapidly. These include distance learning, video-conferencing and, most importantly, the transfer of money through mobile phones and the use of Internet for banking operations. The government has recently passed a bill that paves the way for e-government, allowing for electronic payment of various types of government fees.

In the area of education, the University of Khartoum has created an online registration facility in 2008 and many institutions of higher education have access to digital library services provided by international partners such as the Indiana University and the African Digital Library. The national telecommunication support fund is implementing video conferencing facilities to link 30 universities. This will make it easier to share teaching resources and conduct joint seminars and meetings.

The BoS has established an electronic services company to assist financial institutions to acquire and operate telecom equipment for ATM services, electronic clearance of checks, mobile banking, electronic transfer of funds, electronic statements and web-based banking in general.

Electronic commerce is extremely limited. Only a few companies maintain websites that provide information on their services and contacts. There are no e-applications and e-services in agriculture in Sudan. The Ministry of Agriculture does have plans to develop an agricultural information database to provide potential investors with information on investment opportunities in Sudan's agriculture and promote Sudanese agricultural exports.

The government has designed an e-government strategy and passed laws to facilitate its implementation. The implementation of this strategy will increase demand for telecom services and reduce business costs. However, human capacity remains a constraint and substantial investment is needed to build capacity at the national and state levels.

Political Context

The crisis in Darfur and attempts to resolve it continued to shape the political situation in Sudan in 2008 as did the ongoing efforts to implement the Comprehensive Peace Agreement (CPA) that ended the North-South war in 2005. The year was marked by a rebel attack on Omdurman in May; the "People of Sudan Initiative to resolve the conflict in Darfur"; the peace agreement with former rebels in Eastern Sudan; slow progress in implementing the Abuja peace agreement; and disputes over the oil-rich Abyei area.

North-south tensions over the implementation of the CPA have continued throughout the year. However, the ruling National Congress and the Sudanese People Liberation Movement still maintain a strong hold over the political situation in the country. It can only be hoped that the formation of the national electoral Commission in 2008 will pave the way for national and local elections in 2009.

In May 2008, the Justice and Equality Movement, the largest of the three rebel movements in Darfur, staged an armed attack on Omdurman, one of the three cities of greater Khartoum. The attack, which lasted for one day, left hundreds of people dead and led to a deep ethnic polarisation in the country. In the aftermath of the attack, the government and some major political parties announced the "People of Sudan Initiative to resolve the conflict in Darfur". The initiative outlined the key issues to be addressed for resolving the conflict. All parties, including the government and the rebels, appear to converge on certain points: the need for more democracy, equitable political representation, wealth-sharing and genuine decentralisation. But deep distrust remains.

Tension in the disputed Abyei area, which is claimed by the North and the South, erupted into gun battles several times during the year. Many homes and business were destroyed and civilians evacuated the city of Abyei until the NC and SPLA reached an agreement to take the conflict to the International Court of Arbitration. Several foreign oil workers were kidnapped in Southern Kordofan and some of them were killed during unsuccessful rescue attempts. Local tribes repeatedly expressed their dissatisfaction with the oil-sharing formula of the CPA that gives them only 2 per cent of oil revenue. Meanwhile, almost all major development projects are located in areas outside the oil producing states. Whereas progress in the implementation of the

Eastern Sudan peace agreement appears to be satisfactory, progress in implementing the Abuja agreement signed by the government and one of the major three rebel groups in Darfur in 2006 has been quite slow. Out of frustration, the leader of the rebel group, Mr. Miny Minawi, has repeatedly threatened to withdraw from the agreement.

Armed conflict and political instability have slowed economic and social development. Lack of good governance is a major concern not only in the political sphere but also in the economic and corporate sectors. In 2008, Sudan scored 1.6 in the Corruption Perceptions Index (CPI) and ranked 173rd out of 180 countries. This implies that Sudan is the sixth most corrupt country in the World. Poor governance implies a lack of transparency and accountability in the enforcement of regulations. It is undoubtedly one of the factors behind the poor performance and weak compliance of government banks. It has discouraged FDI. It makes development partners reluctant to provide more resources.

Social Context and Human Resources Development

Despite the challenges outlined above, Sudan has made progress with respect to a number of Millennium Development Goals (MDGs). For example, the ratio of net enrolment increased from 40 per cent in 1991 to 53 per cent in 2006 and the under-five mortality rate per 1000 live births went from 143 in 1990 to 110 per 1000 in 2008. Access to water and sanitation increased from 60 per cent in 1990 to 70 per cent in 2006 while access to sanitation was as low as 35 per cent 2006. There are huge disparities in all areas across states and between rural and urban areas. In 2008, the poverty rate was estimated at 50 per cent in Northern Sudan and 90 per cent in Southern Sudan. The 2015 poverty target is 45 per cent for both the North and the South. Prevalence of child malnutrition is high, at 35 per cent in the North and 48 per cent in the South. The reduction in poverty rates since 2000 has occurred as a result of generally improving economic conditions; Sudan has only recently prepared a 5-year poverty reduction strategy paper (2007-11) and has yet to implement significant targeted poverty reduction programmes.

Progress towards achieving universal primary education has varied sharply across states. Primary school enrolment in 2008 was 62 per cent for the North and only 20 per cent for the South. The adult literacy rate was estimated at 60-70 per cent for the whole country. There has been notable improvement with respect to gender equality in the area of education; the ratio of girls to boys in primary schools was 88 per cent in the North and 36 per cent in the South in 2008. Regarding MDG 4, child mortality is still high, at 105 in the North and 126 in the South, and child immunisation remains very low in the South (20 per cent for one-year-olds), but relatively high in the North (78 per cent).

Maternal mortality rate is still alarmingly high in Sudan at 638 per 100 000 live births in the North and 2054 in the South. Only 5 per cent of births are attended by skilled health staff in the South compared with 57 per cent in the North (the target is 90 per cent). This clearly shows the deficit in medical services and calls for greater attention by the government to improve the situation. HIV prevalence among adults was estimated at 1.6 per cent in the North and 2.3 per cent in the South. Efforts to combat the spread of HIV/AIDS and provide treatment to those in need are limited and need to be made integral to national development and health strategies. Equally alarming is the fact that only 54.2 per cent of children under age 5 with fever are treated with anti-malaria in the North compared with 36 per cent in the South. The incidence of TB is also high at 90 per 100 000 people per year in the North and 325 in the South. Finally, the conflict in Darfur is preventing meaningful progress in developing global partnerships for development.

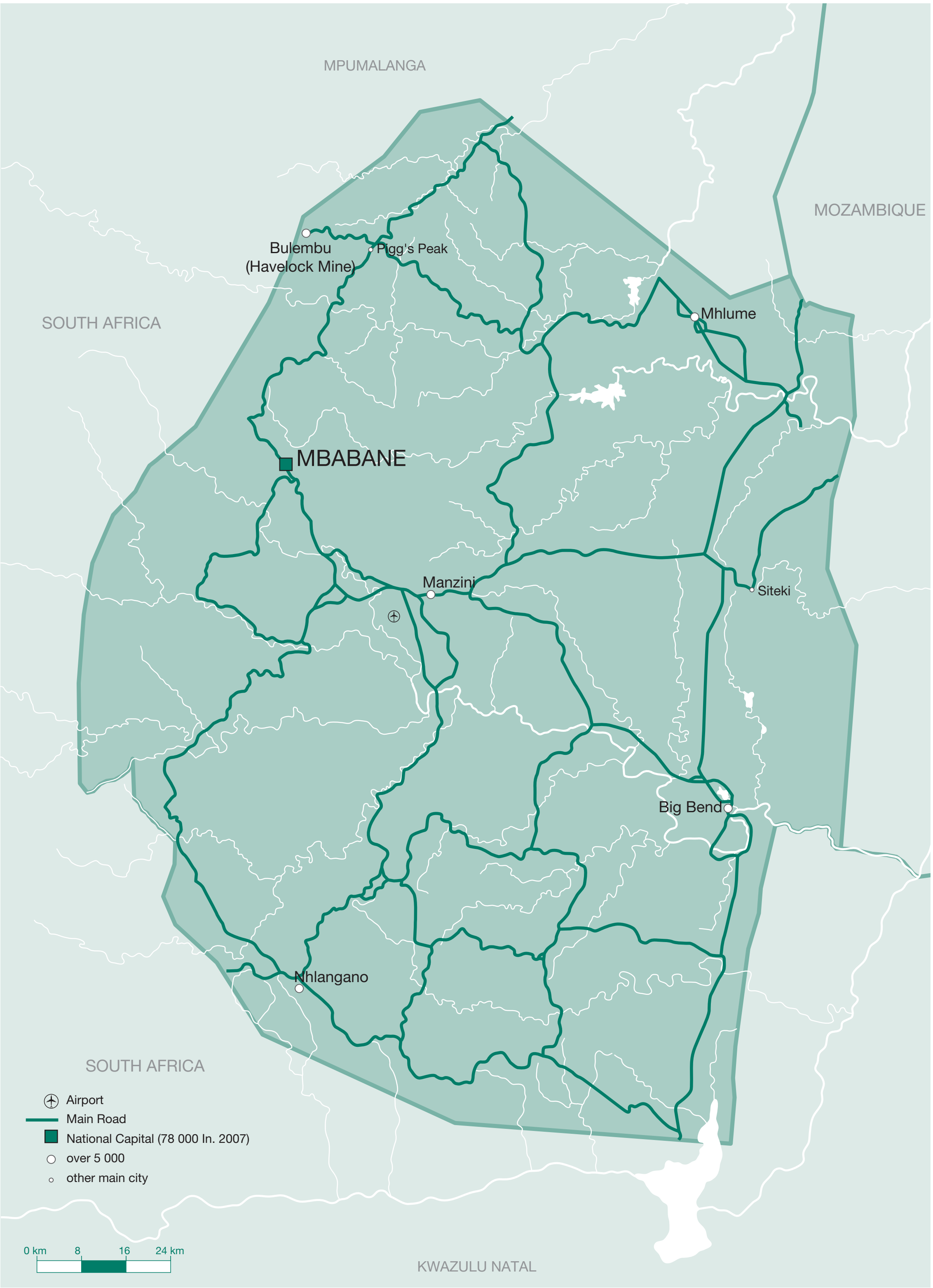
Sudan's Labour force is estimated at 11.6 million in 2008 and grew by 6.7 per cent between 2001 and 2007. The unemployment rate was estimated at 19.7 per cent in 2008. Wage employment remains limited though it has been growing over time. The agricultural sector employs more than 65 per cent of the labour force, the industrial sector 1.7 per cent of the labour force, the construction sector 3 per cent, and other sectors including government about 30 per cent. There is a growing concern that foreign labour is replacing domestic labour in certain business sectors that are booming as a result of oil revenues. Some 24 per cent of entrepreneurs say they prefer foreign labour.

Swaziland

key figures

- Land area, thousands of km²: 17
- Population, thousands (2008): 1 168
- GDP per capita, PPP valuation, USD (2008): 4 914
- Life expectancy (2008): 45.8
- Illiteracy rate (2008): n.a.

Swaziland



MPUMALANGA
MOZAMBIQUE
SOUTH AFRICA
Bulembu
(Havelock Mine)
Pigg's Peak
Mhlume
MBABANE
Manzini
Siteki
Big Bend
Nhlangano
SOUTH AFRICA
KWAZULU NATAL
Airport
Main Road
National Capital (78 000 In. 2007)
over 5 000
other main city
0 km
8
16
24 km

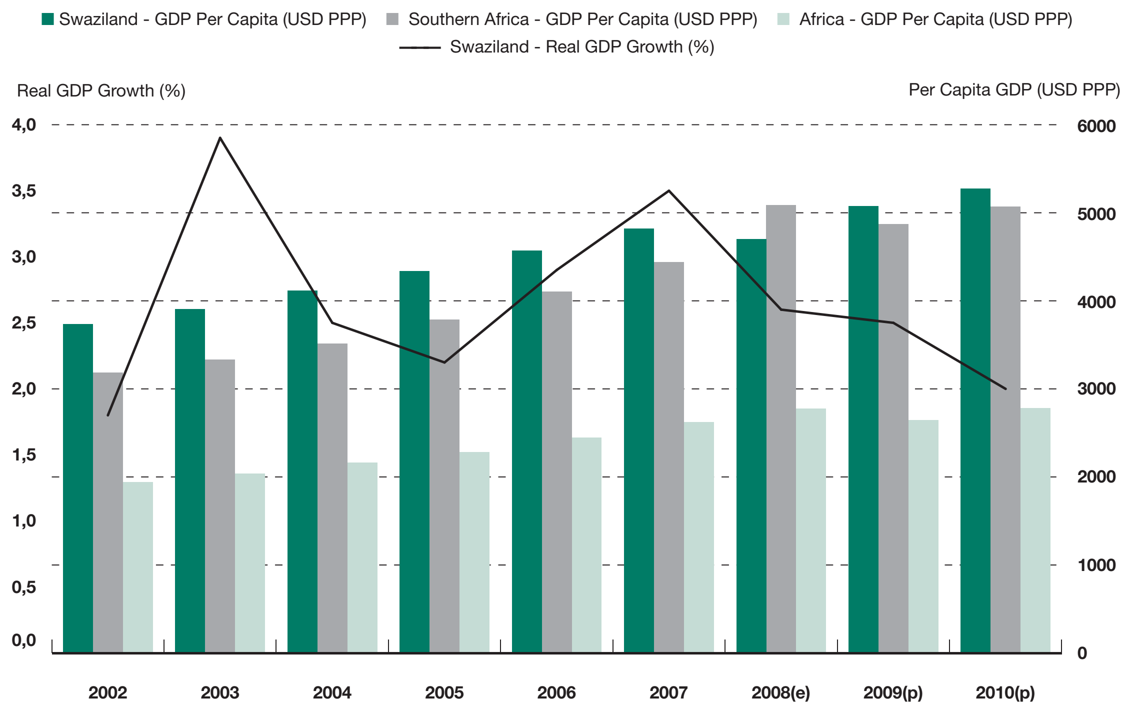
Swaziland's real economic growth declined to an estimated 2.6 per cent in 2008, down from 3.5 per cent in 2007 (Figure 1). The slowdown was a result of weak private investment, poor implementation of the public investment programme, and lower demand for exports. The global slowdown is expected to hit Swaziland's exports and access to capital, and so reduce growth further to 2.5 per cent in 2009 and 2 per cent in 2010.

Swaziland escaped the direct effects of the global crisis due to its strict exchange controls and weak integration into world capital markets. However, as a member of the Common Monetary Area (CMA), Swaziland fixes its currency, the lilangeni (SZL), at parity to the South African rand. This led to a real depreciation of the lilangeni in 2008 when the rand fell as investors shifted away from emerging markets. In 2009/10, the exchange rate is expected to appreciate against major currencies.

In a context of declining corruption, the country is looking to the private sector to sustain growth.

The government recognises that boosting and sustaining growth requires a strong private sector. It aims to make private sector development an integral part of its economic growth agenda and is committed to increasing support for private business. Prospects for growth and diversification through greater participation of the private sector exist in the services sector, especially financial and banking

Figure 1 - **Real GDP Growth and Per Capita GDP**
(USD/PPP at current prices)



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

StatLink http://dx.doi.org/10.1787/570743086415

services, telecommunications and tourism. However the government will need to continue its efforts at fiscal policy and structural reforms; securing greater market access in regional and multilateral trade programmes, improving labour productivity by focusing on skills development and curbing the spread of HIV and AIDS; and enhancing the regulatory framework.

Swaziland continues to face enormous social challenges. In particular the prevalence rate of HIV/AIDS is very high and if the pandemic is not addressed, growth will decline due to a human capacity problem. Moreover, the incidence of poverty stands at 69 per cent and income distribution is highly skewed with 54.6 per cent of income going to the richest 20 percent of the population and 4.3 per cent going to the poorest 20 per cent. The government's Poverty Reduction Strategy and Action Programme (PRSAP), which was approved in May 2007, seeks to reduce the poverty to 30 per cent in 2015 in line with the Millennium Development Goals. Other targets of the PRSAP include creating jobs, improving service delivery, fighting HIV/AIDS and improving access to education.

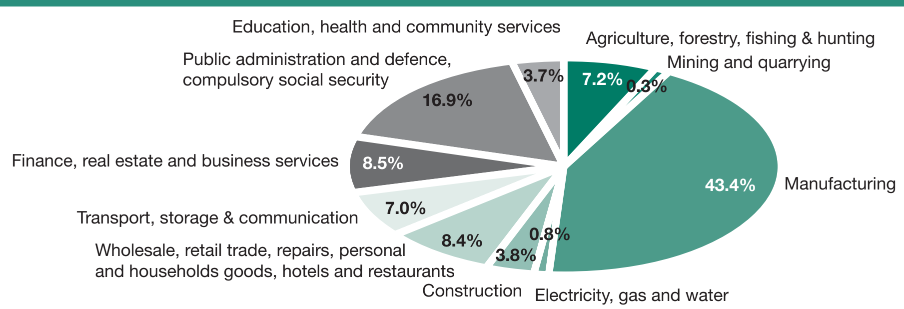
Recent Economic Developments

Swaziland is in the midst of an economic slowdown. Growth slowed from 3.5 per cent in 2007 to 2.6 per cent in 2008, well below the 5 per cent rate required to reduce poverty by half by 2015. While the direct effects of the global financial crisis were muted by the country's limited exposure to international credit markets, the slowdown poses a continued threat. The impact is likely to be felt through reductions in investment and exports that are expected to further reduce growth over the medium term to 2.5 per cent in 2009 and 2 per cent in 2010.

Though agriculture and fishing accounted for only 7.2 per cent of GDP in 2007, the sector is important in terms of employment and poverty reduction (Figure 2). Between 2007 and 2008, livestock production expanded due the removal of an export ban on beef by the European Union (EU) and increases in poultry, pig, goat and sheep production. Agricultural output is projected to grow by 7 per cent in both 2008 and 2009 due to timely rainfall, expansions of large-scale and small-scale agriculture and better market access conditions for beef. In the medium term, the country's agricultural output is expected to grow by about 2.7 per cent annually. The Comprehensive Agricultural Sector Policy (CASP) and National Programme for Food Security aim to improve agricultural production through investing in irrigation systems, expanding the area for sugar cane cultivation and maintaining high maize prices.

Manufacturing accounted for 43.4 per cent of GDP in 2007, with the sugar sector once again the main driver. However, agricultural reforms in the EU will result in a 36 per cent reduction in prices that, in turn, is likely to adversely affect Swaziland's sugar sector. Despite plans to increase the number of hectares under sugar production, the Sugar Association's Annual Report for

Figure 2 - **GDP by Sector in 2007** (percentage)



Source: Author's estimates based on National Statistics.

StatLink http://dx.doi.org/10.1787/572471001662

2008 projects a fall in sugar output of at least 9 per cent in the medium term. Other key manufactured products are soft drink concentrates, clothing and textiles, and pulp and wood. Soft drink concentrates is a growing sector that may overtake the sugar sector. The clothing and textiles industry survived the expiration of the Multi Fibre Agreement in 2005. At the time there were fears that cheap textiles would flood the Swazi market, choking the local industry. But some Chinese producers are taking advantage of low labour costs in Swaziland, benefiting the local industry. Swaziland's recent currency depreciation will help to boost exports, but the manufacturing sector is hampered by low competitiveness, deterioration in the market environment for the country's exports, obstacles to developing a skilled workforce, and high costs of domestic borrowing. All of these have held back investment in production facilities. Production in the manufacturing sector in 2009 will be sustained by the recent depreciation of the rand and increased efficiency and capacity. It is expected to grow by over 3 per cent in the medium term.

Construction activity in 2008-10 will be boosted by the building of a new dam, as well as road and energy projects. This will raise capital formation which is essential for sustaining growth.

Swaziland's services sector has grown in recent years and accounted for 44 per cent of GDP in 2007. Wholesale and retail trade, hotels and restaurants have faltered in the past two years, possibly due to higher inflation. The transportation, storage and communication sector has improved, however, mainly due to the recovery in the transport sector. That recovery reflects an expansion of the automotive industry to include new players like TATA, Kia and Carson Motors, the government's purchase of over 230 cars from these companies, rising wages and salaries, and the introduction of low-cost Chinese cars. Other areas such as real estate, renting and business activities, and health and education sub-sectors, remained strong in 2008. Swaziland's natural beauty and rich culture and heritage offer the opportunity to diversify through tourism. The kingdom should also take advantage of the 2010 Soccer World Cup, to be hosted by South Africa, by positioning itself as a tourist destination for soccer fans before or after the tournament.

Consumption accounted for 86.2 per cent of GDP in 2008, down from 88.4 per cent in 2007, and it is expected to decrease slightly in 2009/10 (Table 1). Capital formation will remain sluggish beyond 2008 mainly due to the limited availability of credit as well as a low spending capacity. Exports were major drivers

Table 1 – **Demand Composition**

	Percentage of GDP (current prices)		Percentage changes, volume			Contribution to real GDP growth		
	2000	2007	2008(e)	2009(p)	2010(p)	2008(e)	2009(p)	2010(p)
Gross capital formation	**18.5**	**13.0**	**11.0**	**0.9**	**7.3**	**1.6**	**0.1**	**1.1**
Public	5.7	6.8	2.8	2.8	4.3	0.2	0.2	0.3
Private	12.8	6.1	20.1	-1.0	10.3	1.4	-0.1	0.8
Consumption	**95.5**	**88.4**	**-1.8**	**0.3**	**2.6**	**-1.6**	**0.3**	**2.2**
Public	18.7	14.9	-6.1	8.5	0.7	-1.1	1.4	0.1
Private	76.8	73.5	-0.7	-1.6	3.1	-0.5	-1.1	2.0
External demand	**-14.0**	**-1.4**				**2.6**	**2.0**	**-1.3**
Exports	76.1	79.9	2.6	-0.8	2.7	2.2	-0.7	2.2
Imports	-90.1	-81.2	-0.4	-3.2	4.3	0.4	2.7	-3.5
Real GDP growth						**2.6**	**2.5**	**2.0**

Source: Central Statistical Office data; estimates (e) and projections (p) based on authors' calculations.

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of economic growth in 2008 but downward pressure is expected in 2009/10 due to the global slowdown.

Macroeconomic Policies

Fiscal Policy

Fiscal policy in Swaziland is geared towards supporting higher growth rates, boosting employment, and providing the poor and marginalised communities with the capabilities and infrastructure to participate in the formal economy. In order to achieve that, the government is determined to carefully manage any short-term macroeconomic risks arising from instability in international financial markets or commodity prices, and control current expenditures so as to gain fiscal space to increase investment.

The budget surplus is expected to fall to 6.5 per cent of GDP in 2008 from 10.5 per cent in 2007, then rise to 9.8 per cent of GDP in 2009 and 9 per cent in 2010. Higher expected revenues are a major factor behind the medium-term rise in the budget surplus. Southern African Customs Union (SACU) payments dominate government revenue, accounting for about 66 per cent of total revenue and grants. Anticipated declines in SACU revenues will put a serious strain on the budget and the government is exploring other potential sources of revenue to offset the decline. Some of the proposed measures outlined in the budget that will boost income tax in 2009/10 include widening the personal income tax bands, increasing the threshold for personal income tax to SZL 36 000 and reforming pension funds.

The Revenue Authority Bill was finally passed in Parliament in November 2007 after a lengthy consultative process. The 2008/09 budget allocated SZL 200 million to establish the Revenue Authority. In addition, the introduction of the ASYCUDA system at border posts is expected to increase sales tax collection when the system is fully functional in the new financial year. The government will also amend the Sales Tax Act and the Customs and Excise Act in order to close loopholes in revenue collection.

Total expenditure including grants is expected to rise to 33.9 per cent of GDP in 2008 from 32.5 per cent in the previous year, with spending on education, agriculture, health, water and sanitation increasing the most. Capital expenditures increased to 8.4 per cent of GDP in 2008 from 7.7 per cent in 2007 and are expected to remain around 8.4 per cent in 2009/10. Expenditures will hover between 33.9 per cent and 30 per cent during the forecast period 2008-10. The

Table 2 - **Public Finances** (percentage of GDP at current prices)

	1999/2000	2004/05	2005/06	2006/07	2007/08(e)	2008/09(p)	2009/10(p)
Total revenue and grants[a]	**27.5**	**32.1**	**33.2**	**43.0**	**40.5**	**42.9**	**39.9**
Tax revenue	24.6	30.7	31.3	41.2	36.7	39.5	36.6
Oil revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants	1.1	0.8	1.0	0.9	0.3	0.5	0.5
Total expenditure and net lending[a]	**28.9**	**36.9**	**34.8**	**32.5**	**33.9**	**33.0**	**30.9**
Current expenditure	22.8	28.5	26.7	25.1	25.3	24.4	22.3
Excluding interest	*22.0*	*27.4*	*25.5*	*24.2*	*24.3*	*23.5*	*21.6*
Wages and salaries	11.2	13.0	14.8	13.9	13.3	11.7	10.5
Interest	0.8	1.1	1.2	0.9	1.0	0.9	0.7
Capital expenditure	6.1	8.4	8.5	7.7	8.4	8.7	8.6
Primary balance	**-0.6**	**-3.6**	**-0.4**	**11.4**	**7.6**	**10.7**	**9.8**
Overall balance	**-1.4**	**-4.7**	**-1.6**	**10.5**	**6.5**	**9.8**	**9.0**

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

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low expenditure levels are mainly due to the public sector's limited capacity to spend. In terms of consumption expenditure, the civil service wage bill has been steadily rising because of salary reviews, cost of living adjustments and an increase in the establishment of commissions and advisory committees. The government has responded by implementing its Enhanced Voluntary Retirement Scheme (VERS) but so far the scheme has not proved sufficiently tempting.

Fraud and corruption have been identified as factors behind unsatisfactory service delivery and public sector waste, especially in tendering and procurement. The Government Procurement Bill of 2008 seeks to reform those procedures. A new National Tender Board will be chaired by the Principal Secretary in the Ministry of Finance and have the Accountant General as one of its members. The 2008/09 budget provides SZL 6 million for these reforms and will be complemented by the development of a framework for Public Private Partnerships (PPPs) to boost private sector participation in public service delivery.

Monetary Policy

Swaziland is a member of the CMA so its monetary development reflects the policies of the Reserve Bank of South Africa. The Reserve Bank's policy is to maintain inflation within the target of 3 to 6 per cent. However, inflationary pressures in the period 2006-08 called for higher interest rates. In 2007, Swaziland's discount rate was raised by a cumulative 400 percentage points through increases in June, August, October and December. During the first quarter of 2008, the discount rate was further increased by 50 basis points. The average mortgage rate was also increased to 14 per cent. Currently the discount and prime rates stand at 11.5 per cent and 15 per cent, respectively.

Inflation rose to 12.6 per cent in 2008. Increases in food and fuel prices were major factors behind the headline inflation. The annual rate of change in the price of food (which has a weight 37.7 per cent in the consumer basket) was 19.8 per cent in January 2008 while transport prices rose by 17.4 per cent owing to higher domestic fuel prices as well as an increase in the price of cars. Inflation is expected to ease to around 8 per cent in 2009 and 6 per cent in 2010.

The SZL is pegged one-to-one to the rand under the CMA. As the rand depreciated in 2008, Swaziland's currency weakened to an annual average of SZL 8.2581 to the US dollar (USD). The currency is expected to strengthen to SZL 9.9 per USD in 2009 and SZL 10 per USD in 2010 in the aftermath of the retreat from emerging markets and the collapse in world oil prices.

Total bank advances and loans to the private sector rose by 21.7 per cent year-on-year in December 2007. Credit extension to this sector was valued at SZL 5.7 billion in November 2008. The largest share of credit was allocated to private sector non-financial businesses which received 57 per cent of total credit, equivalent to SZL 2.9 billion. Households and non-profit institutions serving households received 42 per cent, equivalent to SZL 2.2 billion.

Narrow money (M1) increased by 22.8 per cent in 2007 to reach SZL 1.7 billion in December before growing modestly in 2008 to SZL 1.9 billion in November. M2 rose by 21.5 per cent to SZL 5.3 billion for the year ended December 2007 and continued to expand to SZL 6.4 billion by November 2008. The strong growth in the money supply reflects increases in both credit extended to the private sector and net foreign assets.

Net foreign assets advanced by 76 per cent in 2007 and reached SZL 5.7 billion at the end of the year before rising to SZL 8.9 billion in November 2008. The growth was accounted for by the inflow of SACU receipts as well as the depreciation of the local currency which, in turn, enhanced the overall balance of payments.

The central bank has maintained the bank liquidity requirement (as a share of deposits and other liabilities) at 13 per cent since August 2003. Total liquid assets increased by 15.6 per cent in 2007 to record SZL 856.8 million in December and then expanded further to SZL 909.5 million in November 2008. As a result, the domestic economy had excess liquidity with ratios ranging between 17 per cent in December 2007 and 15 per cent in November 2008. Treasury bills issued by the government and the central bank in support of the Retirement Funds Act of 2005 have injected substantial liquidity into the economy. The Act mandates that pension funds invest 30 per cent of their assets in the domestic economy with the first compliance date for 10 per cent set for November 2007 and the other 20 per cent set for November 2008 to reach 30 per cent in 2009. The effect has been to raise the demand for domestic assets and the government and central bank have responded by issuing more Treasury bills.

Going forward, the challenge for monetary authorities will be to sustain growth and investment while bringing down inflation. They will continue to take a hawkish stance on inflation. However the recent decline in oil prices will provide room to lower interest rates to boost economic growth.

External Position

Swaziland's overall balance of payments recorded a surplus of SZL 2.5 billion in 2007. This was generated by the continued expansion of the surplus in the financial account from a surge in SACU revenue. As a result, the country's net official reserves increased by 104 per cent.

The current account balance improved in 2008 to a surplus of 7.8 per cent of GDP from a deficit of -3.6 per cent of GDP in 2007 (Table 3). The improvement in the current account resulted mainly from a surge in net current transfers supplemented by the growth in export earnings. In the medium term the current account surplus is expected to increase as a result of higher beef exports to the EC, new market access conditions for sugar concentrates and a boost from current transfers. However, low demand for exports in key markets and a possible decline in SACU revenue may dampen the rise.

In 2008/09, current transfers are expected to reach 14.1 per cent of GDP and 15.6 per cent of GDP, respectively, before falling to about 14.3 per cent of GDP in 2010. The main reason for this decline is an expected fall in SACU revenue as the trade liberalisation agenda progresses. There is a possibility that the SACU formula will be revised, which may further reduce the revenue pool. Revenue from the common customs area was augmented by the strong demand for imports of motor vehicles and machinery for the 2010 World Cup in South Africa as well as the associated demand for construction inputs.

The net position in investment income also improved due to the significant gains from higher interest rates in 2007. Interest income, which accounts for 64.4 per cent of investment income, increased by 29.5 per cent to SZL 1.3 billion at the end of the year. In 2008, net income is expected to decline to 1.4 per cent of GDP and a further decline is expected in 2009/10 of the order of 0.9 per cent of GDP and -0.1 per cent of GDP, respectively, mainly because of lower remittances as more mines in South Africa close due to the financial crisis.

Table 3 - **Current Account** (percentage of GDP at current prices)

	2000	2005	2006	2007	2008(e)	2009(p)	2010(p)
Trade balance	-6.1	-7.5	-9.1	-10.7	-12.6	-6.5	-5.5
Exports of goods (f.o.b.)	64.8	62.8	58.5	56.2	64.0	61.4	60.5
Imports of goods (f.o.b.)	70.9	70.3	67.6	66.9	76.6	67.9	66.0
Services	0.0	-5.4	-3.4	-1.8	4.9	5.4	-0.8
Factor income	0.0	7.1	0.5	2.2	1.4	0.9	-0.1
Current transfers	0.0	3.9	4.9	6.7	14.1	15.6	14.3
Current account balance	**-6.1**	**-2.0**	**-7.0**	**-3.6**	**7.8**	**15.4**	**7.9**

Source: Central Bank of Swaziland; estimates (e) and projections (p) based on authors' calculations.

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The services account recorded a net outflow of SZL 367.7 million (1.8 per cent of GDP) in 2007. Outflows are expected to decline in 2008/09, leading to an improvement of the net services account of the order of 4.9 per cent of GDP and 5.4 per cent, respectively.

The trade deficit stood at 10.7 per cent in 2007 and is expected to deteriorate further in 2008, but will start to improve in 2009. In 2008, the high import bill in the first part of the year was the result of high oil and food prices and this pressure will ease in 2009. Major exports include meat products, sugar and sugar-based products, textiles and clothing, soft drink concentrates, wood pulp and timber products, and citrus and canned fruit. Improvements in market access opportunities in the beef sector contributed to higher exports in 2008. In addition, in the second half of 2008, Swaziland benefited from the depreciation of the local currency, which boosted export earnings from markets outside the CMA. However, the global slowdown will reduce demand for exports in key developed markets beyond 2008.

Swaziland is a member of the World Trade Organization (WTO) and has increased its participation in WTO negotiations since establishing a permanent mission in Geneva in 2005. The regional customs union SACU is the major market for its exports and also the main supplier of its imported goods and services. Within SACU, South Africa remains Swaziland's largest single trading partner, accounting for approximately 90 per cent of imports and 66 per cent of exports (excluding re-exports). The customs union concluded negotiations on three trade agreements in 2008. The SACU-EFTA (Iceland, Lichtenstein, Norway and Switzerland) Free Trade Agreement (FTA) came into effect in May 2008. Negotiations between SACU and MERCOSUR (Argentina, Paraguay, Brazil and Uruguay) for a Preferential Trade Agreement (PTA) were also concluded in 2008 and the agreement is scheduled to be signed during 2009. In addition, the Trade, Investment and Development Cooperation Agreement (TIDCA) between SACU and the United States was signed in July 2008. Negotiations for a PTA between SACU and India are ongoing and a Memorandum of Understanding (MOU) was signed in November 2008. SACU is also preparing to start negotiating a PTA with the East African Community (EAC) in 2009.

Strengthening SACU's integration depends on a collective approach towards external trade with third parties, requiring a coherent and common trade strategy. Member states have agreed on the need to support national export strategies through closer cooperation, including between sectors. SACU continues to work towards harmonising policies on industrial development, agriculture, competition and unfair trade practices. The challenge for the smaller members like Swaziland is to ensure that any SACU industrial development policy promotes industrial integration in the region and leads to increased benefits for them.

Swaziland is a member of the Common Market for Eastern and Southern Africa (COMESA) and enjoys duty free market access without reciprocating to her COMESA counterparts. COMESA was launched as a customs union in 2008. Since Swaziland is the only member of both COMESA and SACU, it gets a derogation to export to the COMESA region, an arrangement that the Council of Ministers recently extended for another two years beginning in January 2009. The major products exported to this region are sugar, soft-drink concentrates, textile accessories such as zippers, and refrigerators. The economy's exports were the third and fourth largest in 2006/07, respectively, relative to the total value of exports in COMESA.

Swaziland is also a member of the Southern African Development Community (SADC), which was launched as an FTA in August 2008 and is scheduled to become a customs union in 2010. It aims to eliminate tariffs via phased reductions by member states on an asymmetric basis. The plan was for SACU members to implement 99.5 per cent of their offers to the rest of SADC, while the latter implement 60 to 80 per cent of their offers by the end of 2008. Currently, Swaziland's trade with the non-SACU countries in SADC is less than 4 per cent of her exports and virtually none of her imports. A first tripartite summit held in

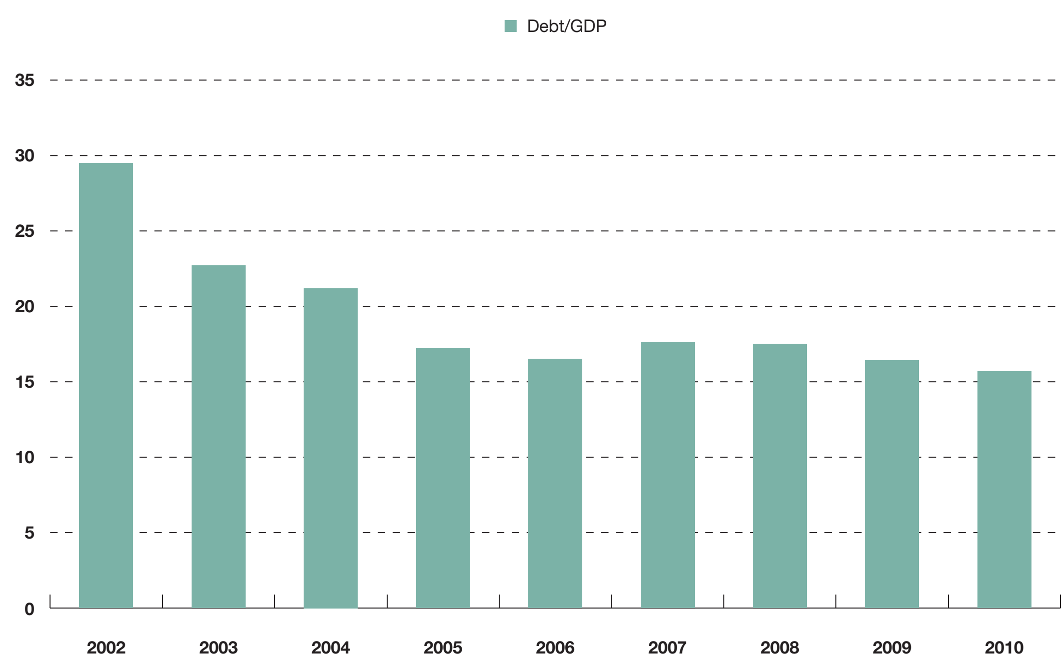
October 2008 put forth the idea of creating a pan-regional FTA and eventually a customs union encompassing COMESA, SADC and the EAC, an idea endorsed by Swaziland.

The EU remains one of the most important preferential markets for Swaziland's products including sugar, citrus, pineapple, beef, textiles and clothing. Approximately 36 per cent of sugar is exported to the EC at agreed quantities and supported prices. Swaziland and other SADC states initialled the Interim Economic Partnership Agreement (IEPA) that extended the duty-free and quota-free market access for goods originating from the African, Caribbean and Pacific (ACP) group of countries to the EU in November 2007. Negotiations in 2008 focused on extensions to the initialled text involving liberalisation of services and investment and also to conclude the market access conditions. Swaziland is likely to schedule commitments on the liberalisation of the tourism sector at the beginning of 2009. The deadline for signing the initialled IEPA was extended from July 2008 to the first half of 2009 and the government is expected to sign and then ratify the EPA for notification to the WTO.

The US is the second largest market for Swaziland's exports, mostly textiles and clothing. Its preferential access to the US market under the Generalised System of Preferences (GSP) was enhanced by the African Growth and Opportunity Act (AGOA) of 2000. The AGOA renewed the GSP until 2015 and expanded duty-free access for textiles and apparel products. But to reap the full benefits of the deal, Swaziland will have to attract new investment and increase production capacity. The US also offers Swaziland a tariff rate quota and variable amount of extra access for sugar. Exporters in the country also enjoy preferential access to the markets of other developed countries under the GSP. Determined to improve its trade competitiveness, Swaziland has set up a Trade Facilitation Committee to remove domestic bottlenecks to trade.

One of the major concerns in Swaziland is the drastic slowdown in net foreign direct investment (FDI)

Figure 3 - **Stock of Total External Debt** (percentage of GDP)



Source: IMF.

StatLink http://dx.doi.org/10.1787/574117148582

from SZL 823.7 million in 2006 to SZL 101 million in 2007. The inflows recorded in 2007 were mainly channelled to the investment, finance and service sectors. FDI is expected to decline through 2010, as liquidity constraints in the global economy persist.

Swaziland's balance-of-payments transactions and a cautious fiscal policy boosted the country's foreign reserves. Gross official reserves increased by 98.3 per cent year-on-year in December 2007 to reach SZL 5.2 billion before rising further to SZL 7.3 billion at the end of November 2008. The reserves of the Central Bank of Swaziland increased from a share of 75 per cent of gross official reserves in December 2007 to 100 per cent in November 2008. Consequently, the level of import cover improved from 3.6 months in December 2007 to 5.1 months in November 2008.

Structural Issues

Private Sector Development

The World Bank's 2009 Doing Business report ranks Swaziland 108 out of 181 in the overall ease of doing business, citing a weak regulatory framework as a major bottleneck. The country's rating in Transparency International's Corruption Perception Index improved from 84 in 2007 to 72 in 2008, signalling a better climate for investment. Concerned about its declining success in attracting FDI, the Swaziland Investment Promotion Authority (SIPA) identified specific administrative, procedural and regulatory impediments to investment. A subsequent draft discussion paper was drawn up to guide the development of an investment policy to complement the National Export Strategy. The paper emphasises the need for laws governing investment, government guarantees to investors, support services for the private sector, and wealth creation incentives for entrepreneurs. In addition, a new competition commission, created by the 2007 Competition Act, aims to monitor, regulate and prevent behaviour that is likely to adversely affect competition. It is expected that a competition policy will be drafted in the near future. The government is also working on draft legislation to implement the privatisation policy it adopted in 2006.

In recognition of the importance of small- and medium-sized enterprises (SMEs) in job creation, the government has instituted policies to increase both the number of new SME enterprises and the growth of existing businesses. As part of this policy, the Ministry of Enterprise and Employment is preparing to conduct an SME census. It plans to publish the results in July 2009 and use them to create an SME database. Also, the Draft Government Procurement Bill of 2008 includes measures to make it easier for Swazi companies to take part in public procurement. This should provide the potential for SME growth through the provision of goods and services to the government and increase the meaningful participation of local businesses in government- or donor-funded capital projects. In the 2008/09 fiscal year, the government will review its SME Policy, with an eye to incorporating micro enterprise development issues. The main activities expected to drive the initiative include the restructuring of the loan guarantee schemes to be more accessible to entrepreneurs.

The financial services and banking sector grew significantly in 2007/08. The number of non-bank financial institutions (NBFIs) rose in the two-year period after the liquidity surge prompted by the implementation of the Retirement Funds Act of 2005. While one of the targets for the legislation was to generate sufficient liquidity for capital formation through the Swaziland Stock Exchange, the exchange remains largely inactive with small market capitalisation. The liberalisation of the insurance industry through the Insurance Act of 2005 was another factor in the growth in non-bank financial institutions. The legislation has led to impressive growth in foreign direct investment in the sector especially from South Africa. Two new institutions, the Registrar of Insurance and Retirement Funds and the Insurance and Retirement Funds Board, were established in 2008 to regulate the industry.

Other Recent Developments

The government continues to support private sector development by investing in new infrastructure, providing tax incentives and fighting crime. One area where Swaziland should be commended for its efforts is infrastructure development. New road projects in progress include the Ngwenya-Mbabane-Manzini corridor and the Manzini by-pass. The African Development Bank has been a key player in these road projects. Improvements in other forms of infrastructure are also taking place, particularly in telecommunications. Projects envisaged in this area include increasing broadband services, supporting data and Internet solutions, and moving the Swaziland Television Authority from analogue to digital broadcasting.

The government is concerned about the potential impacts of the EU's CAP reforms on revenues and employment in Swaziland's sugar sector. For this reason, it is exploring options to diversify the manufacturing sector and expand its regional export markets. It is also evaluating agribusiness and tourism as possible avenues for diversification.

Innovation and ICT

Swaziland demonstrated its commitment to Information and Communications Technology (ICT) in the ICT policy document that was unveiled in 2006. It aims to provide universal access to the Swazi nation and enable ICT to contribute to employment creation, trade, tourism, health, education and culture. The new ICT policy emphasises the importance of low-cost access to information infrastructure, which is the prerequisite for ICT access by the poor. It also underscores the important role that ICT can play in changing the structure of an industry and altering the rules of competition, creating new competitive instruments and creating new businesses from existing activities. The Ministry of Telecommunication is responsible for the implementation of the ICT policy.

The Swaziland Posts and Telecommunications Corporation (SPTC) is a parastatal that operates as a monopoly in the provision of fixed telephone communication. Swaziland does not yet have an independent regulator; instead, SPTC effectively regulates the telecommunications sector. The existing fixed-line equipment serves the needs of approximately 43 800 users, giving a tele-density of about 4 per cent. Mobile phone service is provided by a single operator, MTN Swaziland, which is jointly owned by SPTC (51 per cent), MTN South Africa (30 per cent) and Swaziland Empowerment Limited (19 per cent). MTN Swaziland has a total of 120 base stations throughout the country covering about 92 per cent of the population, with almost full coverage in urban areas. In 2007, MTN had 288 200 mobile subscribers. The number of fixed line and mobile subscribers is expected to increase given that the country is starting from a low base.

Tableau 4 - **Indicateurs d'accès de base**

	2001	2002	2003	2004	2005	2006	2007
Telephone network							
Total telephone subscribers	33 900	35 340	39 520	41 700	42 150	42 800	43 800
Number of main telephone lines in operation ('000)	33.9	35.3	39.5	41.7	42.2	42.8	43.8
Waiting list for main lines	16 167	14 835	11 360	8 220	7 960	125	125
Number of public pay phones	1 000	1 000	1 400	1 600	1 600	1 600	1 600
Mobile services							
Number of cellular mobile telephone subscribers ('000)	39.5	62.2	86.2	111.7	212.6	260.6	288.2
Cellular prepaid subscribers	37 051	59 265	83 604	108 395	208 952	256 983	283 045
Population covered by mobile cellular telephony (%)	50%	60%	76%	79%	83%	89%	89%

Source: Swaziland Government Authorities

StatLink http://dx.doi.org/10.1787/580473131716

In terms of fixed infrastructure equipment, Swaziland has an all-digital fixed-line network that consists of copper, Asymmetric Digital Subscriber Line (ADSL), optic fibre and microwave radios as well as a few privately-owned WiFi hot spots, mainly in hotels. Optic fibre is used as the backbone as well as at access points and by big corporations. The network can support Integrated Services Digital Network (ISDN) of up to 128 kilobytes per second. Swaziland has one international gateway that connects to the United States, the United Kingdom, Austria and Zimbabwe via satellite and connects to South Africa and Mozambique via microwave radio and optic fibre.

ICT infrastructure is mainly towers and transmission equipment like microwave radios and is shared between SPTC and MTN Swaziland. The optic fibre is the responsibility of SPTC, which leases lines to MTN. The quality of the infrastructure, in general, is good and as it is the latest equipment from the suppliers, the Mean Time Between Failures (MTBF) is very high. The cost of equipment is high although in the case of mobile services flexible procurement policies and procedures have been negotiated to reduce the cost. Though Swaziland's small population limits the proliferation of telecom towers and other telecom infrastructure equipment, the Swaziland Environmental Authority ensures that the equipment does not cause any environmental or health damage. In addition, the mobile operator, Swaziland MTN, has to get approval and authorization before building new base stations.

MTN Swaziland has two mobile switching centres located in Mbabane and Matsapha. These centres have the latest switching equipment in layered architecture supplied by Ericsson. MTN also provides General Packet Radio Service (GPRS) equipment as well as Intelligent Network for prepaid services. Microwave radios are used for the last mile of connectivity from the base station to the nearest backhaul transmission which is supplied by SPTC. MTN provides roaming services for voice and data. It has plans to provide broadband services and the infrastructure is already available but there are still several regulatory hurdles to overcome. One challenge for MTN Swaziland is keeping up with the products and services it offers to customers in the face of frequent changes in technology, as well as keeping the cost to customers down. Another challenge for the mobile operator is to improve its access networks in order to reduce the fault rate, especially in the rainy (summer) season.

About seven Internet Service Providers (ISPs) provide dial-up Internet access to approximately 20 000 users. No licenses are required for Internet providers but they must obtain a trading permit. Mobile phones are also used to access the Internet using GPRS and Enhanced Data Rate for Global Evolution (EDGE) technologies. There is also a number of GPRS/EDGE data modems fitted with a Subscriber Identity Module (SIM) cards that are widely used on laptops to access the Internet.

Currently only 20 per cent of businesses are involved in e-commerce and trade and the government is the largest consumer of data, voice and other ICT services. However farmers use mobile phone voice and data technology to conduct business. In addition, Swaziland's ICT infrastructure supports banks on GPRS and SMS, although the systems and technologies employed have limited the provision of financial products. For example, the ATM switching facilities that allow phone customers to use ATMs as well as credit cards are not yet available in Swaziland. The government has set a number of targets for ICT-enabled financial services. These include specific goals for financial institutions to develop websites and offer services through the Internet by 2009 and to reduce the average cost of electronic transactions by 25 per cent by 2010. They also include ICT-based goals to reduce the "unbankable" population by at least 30 per cent by 2010, operationalise a local inter-bank ATM switch by 2012, and promote local SMEs by ensuring that they acquire a minimum 30 per cent stake in all ICT procurement ventures by local financial institutions by 2008.

Swaziland participates in various regional ICT initiatives. The SADC Protocol established the Southern African Transport and Communication Commission (SATCC) and emphasises the need for a strong regulatory environment, infrastructure development, community participation and governance in ICT, along with ICT business development and ICT human resource capacity development. Swaziland adopted the COMESA ICT Policy in March 2003, which focuses on policies and legislation to liberalise mobile phone operations, privatise state-owned operators and introduce competition in member countries. The kingdom is also part of the New Partnership for Africa's Development (NEPAD) initiatives that aim to develop both ICT infrastructure and an appropriate regulatory framework to boost regional integration and trade in Africa.

The government is committed to an ICT policy that will deploy universal, equitable and reliable infrastructure at low cost, increase broadband and other innovative services, adapt ICT equipment to meet the needs of disabled persons, promote responsible information that is transmitted through the Internet, promote a competitive environment, and attract private sector investment to ICT. One of the key elements of its telecommunication policy is to establish an independent regulator for the industry that can assist in accessing technology, controlling prices and levelling the playing field between the fixed and mobile operators. However, given the dominance of SPTC in fixed lines and MTN in the mobile sector, keeping prices down may prove to be a challenge. The ICT sector needs to increase competition, which could entail private participation in the fixed-line sub-sector and an increase in the number of mobile operators.

Political Context

Swaziland is a monarchy ruled by His Majesty, King Mswati III who took power in 1986. The country has a unique combination of western (Roman-Dutch) and traditional legal systems. The Parliamentary system consists of two houses: the upper house (Senate) comprises 30 senators, 20 appointed by the King and 10 elected by the lower house (House of Assembly); the House of Assembly has 55 Members elected democratically under the *tinkhundla* system and ten royal appointees. The Parliament's task is to pass and amend legislation. A prime minister is appointed by the king from the members of Parliament. Under the traditional system, the Swazi National Council (Libandla), which is headed by the king and the queen mother and comprises a cross-section of society, advises the king. In 2006, Swaziland unveiled its constitution which seeks to support good governance, rule of law, and gender equality. Although there have been a lot of controversies surrounding governance issues in Swaziland, the government is committed to addressing some of these in order to improve the image of the country and investor confidence. In 2008 the country held elections under the new constitution, and new MPs gave parliament a fresher look. Prime Minister S. B. Dlamini was reappointed.

Social Context and Human Resources Development

While Swaziland is classified as lower middle income, the poverty incidence of 69 per cent is exceedingly high and poses a challenge to future structural reforms. The Government aims to reduce poverty and eventually eradicate it by channelling resources to programmes stipulated in the PRSAP. There is a recognised, urgent need to prioritise and fund the programmes stipulated in the PRSAP and define clear targets that will allow for the systematic and effective implementation of the poverty reduction strategy. One of the challenges is to create a reasonable balance between investment in productive sectors which should complement the investment promotion and economic diversification programmes, on the one hand, and investment in human development, on the other. The economy is struggling to create sufficient jobs to curb the growth in unemployment. The Integrated Labour Force Survey of 2007 estimates that the rate of unemployment is 28.2 per cent at the national level and 53.3 per cent among youths aged 15-24. The rate of unemployment is approximately 21.9 per cent per cent in urban areas and 32.7 per cent in rural areas. Women have a 31.2 per cent unemployment rate compared to 25.7 per cent for men. Growth in Swaziland has fallen short of the 5 per cent target that's needed to half poverty by 2015. It has also been too slow to significantly reduce unemployment. It will clearly need to accelerate if the country is to make progress in increasing employment and reducing poverty.

HIV/AIDS poses a threat to sustainable development in the economy. Life expectancy declined from 60 years in 1997 to 37 years in 2005 and 45.8 years in 2008. If this situation is not urgently addressed, the number of people dying from AIDS will reach 30 000 annually by 2015 and life expectancy will drop to 33 years. According to the United Nations Human Development Report 2008 (HDR 2008), HIV prevalence among Swazi adults aged 15-49 is 26 per cent for men and 31 per cent for women. This puts an overwhelming burden on the health sector's capacity to effectively deliver services and care. Already, 40 per cent of financial resources in Government departments are under-spent due to capacity constraints partly arising from the HIV/AIDS situation. The government should be commended for its efforts in the war on HIV/AIDS. Some notable areas of intervention include mainstreaming HIV/AIDS into the planning and budgeting processes and increasing programmes on awareness, anti-retroviral therapy, voluntary counselling and testing, home-based care and sex education in schools. These initiatives are financed, in part, by grants from the Global Fund and a total of USD 16.6 million was disbursed in 2008.

The government is committed to the timely purchase and delivery of drugs as well as an improvement in the health care delivery system in general. Accordingly, it is committed to increasing spending in the health sector to a minimum of 15 per cent of total spending. In 2008, the proposed budget allocation for the health sector rose to 10.6 per cent of total expenditure.

According to the HDR 2008 school enrolment rates were 21 per cent in primary school and 26 in secondary school but the student-teacher ratio was 35:1. The government is making efforts to improve education in Swaziland at all levels. It is committed to supporting education through infrastructure, bursaries at the primary and secondary levels and scholarships at the tertiary level. The government is getting assistance from the World Bank and the European Union to develop a ten-year strategic plan for the education sector. This plan will review and provide guidance on the education system, infrastructure development, budgeting and programme implementation, research and plans for the achievement of national and international education policy targets.

The recent spells of drought have raised serious concerns about food security. Malnutrition levels rose by 24 per cent between 2006 and 2007 and about 665 000 people received food aid in 2007. The number of people receiving food aid is expected to decrease in 2008 due to favourable rains. According to the Food and Agriculture Organization, it is estimated that approximately 210 000 people in Swaziland will be food insecure during the 2008/09 harvest period. Of these, 60,000 people are transitory food insecure, primarily due to rising food prices, and they will need food assistance equivalent to 4 300 tonnes of cereals and 900 tonnes of other commodities. The government's new agricultural policy aims to address these food security concerns through improvements to irrigation infrastructure, the identification of drought resistant plants, and the diversification of agriculture beyond the staple food, maize.

Tanzania

key figures

- Land area, thousands of km²: 886
- Population, thousands (2008): 42 484
- GDP per capita, PPP valuation, USD (2008): 1 209
- Life expectancy (2008): 55.7
- Illiteracy rate (2008): 28

Tanzania

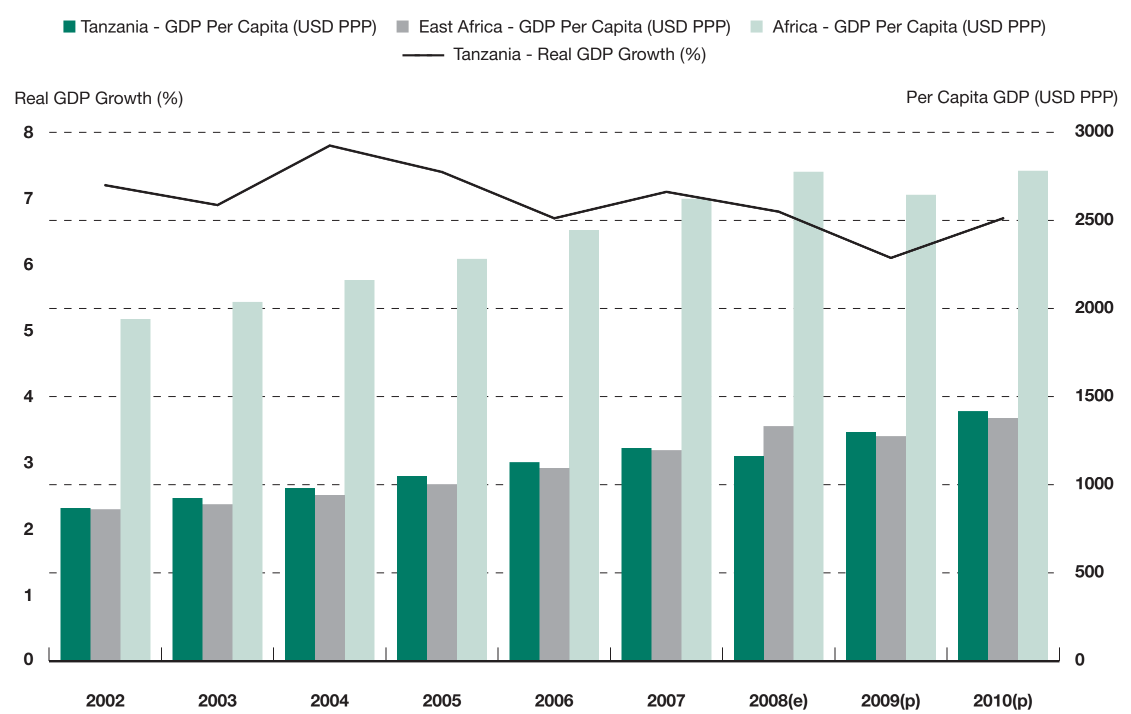
0 km 65 130 195 km
D. R. OF THE CONGO
UGANDA
KENYA
Kampala
EQUATOR
Commercial Port
Petroleum Port
Fishing Port
Airport
Main Road
National Capital (183 000 In. 2007)
over 2 000 000
over 100 000
over 50 000
Lake Victoria
Nairobi
Kigali
RWANDA
Mwanza
BURUNDI
Bujumbura
Arusha
Kigoma
Tabora
Tanga
Zanzibar
DODOMA
Dar es Salaam
Lake Tanganyika
Morogoro
INDIAN OCEAN
D. R. OF THE CONGO
Iringa
Mbeya
Mtwara
Songea
ZAMBIA
Lake Malawi
MALAWI
MOZAMBIQUE
Lilongwe
ZIMBABWE

TANZANIA'S POLICIES CONCENTRATE on sustaining macroeconomic stability by supporting strong economic growth. They seek fiscal stability through revenue mobilisation, prudent expenditure and controlling the money supply to meet inflation and economic growth targets, as well as maintain foreign exchange reserves. Combined with efforts to support the private sector and promote exports, these policies have enabled Tanzania's GDP to grow by an average of 7.2 per cent annually over the last five years. Despite the world economic crisis, GDP growth in 2008 is officially estimated at 7.3 per cent. However inflation has been accelerating since 2006 and averaged 10.3 per cent in 2008. The Bank of Tanzania has revised its medium-term inflation objective upward in 2008 from 5 per cent to 7 per cent.

The main immediate challenge is to bring inflation back down below 7 per cent. In the medium term, alleviating critical infrastructure constraints in the transport, communications and energy; measures to mitigate the impact of the global economic downturn; and finding ways to turn growth into broad-based poverty reduction are crucial. Restoring the credibility of the government in fighting corruption is important after several high-level scandals as is the challenge of turning continued growth into gains for ordinary Tanzanians in the population of about 40 million people.

Inflation is soaring, fuelled by the global crisis, and a good growth performance has done little to reduce poverty.

Figure 1 - **Real GDP Growth and Per Capita GDP**
(USD/PPP at current prices)



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

StatLink http://dx.doi.org/10.1787/570767564067

Recent Economic Developments

Tanzania's GDP grew by 7.1 per cent in 2007, up from 6.7 per cent in 2006. This performance reflected strong growth in services and construction and the recovery of the agricultural and industrial sectors. Due to the global economic crisis, GDP growth in 2008 is estimated to be around 0.5 percentage points below the government's hoped for 7.3 per cent. The global crisis is projected to have a more significant negative impact in 2009 as foreign capital and tourism arrivals fall short and export earnings decline. Tourism has already started to feel the pinch; some firms reported reductions in receipts of 7-18 per cent in the last quarter of 2008. Global prices for crops like coffee, tea and sisal are falling. The sharp fall in global oil prices, combined with corrective domestic policies, could help avert a sharp reduction in growth however. At the moment, the 2009 projection for GDP growth is between 5.5 and 6.5 per cent. The growth rate is likely to recover to above 6.5 per cent, depending on global and domestic economic stimulus packages.

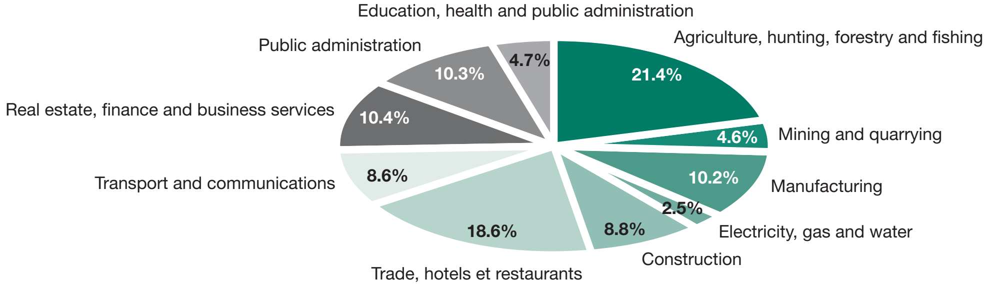
In 2007 the services sector (trade and repairs, hotels and restaurants, transport, communications, finance, real estate and business services, public administration, education, health, social and personal services) grew by 8.1 per cent compared to 7.8 per cent in 2006. All areas saw strong growth with communications and financial services recording the highest rates of 20.1 per cent and 10.2 per cent, respectively.

The communications sector has been boosted by mobile communication services. New financial sector reforms and the associated growth of banking and microfinance have stimulated the financial services sector. The growth of the services sector is estimated at 8.4 per cent in 2008 and forecast to remain above 8 per cent in 2009. Due to its fast growth in recent years, the services sector has replaced agriculture as the leading sector in the Tanzanian economy, accounting for 45.6 per cent of GDP in 2007.

In 2007 agriculture's share of GDP was 28.2 per cent after 26.5 per cent in 2006. Good weather conditions in 2007 contributed to a 4 per cent increase in agricultural output, above the 3.8 per cent increase in 2006 but below the estimated 4.9 per cent increase in 2008. The lack of rain and increased cost of fertilisers may result in a lower growth rate in 2009. To reduce the dependence on rain-fed farming, the government put 5,745 hectares under irrigation in 2007, adding to the 300 000 hectares already under irrigation. It aims to irrigate up to 1 million hectares in the next five years.

Crop output, which accounts for the highest share of agricultural-sector GDP, grew by 4.5 per cent in 2007 compared to 4 per cent in 2006. Livestock production grew by only 2.4 per cent in 2007 as it struggled to recover from an outbreak of Rift Valley Fever in 2006. Forestry and hunting experienced a sharp reduction in growth from 4.6 per cent in 2006 to

Figure 2 - **GDP by Sector in 2007** (percentage)



Source: Authors' estimates based on Ministry of Finance and Economy data

StatLink http://dx.doi.org/10.1787/572572367611

2.9 per cent in 2007 due partly to new fiscal measures introduced in 2007/08 to raise extra revenues.

Poor transport and storage contribute to recurrent food shortages in parts of Tanzania, despite surplus production in other regions and nationwide food production that exceeds total domestic requirements. Inadequate food reserves have also been blamed on inconsistent policy responses to food shortages in neighbouring countries and insufficient funds to buy from farmers. Stocks held by the National Food Reserve Agency (NFRA) fell by 40.5 per cent to 76 650 tons in June 2008 from 130 000 tons a year earlier. There are plans to restock to 150 000 tons by the end of 2009. A ban on cereal exports was imposed in May 2008 and import duties on cereal were waived. Estimates based on 2007/08 food harvests indicated a forecast surplus of 2.4 per cent of domestic needs in 2008/09 although a partial drought during October-December 2008 may change that. However, if the long rains expected in February-April 2009 also fail then a significant increase in food imports will be necessary to replenish food stocks.

The industry and construction sector (mining and quarrying, manufacturing, electricity and gas, water, and construction) grew by 9.5 per cent in 2007 after 8.5 per cent in 2006. Mining and quarrying experienced a significant reduction in growth from 15.6 per cent in 2006 to 10.7 per cent in 2007. High world gold prices stimulated production and maintained the share of the mining sector in GDP and exports, despite a mine closure. With more licences issued to mining and prospecting firms during 2007 and 2008, there are expectations that mineral output will continue to play a major role in export earnings over the medium term.

The manufacturing sector grew by 8.7 per cent in 2007 compared to 8.5 per cent in 2006. This growth partly reflects the availability of adequate and predictable power supplies as well as the technology changes for agro-processing and the processing of forestry products (e.g. honey and timber). Investment in export processing zones increased in 2007 and 2008. Additional measures to increase capacity for gas-powered generation helped the electricity and gas sector recover from a 1.9 per cent contraction in 2006 to 10.9 per cent growth in 2007. The water sub-sector recorded a 6.5 per cent increase in 2007 after major infrastructure projects. Stimulated by real estate development and infrastructure projects, the construction sub-sector grew by 9.7 per cent compared to 9.5 per cent in 2006. Industry and construction production is expected to grow by 9.2 per cent in 2008 and about 10 per cent in 2009.

Table 1 – **Demand Composition**

	Percentage of GDP (current prices)		Percentage changes, volume			Contribution to real GDP growth		
	2000	2007	2008(e)	2009(p)	2010(p)	2008(e)	2009(p)	2010(p)
Gross capital formation	**16.8**	**29.6**	**19.7**	**4.4**	**10.0**	**4.5**	**1.1**	**2.5**
Public	5.7	7.8	30.0	8.0	10.0	1.8	0.6	0.7
Private	11.2	21.8	16.0	3.0	10.0	2.7	0.5	1.8
Consumption	**89.9**	**87.2**	**7.6**	**7.1**	**7.8**	**6.5**	**6.0**	**6.7**
Public	11.7	19.3	6.1	3.3	5.0	1.0	0.5	0.8
Private	78.3	67.9	8.0	7.9	8.3	5.5	5.5	5.9
External demand	**-6.8**	**-16.9**				**-4.1**	**-1.0**	**-2.5**
Exports	13.4	24.2	2.6	0.9	3.4	0.5	0.2	0.6
Imports	-20.1	-41.1	16.9	4.0	10.7	-4.6	-1.2	-3.1
Real GDP growth						**6.8**	**6.1**	**6.7**

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

StatLink http://dx.doi.org/10.1787/576258325636

Investment remained strong in 2008 with a 30 per cent increase in public capital formation and a 16 per cent increase in private capital formation. Private consumption rose by 8 per cent and contributed 5.5 percentage points to the 6.8 per cent overall increase in GDP. The external sector's contribution to growth was negative in 2008; import growth outstripped the increase in real exports by a wide margin.

Over the medium term, gross capital formation is expected to rise due to public investment in infrastructure and energy. International financial conditions could, however, limit the growth of domestic private investment if the financial sector is threatened. The rate of gross capital formation is forecasted to slow sharply in 2009 but is expected to rise to 10 per cent in 2010. Export growth is expected to slow to less than 1 per cent in 2009 before rebounding to 3.4 per cent by 2010. Though import demand will slow in 2009, it is expected to remain high over the medium term mainly due to imports of intermediate and capital goods to support the growing service, industrial and construction sectors.

Macroeconomic Policies

The government's macroeconomic and fiscal objectives are to achieve real GDP growth of 8 per cent by 2010, reduce inflation to 7 per cent, raise domestic revenue growth to at least 18.5 per cent in 2008/09 and 20 per cent by 2010/11. It wants to keep international reserves of at least 5 months of imports, and ensure resources to finance private sector development and major infrastructure investment.

Fiscal Policy

Public finances have improved significantly over the last decade. Measured as a share of GDP, revenues rose by 4 percentage points between 2004/05 and 2007/08. In fiscal year 2007/08 government revenue from domestic sources was 15 per cent of GDP, up 2 percentage points compared to 2006/07 and 9.1 percentage points over 1998/99. Total domestic revenue for 2007/08 is in line with the target for the year. In 2008/09 domestic revenue collection is estimated to reach 4.73 trillion Tanzanian shillings (TZS), 14.3 per cent of GDP.

Government expenditure has grown, supported by higher volumes of official development assistance. Much of the extra assistance has been in the form of budget support for poverty reduction. In 2007/08 actual expenditure was 23.3 per cent of GDP, similar to the preceding year, but it fell short of the budgeted 27 per cent of GDP. In 2007/08 the overall budget deficit was at its lowest in a decade at TZS 2 billion. About 44 per cent of realised expenditure (10.2 per cent

Table 2 - **Public Finances** (percentage of GDP at current prices)

	1999/2000	2004/05	2005/06	2006/07	2007/08	2008/09(e)	2009/10(p)
Total revenue and grants[a]	**13.8**	**18.5**	**17.9**	**19.0**	**23.2**	**21.2**	**20.5**
Tax revenue	8.9	10.8	11.5	13.0	15.0	14.3	14.1
Grants	3.6	6.6	5.4	4.9	7.0	5.7	5.2
Total expenditure and net lending[a]	**15.2**	**21.7**	**22.8**	**23.0**	**23.3**	**23.3**	**22.1**
Current expenditure	10.5	13.5	17.2	17.0	15.1	14.9	13.7
Excluding interest	*8.9*	*12.5*	*15.9*	*15.8*	*14.0*	*13.9*	*12.8*
Wages and salaries	3.7	3.7	3.9	5.0	5.1	4.7	4.5
Interest	1.7	1.0	1.3	1.1	1.2	1.0	0.9
Capital expenditure	4.7	8.2	5.6	6.1	8.1	8.3	8.3
Primary balance	**0.2**	**-2.3**	**-3.6**	**-2.9**	**1.2**	**-1.1**	**-0.7**
Overall balance	**-1.4**	**-3.2**	**-4.9**	**-4.0**	**0.0**	**-2.1**	**-1.5**

a. Only major items are reported.
Source: Ministry of Finance and Economy data; estimates (e) and projections (p) based on authors' calculations.

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of GDP) was financed from development aid including loans, grants and proceeds from debt relief. The government has targeted a reduction of donor dependence in its TZS 7.2 trillion budget for 2008/09 to 34 per cent. This will require the raising of more domestic resources and spending restraint to ensure that from fiscal 2008/09 recurrent expenditures are fully covered from domestic resources. It is targeting zero net domestic financing for 2008/09 which, if achieved, could ensure continued sources of domestic financing for private sector investment, should foreign capital inflows decline.

Infrastructure constraints have become more acute and are a government priority in medium term spending through 2010/11. A plan to issue sovereign bonds is temporarily on hold, but could be revived to pay for major infrastructure projects in 2010 if international financial conditions stabilise. The first sovereign credit rating for Tanzania for this purpose is expected in 2009.

Monetary Policy

The inflation rate has been rising since the start of 2006 and averaged 10.3 per cent in 2008. It reached 13.5 per cent in December 2008, the highest rate in a decade. The rise in world food and fuel prices and liquidity expansion caused by growing government spending played a major role.

During 2007/08 the Bank of Tanzania adopted a policy mix that combined greater sales of foreign exchange and reduced reliance on Treasury bills to control liquidity. The frequency of treasury bill auctions was reduced from weekly to fortnightly. In June 2008 the average 12-month Treasury bill rate was 7.84 per cent compared to 17.07 per cent in June 2007. The rate remained below 11 per cent throughout 2008. However lending rates by commercial banks declined only marginally in this period, to 14.76 per cent in June 2008. The limited fall in lending rates is a reflection of the perception of the default risk by borrowers. Interest rates on local currency deposits also declined during the year, yielding negative real returns when combined with rising inflation.

The reduction in the frequency of Treasury bill auctions, combined with a sharp increase in expenditure towards the end of the fiscal year, led to a huge increase in liquidity at the end of June 2008 as a large volume of treasury bills matured for redemption at the end of the fiscal year. In addition, an appreciation of the shilling led to a rise in domestic currency-denominated deposits. These two developments fuelled money supply growth in excess of the target for fiscal 2007/08. Broad money growth (12-month change) was 30.8 per cent in June 2008 compared to the target rate of 24.2 per cent for the year. Lending to the private sector grew substantially in the year reflecting a shift of resources away from treasury bills as their rates fell. In 2007/08 credit to the private sector expanded to 44.6 per cent relative to the Bank of Tanzania's target of 39.8 per cent. The central bank targets credit expansion of 22 per cent for 2008/09.

During 2008 the Tanzanian shilling exchange rate fluctuated widely, depreciating in the second half of the year. The monthly average exchange rate of the US dollar (USD) against the shilling in the interbank foreign exchange market closed the year at an average of TZS 1 273.6 in December 2008 compared to TZS 1 158.9 per dollar in December 2007. Based on annual averages, however, the shilling appreciated by 4 per cent in 2008 to 1 196 TZS per dollar. The Bank of Tanzania will still use foreign exchange sales in 2008/09 to manage liquidity, though the size of the sales will be smaller.

In 2007/08 the government announced its intention to transfer its deposits in commercial banks to the Bank of Tanzania in order to reduce the cost of liquidity management and prevent banks from using these funds to buy treasury bills. Procedures are being established to guide the operation of the new accounts. The central bank also introduced a 10 per cent minimum reserve requirement on government deposits in June 2008 to limit banks' credit creation from government deposits.

Tanzania's financial soundness indicators continue to be favourable, and its financial sector is well capitalised and liquid. In 2008 the ratio of liquid assets to total assets was 41.3 per cent compared to 48.1 per cent in 2007 and the stock of non-performing loans to gross loans remained stable at 6.3 per cent. The Bank of

Tanzania stated that the financial sector remains well protected from the international financial crisis but is looking for ways to mitigate the risk of any worsening of the crisis. Tanzania and the International Monetary Fund (IMF) jointly organised an international conference in March 2009 seeking to find ways to maintain development gains by Tanzania and other African countries in the face of the economic crisis.

External Position

Tanzania's current account deficit widened by 50 per cent in nominal terms in 2007 and rose to 11 per cent of GDP from 8.2 per cent in 2006. The deficit rise reflects a large increase in the trade deficit due to a rise in the value of imported goods, especially fuel, and larger imports of capital goods. The deficit continues to be financed by substantial donor inflows and foreign direct investment. The level of foreign exchange reserves grew in absolute terms reaching USD 2 648.5 million (4.4 months of imports of goods and services) in June 2008, 23 per cent higher than the level of reserves in June 2007. The current account deficit will reach 14.8 per cent of GDP in 2008 and is expected to improve to 9.7 per cent in 2009 due to lower oil prices. The Bank of Tanzania wants to increase foreign exchange reserves to 5 months of imports by June 2009 if official aid levels are not reduced.

Exports grew by 13 per cent in 2007, substantially lower than the 23 per cent growth rate in 2006. But their contribution to GDP reached 13.2 per cent compared to 13.4 per cent in 2006. Service exports rose dramatically with receipts increasing by 34 per cent. Growth in the value of merchandise exports was supported by increased exports of manufactured goods and higher volumes of traditional exports, especially cotton, tea and sisal. Because of higher gold prices, the value of mineral exports increased despite a reduction in the volume of mineral output during 2007. In the same period, imports rose 34.4 per cent, driven by increases in the value of intermediate and capital goods imports. For 2008 and 2009 import growth is expected to remain strong although the bill may be cushioned by falling costs of imported fuel.

Although export promotion measures continue to yield results, declines in world demand could hit export growth. Efforts to promote Tanzania as a tourist destination are being intensified, especially in the Middle East and Far East. Strengthening cooperation with the East Africa Community (EAC) and the Southern Africa Development Cooperation (SADC) could boost the market for Tanzanian exports. Heads of state met in Kampala in 2008 to discuss an initiative to merge the EAC, SADC and the Common Market for Eastern and Southern Africa (COMESA) into one regional bloc. In the meantime the EAC is implementing a roads project to effectively connect all member countries and is stepping up plans to create an EAC common market and eventually monetary union. The conclusion and signing of the protocol for common market is set for April 2009.

Tanzania is planning to liberalise her capital account further in an effort to attract capital and harmonise with

Table 3 - **Current Account** (percentage of GDP at current prices)

	2000	2005	2006	2007	2008(e)	2009(p)	2010(p)
Trade balance	-6.9	-9.3	-13.6	-15.7	-19.2	-14.1	-15.9
Exports of goods (f.o.b.)	6.5	11.9	13.4	13.2	12.2	11.2	10.1
Imports of goods (f.o.b.)	13.4	21.2	27.0	28.9	31.4	25.3	26.0
Services	-0.5	0.4	1.9	1.5	1.5	1.7	3.1
Factor income	-1.0	-0.7	-0.6	-0.5	-0.3	-0.5	-0.4
Current transfers	3.8	3.5	4.1	3.7	3.3	3.2	2.8
Current account balance	**-4.6**	**-6.1**	**-8.2**	**-10.9**	**-14.8**	**-9.7**	**-10.4**

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

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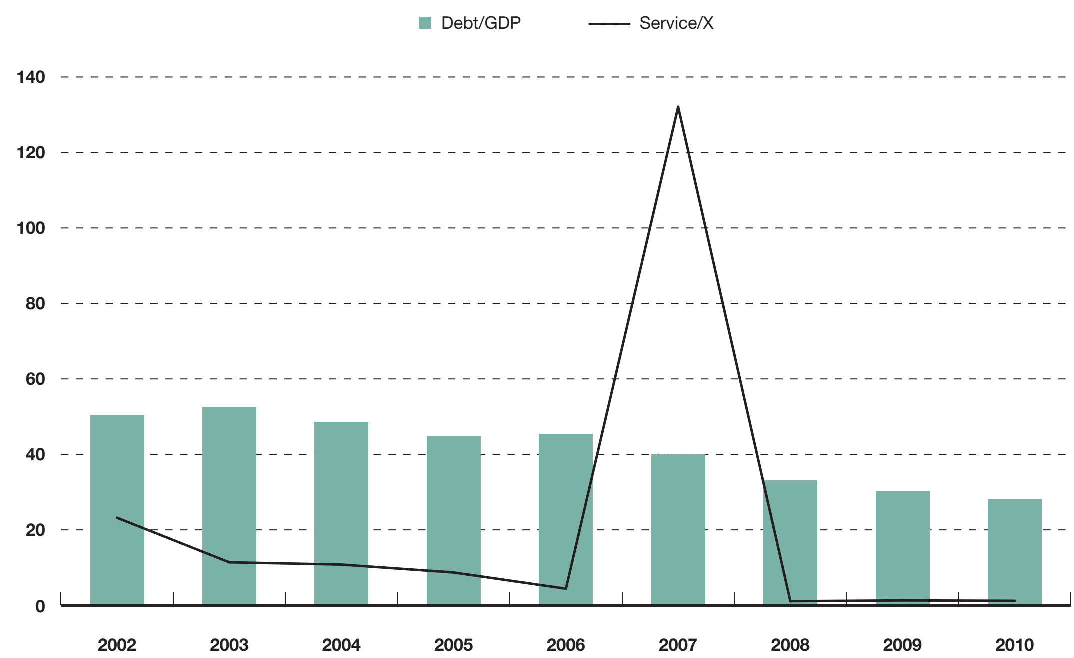
Figure 3 - **Stock of Total External Debt** (percentage of GDP) **and Debt Service** (percentage of exports of goods and services)



Source: IMF.

StatLink http://dx.doi.org/10.1787/574118408848

the other EAC countries. However, the government intends to adopt a gradual approach to the process to safeguard capital flows and to ensure that it has adequate time to establish the necessary regulatory procedures. The central bank is formulating an action plan on liberalisation to be completed in 2009. Priority is being placed on long-term investment securities and bonds.

Tanzania's debt sustainability indicators have remained favourable due to massive debt relief under the Highly Indebted Poor Country Initiative (HIPC) and the Multilateral Debt Relief Initiative (MDRI). However, new borrowing and the accumulation of debt service arrears increased Tanzania's external debt stock to USD 5.8 billion (31 per cent of GDP) at the end of June 2008 from USD 4.9 billion (30.3 per cent of GDP) at the end of June 2007. External debt service payments during 2007/08 were equivalent to 2.2 per cent of exports of goods and services, compared to 1.2 per cent of exports in 2006/07. Although the government depends on concessional lending for deficit financing, a potential risk to debt sustainability could come from the planned issuance of sovereign bonds for infrastructure financing which entails borrowing at commercial rates. To safeguard against an accumulation of debt, a cost benefit analysis of planned infrastructure projects will be made to ensure that the investments are worth the cost of servicing the debt. Furthermore, the government should first exhaust all possible concessional borrowing sources before borrowing at commercial rates.

Structural Issues

Private Sector Development

Tanzania's global position in the World Bank Group's ease of doing business ranking fell to 127th of 178 countries in 2008 from 124th out of 181 countries in 2007. After efforts to boost the business environment and implement business support programs and help small and medium enterprises, the latest report noted the slow pace of starting a business, difficulties in getting credit and inadequate protections for investors. In 2007 the government enacted a New Business Activities Registration Act to reduce the red tape involved in business registration but more remains to be done.

In 2008 the government enacted a leasing finance law to facilitate the growth of leasing services and ease access to finance. The Bank of Tanzania is working to establish credit reference bureaus and a regulatory framework for their operation. Apart from the regulatory environment, the greatest area of concern in Tanzania is infrastructure constraints in the energy, transport and communication sectors. The government is preparing a regulatory framework to work with the private sector to bridge the public sector's resource gap for infrastructure investment.

Other Recent Developments

Tanzania completed the privatisation of major state enterprises in 2007. The job of completing the sale of remaining small state enterprises and monitoring those already privatised has been handed over to the new Consolidated Holdings Corporation (CHC). In 2008, CHC said it would repossess some privatised corporations associated with hotels and lodges that have proved problematic.

The divested utility companies for electricity and water supply face financial constraints that have limited the expansion of infrastructure and service improvements. They have raised prices, adding to inflation. In 2008 alone electricity tariffs were twice raised by 5 per cent. Vandalism of power lines, transformers and telephone cables and illegal tapping of water increased maintenance costs and consumer prices.

Challenges in public financial management remain critical a decade after the commencement of the Public Financial Management Reform Program (PFMRP). The second phase of the PFMRP aims to strengthen public procurement management that is prone to abuse and causes budget delays. The Public Audit Act, passed in July 2008, should strengthen control and auditing alongside a proposed switch to risk-based auditing of public institutions. The act strengthens the autonomy of the National Audit Office. The establishment of audit committees in all ministries, departments and executive agencies, as well as a cash management committee at the Ministry of Finance, is expected to enhance efficiency in managing expenditures.

A Presidential Commission was created in 2007 to investigate the management of the mining sector. Based on its recommendations, the government plans a major overhaul of the mining sector. The changes should guard against conflicts over mineral resources, enhance fiscal gains and facilitate domestic investment growth and new inflows of FDI into the sector. New investment in 2009 is likely to stall however as investors await the policy changes.

A mix of monetary and exchange rate policies and greater coordination with fiscal authorities is intended to reduce inflation in 2008/09. However, structural limitations in the transport and energy sectors have added to inflation by limiting the fall in food and fuel prices even when supply conditions have improved. Tanzania lacks a fuel reserve system and fuel imports involve several private firms individually importing small amounts. Without a functioning reserve and bulk importation system, Tanzania only benefits minimally from lower international energy prices. Poor transport infrastructure hampers the distribution of food supplies. A delay in completing some road projects after the postponement of sovereign bond issues will maintain the problems.

Innovation and ICT

Prior to Tanzania's liberalisation campaign, its information, communication technology (ICT) sector languished under prohibitive rules on importing computers and television sets imposed in 1974. Since 2000 the country has made progress. Liberalisation has allowed in greater private involvement. The Tanzania Communication Commission and Tanzania Broadcasting Corporation merged in 2003 into the Tanzania Communications Regulatory Authority

(TCRA). Among the notable plans in the media industry is an agreement by operators to move from analog to digital broadcasting by 2015.

There has been substantial investment in support facilities for applications services and sales outlets. In 1997 Tanzania had only two voice telecom operators: Mobitel, offering mobile telecom services, and Tanzania Telecommunication Company (TTCL), which offered fixed line services. In 2000 the number of telecom operators grew as the privatisation of TTCL led to the formation of a subsidiary, Celtel, that offered mobile telephones. Now there are less than 200 000 fixed telephone lines connected by TTCL, the only company offering such services. The slow growth of fixed connections is due to high installation costs, tariff rates and difficulties in competing with mobile telephones that are cheaper and do not require registration, installation and other waiting costs. To respond to this challenge and to cope with declining incomes, TTCL introduced mobile phone services in 2006 under the brand name of TTCL Mobile. By June 2008 there were six telecom operators (Vodacom, Zain Tanzania, Tigo, Zantel, TTCL and Benson). Although the number of fixed-line connections had risen to 159 391 by June 2008 it remains far below the number almost 10.3 million mobile subscribers in 2008. TCRA statistics show that Vodacom operates 43 per cent of the phone lines in use as of June 2008, followed by Zain Tanzania with 27 per cent, Tigo 16 per cent, Zantel 10 per cent, TTCL 3 per cent and Benson 0.03 per cent. There were an estimated 25 telephone lines per 100 people in 2008 compared to just 1 line per 100 people in 2000.

Mobile phone banking is now offered. Vodacom and Zantel operate local money transfer services. ICT convergence has also made it possible to access news and international roaming services. Sharing infrastructure such as transmission towers is encouraged by the TCRA but is not common. Also stiff competition limits cooperation in some zones where companies seek to protect their customer base.

A recent study on the impact of taxation on access to mobile phones in Africa concluded that the uptake of services is held back by taxes on handsets, airtime, and telecommunication equipment in general. These costs deter consumers and therefore investment by mobile operators. This applies to Tanzania, which does not produce ICT equipment. There is an import duty of 25 per cent, a standard 20 per cent value added tax and a 10 per cent excise tax charged on all ICT equipment. The tax costs result in higher consumer prices. A 10 per cent excise and 20 per cent value added tax is also charged on airtime and applications services, making mobile phones expensive for low-income people and perpetuating the digital divide. Tanzania has still achieved a major reduction in airtime tariff rates for national and international calls when compared to 7 years ago. In 2008, the average fixed telephone airtime price for national calls was TZS 147 per minute including value added tax, equivalent to 12 US cents, down from 25 US cents in 2000. For mobile phone airtime, the average tariff rate for local calls in 2000 was 44 US cents per minute but has gone down to 27 US cents for calls made locally to any mobile or fixed network for peak hours and 22 US cents per minute for off peak hours. Mobile phone operators also offer reduced rates to customers under specific terms and conditions.

Internet and other data application services have expanded. In 2005 the TCRA introduced the Converged Licensing Framework consisting of licenses for network facility, network services, application services and content services in the international, national, regional and district market segments. This led to a large increase in the number of operators. In 2008 there were 43 applications service providers compared to 11 in 2000. There are also more cyber cafés providing internet services, especially in urban areas. Opening similar facilities in rural areas is held back by limited access to electricity and the isolation of settlements. Tanzania is planning an ICT infrastructure and service survey to guide future action.

Another important development is the growth of tele-centres that facilitate global distance learning and access to ICT in activities such as trading, education, health and administration. In 2008 there were six tele-centres. Generally internet communication remains expensive. Installation charges were also high for broadband internet and varied between providers. In 2006 the government enacted a Universal Communications Access Act which foresaw a special fund with contributions from the government, development partners and the private sector to help universal access providers extend services.

Though several institutions have individually operated fibre-optic cables,[1] the majority rely on expensive satellites. Tanzania and its neighbours will rely on satellites for internet communication until the planned Eastern Africa Submarine Cable System (EASSy) is commissioned. The development of a national fibre-optic cable for Tanzania is underway under the management of TTCL. Once the project is completed individually owned fibre optic cables will be connected to the national fibre optic and regulated by the TCRA. Another private sector project, SEACOM, linking South Africa and India through Tanzania is set to be operational in 2009 and is expected to significantly reduce the cost of communications.

Political Context

During 2008 the government strengthened its stance on public accountability. A report by a parliamentary committee on an emergency power supply scandal led to the resignation of the prime minister and two cabinet ministers, prompting a cabinet reshuffle in February 2008. There were also prosecutions of high ranking officials, including former cabinet ministers suspected of misusing public office and corruption. Another investigation on theft of External Payments Arrears (EPA) funds resulted in the prosecution of high ranking government and business figures after TZS 69.3 billion was recovered out of TZS 130 billion that was stolen. Most of the recovered funds were allocated to an agricultural input fund and the capitalisation of Tanzania Investment Bank. The finance ministry and Bank of Tanzania has asked the IMF to spearhead efforts to plug loopholes and improve existing systems.

Social Context and Human Resources Development

In 2008/09 Tanzania entered the fourth year of its Second Poverty Reduction Strategy, popularly known as MKUKUTA and MKUZA. While there have been improvements in infrastructure and access to education and health, there is a huge poverty challenge. The 2007 Household Budget Survey (HBS), released in November 2008, showed that 33.3 per cent of the population lived below the poverty line in 2007, compared to 35.7 per cent in 2001. In absolute terms, this translates into 12.7 million poor people, an increase of one million people in six years. There has been only a marginal reduction in the proportion of the population below the food poverty line. Tanzania appears to be lagging behind its national target of halving the proportion of people below the food and income poverty lines by 2010. The 2008/09 United Nations Human Development Report (HDR) shows little improvement in Tanzania's ranking in its Human Development Index and its Human Poverty Index.

According to the HBS report, access to piped water fell to 34 per cent in 2007 from 39 per cent in 2001 while access to grid electricity is still low. The increase in duties on electric poles, introduced in 2008/09, resulted in a connection charge increase due to a sudden jump in the cost of one pole from less than TZS 100 000 to TZS 500 000. This will hold back efforts to improve main grid electricity. The household survey showed a substantial increase in ownership of durable goods such as radios, bicycles and cell phones. In the health sector there was a slight increase in people's satisfaction with government services and the availability of drugs. HIV/AIDS remains a serious cause of maternal and child mortality. In 2007/08 it was estimated that the prevalence rate among 15 to 49 year-olds was 6 per cent compared to 7 per cent in 2003/04. The government is increasing support for the use of life-prolonging drugs and care services for people living with HIV/AIDS.

1. Currently fibre optic cables are owned by Tanzania Electricity Supply Company (TTCL), Tanzania Railways Limited (TRL), Tanzania Zambia Railways (TAZARA), and Songo Songo Gas Company (SONGAS).

The 2007 survey shows little change in literacy levels since 2001. In 2008 there were increases in the net enrolment ratios for both pre-primary and primary schools to 36.2 per cent and 97.5 per cent respectively. This is minimal progress compared to 2005 when the pre-primary net enrolment was 33.1 per cent and the primary school net enrolment ratio was 94.8 per cent. The numbers going on from primary to secondary schools rose to 56.7 per cent in 2007 from 49.3 per cent in 2005. However secondary and higher education enrolments remain low relative to the population and the quality of education has suffered according to the declining pass rates over the last four years.

The teacher-pupil ratio in primary education plunged to 1:48 in 2008 from 1:45 in 2007. Measures are being taken to raise the number of teachers, particularly in rural areas, by fast-tracking teacher training. It remains crucial nonetheless for the government to address salary problems that contribute to teachers' reluctance to work in rural areas. The teachers' union organised a nationwide strike over pay arrears that have lasted several years. The High Court ruled the strike illegal after a government application, but a work slowdown lasted for several weeks. In higher education, students called on the government to revisit its cost policy to protect children from poor families. School children in Dar es Salaam staged demonstrations in 2008 to protest against hikes in bus fares. The government swiftly promised to address the complaints. These events show a new willingness to allow free expression by citizens and to follow the rule of law. It also highlights a population that is more informed about rights.

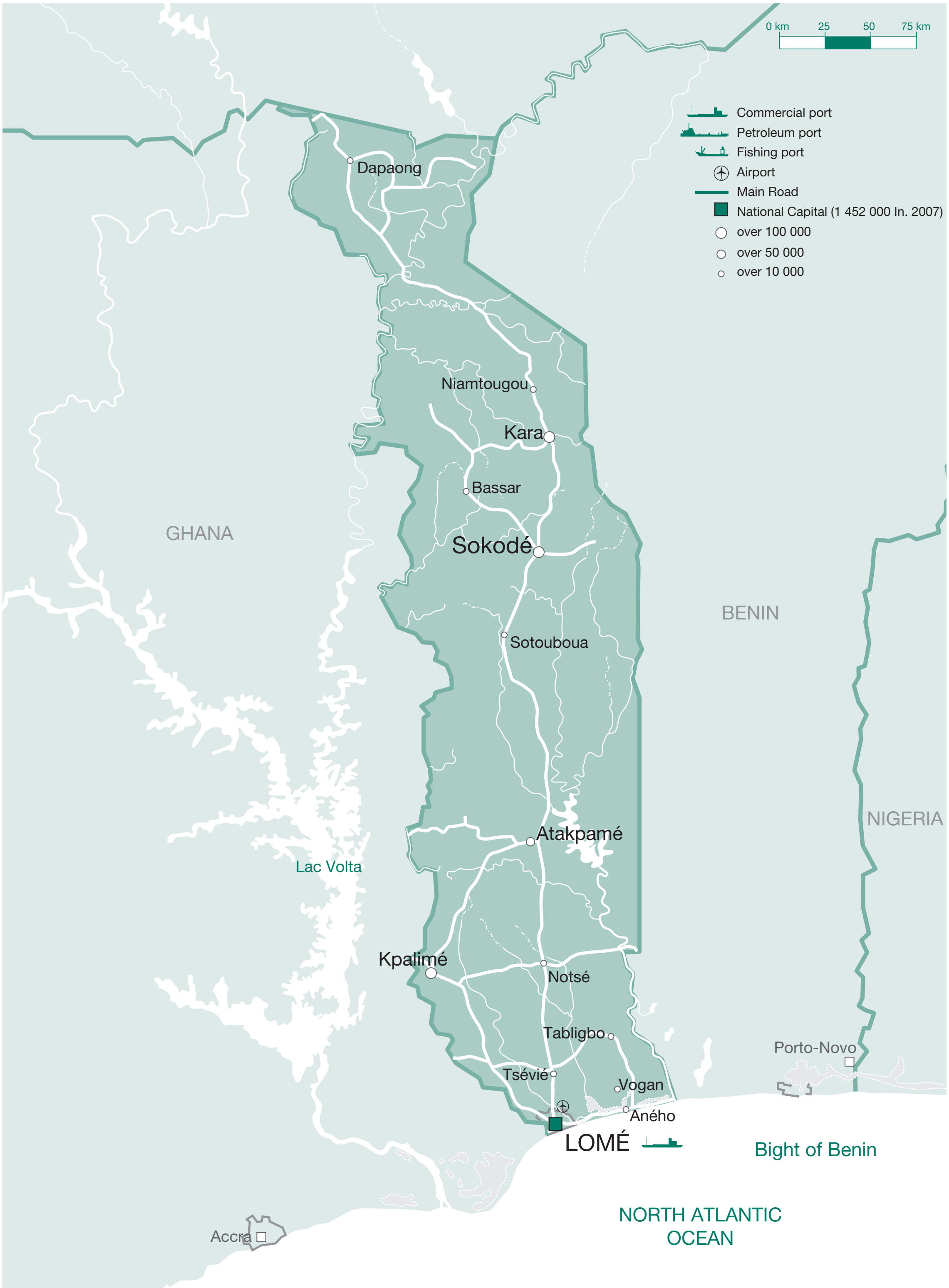
Reaching targets under the National Strategy for Growth and Reduction of Poverty and the Millennium Development Goals will require adequate funding, development of human resources and strengthening of public financial management. A revision of the current national strategy and formulation of a new one is scheduled for fiscal 2009/10.

Togo

key figures

• Land area, thousands of km²:	886
• Population, thousands (2008):	6 459
• GDP per capita, PPP valuation, USD (2008):	809
• Life expectancy (2008):	62.6
• Illiteracy rate (2008):	n.a.

Togo



0 km
25
50
75 km
Commercial port
Petroleum port
Fishing port
Airport
Main Road
National Capital (1 452 000 In. 2007)
over 100 000
over 50 000
over 10 000
Dapaong
Niamtougou
Kara
Bassar
Sokodé
Sotouboua
Atakpamé
Kpalimé
Notsé
Tabligbo
Tsévié
Vogan
Aného
LOMÉ
GHANA
BENIN
NIGERIA
Lac Volta
Porto-Novo
Accra
Bight of Benin
NORTH ATLANTIC
OCEAN

TOGO'S REAL GROSS DOMESTIC PRODUCT (GDP) growth fell to 0.8 per cent in 2008 from 1.9 per cent in 2007, while the inflation rate increased to 8.9 per cent in 2008 from 1.0 per cent in 2007. The rise in international oil and food prices, slow reaction to reforms, and other external factors all caused the tougher conditions.

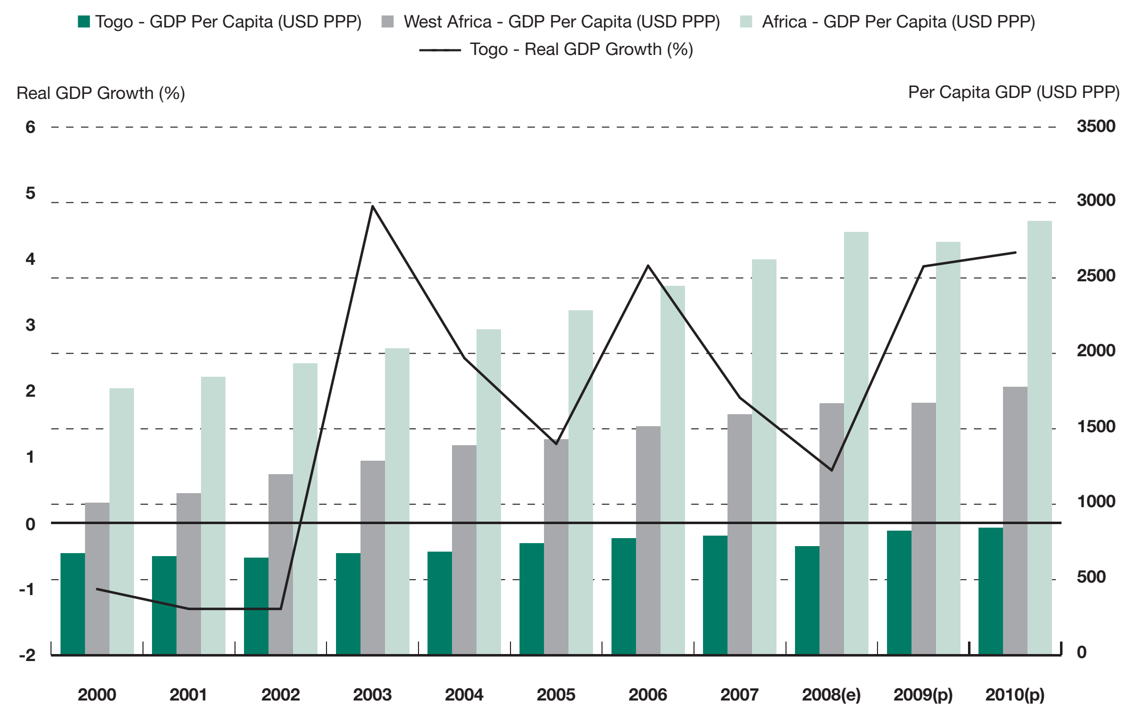
Problems with the phosphate and cotton industries compounded the slowdown between 2006 and 2008, while power cuts and floods in 2008 disrupted transport and food production. In 2009, real GDP growth is expected to increase to 3.9 per cent with significant investment in infrastructure and a recovery from the supply shocks such as the huge leap in the cost of oil and food prices which pushed up inflation.

However, inflation is expected to fall back to 5.3 per cent in 2009 in line with the fall in international prices.

Growth in 2009 and 2010 will be driven by increased aid and restructuring of key sectors, notably phosphates.

The government reacted prudently to the price surge by focusing on food production and social measures. It has avoided tax exemptions, export bans and price controls so that changing world prices can be passed on.

Figure 1 - **Real GDP Growth and Per Capita GDP**
(USD/PPP at current prices)



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

StatLink http://dx.doi.org/10.1787/570821668232

The international financial turmoil has not immediately affected remittances which account for an estimated 6 per cent of GDP and come mainly from France, Germany and the United States. The banking sector has not been affected because of the country's low level of integration into the international financial system.

Substantial economic and political reforms have been undertaken following the government change after the death of President Gnassingbe Eyadema in 2005. The key phosphates, cotton, electricity, transport and state banking sectors are being restructured.

Following a parliamentary election in October 2007 and a three-year Poverty Reduction and Growth Facility (PRGF) programme agreed by the International Monetary Fund in April 2008, Togo has normalised relations with major international creditors. This has opened the way to increased development assistance, which was reflected in a substantial increase in contributions from a donor support conference held in Brussels in September 2008.

Togo is part of the IMF and World Bank's Heavily Indebted Poor Countries Initiative (HIPC) in November 2008 and could soon get access to relief under the Multilateral Debt Relief Initiative (MDRI) when it completes the initiative.

Much of the 2009/10 GDP growth will come from the higher donor support but this spurt may be short-lived because of a skills shortage, especially in the public sector, which has meant development assistance is not quickly used.

Recent Economic Developments

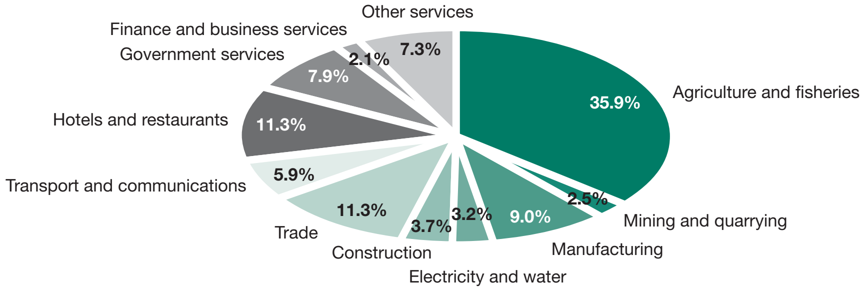
The fall in economic growth was due to several factors, including delays in implementing structural reforms, especially in the cotton and phosphate industries. Failure to expand phosphate exports resulted in a lost opportunity to fully benefit from high international prices in 2008. The energy shortage and blackouts in April-March 2008 caused by a drought which halted the Akosombo power dam in Ghana, and floods in June 2008 aggravated the performance.

Agriculture is a major source of growth, accounting for 35.9 per cent of Togo's GDP in 2007, a level it has maintained for most of the past decade. Subsistence crops have accounted for about two-thirds of the output for the last 10 years. Agriculture also employs about 60 per cent of the working population and productivity increases are therefore essential for poverty reduction.

Public spending on agriculture has collapsed over the past decade and the sector is hampered by a poor land ownership regime, inadequate water resources management, soil degradation and poor organisation at the local level.

An IMF Interim Poverty Reduction Strategy Paper released in April 2008 set targets to improve the performance of the farm sector. It said the industry

Figure 2 - **GDP by Sector in 2007** (percentage)



Source: Authors' estimates based on IMF and the Ministry of Finance data.

StatLink http://dx.doi.org/10.1787/572665260341

should be liberalised and regulatory procedures across the West African Economic and Monetary Union (WAEMU) and the Economic Community of West African States (ECOWAS) should be harmonised. It also said there should be improved quality control of agricultural products and greater effort to improve the agriculture ministry.

To accelerate sustainable growth in agricultural production, the authorities pledged to improve access to financing, improve water resource management and soil fertility, and to boost access to improved seeds.

Cotton is one of Togo's three largest exports, with phosphates and cement. Cotton production fell by more than 50 per cent between 2001 and 2008 mainly due to the poor management of the state-owned Société Togolaise du Coton (SOTOCO), the high cost of agricultural inputs, obsolete infrastructure and machinery and the impact of unpredictable climatic conditions such as rainfall. The sector's contribution to GDP decreased from 3.1 per cent in 2001 to an expected 0.4 per cent in 2008. Although structural reform has started, recovery to previous levels of production is expected to be slow, with prices expected to remain at about 140 CFA francs per kilogramme and output at about 15,000 tonnes in 2008/10 if the weather is good.

Coffee and cocoa, two other important cash crops, also suffered drastic output declines over the past decade — 57 per cent for coffee, 67 per cent for cocoa. There has been a lack of support for private farmers since liberalisation, inadequate access to finance, while disease and pests have taken a growing toll. Production is expected to remain constant in 2008/10, contributing an average of 0.3 and 0.2 per cent of GDP respectively.

Food crops such as manioc, yam, maize, millet, sorghum, cashews and rice increased their contribution to GDP in 2008.

Togo's secondary sector is in its infancy, contributing only 18 per cent to GDP. Industrial production is dominated by phosphate and cement. The industrial sector's contribution to GDP growth fell between 2006 and 2008 because of declining production of phosphate and other industries. Société Nouvelle des Phosphates du Togo (SNPT), established in 2007 is working at only one-fourth of capacity and its prospects are uncertain. A $62 million US dollar (USD) loan from the Islamic Development Bank has still not been received, the head of the SNPT has resigned and the search for a strategic investment partner continues.

Construction and energy contribute very little to GDP, at 3.7 per cent and 3.2 per cent respectively in 2007. There is a low level of investment in public infrastructure to help the construction industry. The small energy sector contracted further in 2008 when the country suffered from lower production at the Akosombo hydroelectric power dam in Ghana because of critically low rainfall in March and April. Both sectors will benefit from the new donor assistance and efforts to revamp infrastructure destroyed by flooding in 2008.

New mining exploration is being financed by Lithic Metals and Energy, a UK company, with a 90 per cent share in new licences, while the government keeps the remaining 10 per cent. Lithic has started field work at Haito for nickel, chrome and copper, at Pagala for zinc and at Niamtougou for uranium.

The tertiary sector accounts for almost half of GDP. Togo's location near landlocked countries, such as Niger, Burkina Faso and Mali, offers opportunities in transport and tourism. With the transport and communications and hotel and restaurant sectors accounting for 17.2 per cent of GDP in 2007 and trade accounting for 11.3 per cent, there is a base to support expanded activity in West Africa.

On the demand side, growth is driven by public investment (estimated to have contributed 1.6 percentage points to growth in 2008) and private consumption (1.2 percentage points). Togo relies on external grants and loans on concessional terms to finance much of its public investment. These external resources traditionally funded around 80 per cent of public investment until the early 1990s, when the suspension of donor support caused a decline in public

Table 1 – **Demand Composition**

	Percentage of GDP (current prices)		Percentage changes, volume			Contribution to real GDP growth		
	2000	2007	2008(e)	2009(p)	2010(p)	2008(e)	2009(p)	2010(p)
Gross capital formation	**11.4**	**10.9**	**21.0**	**16.4**	**13.5**	**2.3**	**2.2**	**2.0**
Public	3.1	2.0	80.2	45.0	15.0	1.6	1.6	0.8
Private	8.3	8.9	7.6	5.5	12.7	0.7	0.5	1.2
Consumption	**101.8**	**109.7**	**1.5**	**1.2**	**3.1**	**1.5**	**1.2**	**3.1**
Public	11.0	10.1	2.7	3.6	7.7	0.3	0.4	0.8
Private	90.8	99.6	1.4	0.9	2.6	1.2	0.8	2.3
External demand	**-13.3**	**-20.6**				**-3.0**	**0.5**	**-0.9**
Exports	34.5	42.0	1.5	3.0	5.6	0.7	1.5	2.8
Imports	-47.7	-62.6	6.2	1.5	6.0	-3.7	-1.0	-3.7
Real GDP growth						**0.8**	**3.9**	**4.1**

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

StatLink http://dx.doi.org/10.1787/576287333213

investment which fell from 13.8 per cent of GDP in 1990 to 2.0 per cent in 2007. This downturn cut production capacity and slowed economic growth.

With renewed donor support and a planned increase in infrastructure investment in areas affected by the 2008 floods, public investment is expected to boost growth in 2009 and contribute 1.6 percentage points to real GDP growth before moderating in 2010. Private consumption growth is expected to slow in 2009 due to the impact of the 2008 floods, which hit farmers' incomes, and to the continuing impact of the higher food prices in 2008 on urban households. However, private consumption is expected to recover in 2010. Growth in government consumption is expected to rise through 2010 led by increased social spending. Private investment is expected to play an important role in 2009 and especially in 2010 as a result of inflows of foreign direct investment into the phosphate, banking and telecommunications sectors and the Autonomous Port of Lomé.

The external sector, with a large deficit due mainly to the slow recovery of the cotton and phosphate sectors and a high oil and food import bill, made a negative contribution to GDP growth in 2008. However, external demand is expected to make a positive contribution to real growth in 2009 and 2010, with exports volumes expected to increase with the recovery of the phosphate sector and stable production of cement, coffee, cocoa and cotton.

Macroeconomic Policies

Fiscal Policy

Since 2006, Togo's authorities have strived to improve fiscal management. The restructuring of the tax and customs administration has boosted fiscal revenues, significantly improved expenditure control and largely reduced arrears. Between 2005 and 2008, revenues increased from 14.6 per cent of GDP to 16.4 per cent; while expenditure remained roughly constant at around 20 per cent of GDP. These substantial improvements boosted the basic primary balance from a deficit of 0.9 per cent in 2005 to a surplus of 1.4 per cent in 2007.

The floods and food and oil shocks in 2008, however, forced the over all balance into a small deficit of 0.3 per cent of GDP. The government has reacted prudently to these major shocks by focusing on food production and social mitigation measures. The floods cost approximately 3.0 per cent of GDP in 2008, while the impact of the increased food and oil prices is estimated at 2.4 per cent of GDP. The impact of these shocks on the budget deficit is estimated to be about 2 per cent of GDP for 2008 and about the same in 2009.

Fuel prices had been kept constant since 2006 with subsidies that accounted for 10 billion CFA francs from January to April 2008. The 18 per cent increase in retail oil prices in August 2008 allowed world prices to be passed on adequately.

The deterioration of the economy in 2008 has not altered the official commitment to sound fiscal management. The 2009 budget envisages an increase of 0.6 per cent of GDP in total revenues and grants, stemming from continued administrative reforms, fewer fiscal exemptions, higher alcohol and tobacco taxes, and the expansion of the fiscal base into the informal sector. Expenditure is expected to remain constant at about 20 per cent of GDP since the rise of 1.5 per cent of GDP in capital expenditure will be partly compensated by a decrease in current expenditure. With the reengagement of the donor community Togo will be able to invest in public infrastructure that has been neglected during a decade of isolation.

The conservative spending stance will affect resources for social sectors (such as health and education), major restructuring (such as banking) and the reduction of domestic arrears. In November 2008, to support reforms in the deteriorating economy, the IMF increased its poverty reduction and growth facility of 18.5 million special drawing rights to help close the financing gaps for 2008 and 2009.

Monetary Policy

Togo belongs to the WAEMU and monetary policy is handled by the Central Bank of West African States (CBWAS), which has a mandate to keep safe international reserves and inflation below 3.0 per cent. In 2008, money supply growth decelerated significantly (10 per cent versus 22.1 per cent in 2006 and 18.2 per cent in 2007) due to the economic troubles and a tightened monetary policy through higher interest rates aiming to offset inflationary pressures. In 2008, monetary expansion was reduced to 6 per cent, as net external assets decreased.

Net credit to the government increased in 2008 by an estimated 2 per cent of money supply, while credit to the private sector increased by 8.4 per cent, less than in 2007. Money supply is expected to increase by 7.8 per cent in 2009, with credit to the private sector rising by 8.4 per cent and net credit to the government dropping slightly (-1.3 per cent).

Inflation rose sharply to 8.9 per cent in 2008, up from 1 per cent in 2007, and above the WAEMU target, as a food price increases, an 18 per cent increase in the oil tax and disruption to the movement of goods

Table 2 - **Public Finances** (percentage of GDP at current prices)

	2000	2005	2006	2007	2008(e)	2009(p)	2010(p)
Total revenue and grants	**13.2**	**16.9**	**18.3**	**18.7**	**19.8**	**20.4**	**20.9**
Tax revenue	11.3	14.6	15.4	16.4	16.4	16.2	16.3
Grants	0.5	1.2	1.4	1.7	2.8	3.6	4.0
Total expenditure and net lending	**18.2**	**19.9**	**21.3**	**19.4**	**20.1**	**20.1**	**19.9**
Current expenditure	15.4	17.1	17.8	17.4	16.8	15.5	16.5
Excluding interest	*13.3*	*15.0*	*15.9*	*15.3*	*15.8*	*14.6*	*15.7*
Wages and salaries	6.1	4.4	5.1	5.4	5.4	4.9	5.0
Interest	2.1	2.1	1.9	2.2	1.0	0.9	0.8
Capital expenditure	3.1	2.8	3.4	2.0	3.5	4.8	5.3
Primary balance	**-2.9**	**-0.9**	**-1.1**	**1.4**	**0.7**	**1.2**	**1.8**
Overall balance	**-5.0**	**-3.0**	**-3.0**	**-0.7**	**-0.3**	**0.4**	**1.0**

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

StatLink http://dx.doi.org/10.1787/577800481800

in the floods. Food price increases account for 37 per cent of the consumer price index. The impact of this rise on inflation has been most strongly felt in urban areas where people do not grow their own food.

In an attempt to curb inflation, the government sold grain reserves at subsidised prices and fertilisers and seeds at 2007 prices. The government released 7 000 tonnes of maize in May 2008 at half the market price, and kept fertiliser prices at 240 CFA francs per kg when the cost had risen to 335 CFA francs per kg.

The 18 per cent increase in retail oil prices in August 2008 however contributed to inflation. But inflation is expected to decrease to 5.3 per cent in 2009 and 2.8 per cent in 2010, with lower food and oil prices. All this is conditional on climatic conditions however.

External Position

Togo's external position deteriorated between 2000 and 2007 owing to the collapse of the cotton sector, a fall in revenue from cotton exports, the decline of phosphate exports and the rising cost of oil imports.

The current account deficit including official transfers increased to 7.8 per cent of GDP in 2008 up from 6.4 per cent in 2007 due to the economic shocks. However, the deterioration in the trade balance has been slightly compensated by large private transfers, mostly worker remittances. In 2008, capital inflows and exceptional financing from the IMF and other donors largely financed the current account deficit.

Despite the worsening international economy, Togo's external position should improve in 2009, with the fall in oil prices, the recovery of traditional exports such as phosphates, and additional donor support.

While exports contributed only to 31.7 per cent of GDP in 2008, as a member of WAEMU and ECOWAS, Togo has room to expand its exports through deeper regional integration.

Regional trade will remain dominated by trade with Nigeria, which accounted for about 50 per cent in 2008. Ghana and Côte d'Ivoire are the other major partners, each accounting for less than 5 per cent of regional trade in 2008.

The IMF and its associates decided in November 2008 that Togo qualified for aid under the Heavily Indebted Poor Countries (HIPC) Initiative. It will receive interim debt relief from some creditors if it implements broad reforms, especially the preparation of a full Poverty Reduction Strategy Paper (PRSP) and implements at least one year of economic reforms supported by the IMF poverty reduction and growth facility. Togo can also access relief under the Multilateral Debt Relief Initiative (MDRI) when it reaches the HIPC completion point. The debt relief is estimated at USD 270 million. At the completion point, Togo is projected to receive additional debt relief of USD 404 million.

Parliamentary elections held in October 2007, the adoption of the poverty relief and growth facility, and

Table 3 - **Current Account** (percentage of GDP at current prices)

	2000	2005	2006	2007	2008(e)	2009(p)	2010(p)
Trade balance	-10.6	-16.4	-19.1	-20.0	-24.5	-17.5	-18.8
Exports of goods (f.o.b.)	28.1	28.3	29.3	28.2	31.7	30.1	29.9
Imports of goods (f.o.b.)	38.6	44.7	48.4	48.2	56.2	47.6	48.7
Services	-2.7	-0.4	-0.5	-0.5	-0.1	0.2	0.4
Factor income	-2.2	-0.8	-1.1	-1.7	-0.6	-0.5	-0.4
Current transfers	6.7	13.7	16.5	15.9	17.5	16.6	16.7
Current account balance	**-8.8**	**-4.0**	**-4.2**	**-6.4**	**-7.8**	**-1.1**	**-2.2**

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

StatLink http://dx.doi.org/10.1787/580202724416

progress made on structural reforms have helped Togo to normalise relations with major external creditors. The European Union (EU) announced at the end of 2007 the full resumption of financial assistance which had been suspended for 15 years. The EU was to have cleared arrears to the European Investment Bank, as part of a financing package agreed in 2008.

In May 2008 the World Bank approved an allocation of USD 146 million to help clear arrears and USD 17.6 million for budget support. In June 2008 the Paris Club of creditors for Togo cancelled USD 347 million of arrears and debt service and rescheduled USD 393 million. Togo is not required to make any payments until April 2011 since the Paris Club determined that Togo was badly hit by the rise in food and oil prices. In July 2008, the African Development Bank approved the clearance of USD 24 million in arrears through the Fragile States Facility. China contributed to HIPC relief through debt cancellation in 2007. Overall the total external debt to GDP ratio was reduced from 156 in 2006 to 138 in 2008, and is expected to further decrease to 81 in 2010.

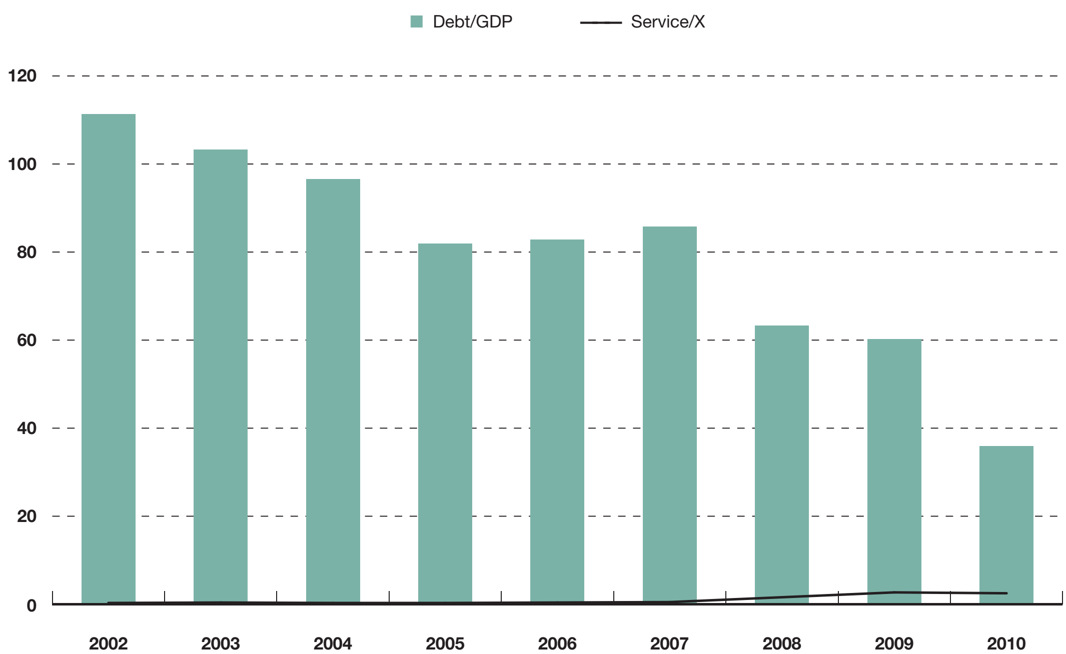
Structural Issues

Private Sector Development

Togo ranked 163 of 181 economies in the latest World Bank Group annual Doing Business report. There are some positive trends however. The corporate tax level, which was one of the highest in the region at 40 per cent, was reduced to 33 per cent in 2008 and is expected to be reduced further. The national banking system has not been affected by the financial crisis due to the low level of financial integration.

The banking system is small with a strong state presence, little foreign participation and weak product diversification. Moreover, it is performing poorly in terms of solvency and liquidity – a situation linked to

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



Source: IMF.

StatLink http://dx.doi.org/10.1787/574120471475

poor management in major public non-financial companies and many banks. The percentage of non-performing loans in total bank credits is high, more than 30 per cent in 2004/05, most of which is attributed to the state cotton company, SOTOCO, and the phosphate enterprise. The banking system cannot finance economic activities, as seen in the large number of violations of prudency standards and low profitability of the banking sector in 2005.

The authorities aim to strengthen the banking sector by exchanging state-owned companies' non-performing loans for government-issued tradable securities. This will help facilitate the development of a secondary securities market.

Other Recent Developments

Following the bankruptcy of the old state phosphate monopoly, OTP, which suffered from bad management, obsolete mining equipment and electricity shortages, the firm was dissolved and replaced by the new SNPT. The aim of restructuring the key sector was to attract strategic investors who can provide finance on favourable terms for needed investment in new equipment.

In the cotton sector, financial and strategic audits were completed in 2007 for SOTOCO. The company is now being dissolved and a new firm will be created with some private shareholders. In the energy sector, rising oil prices and regional electricity shortages have created pressure for reform. There is a review of the finances of the national electricity company (CEET) in consultation with the World Bank.

The country could not meet its 80-100 megawatt (MW) electricity needs in 2008. The Akosombo dam in Ghana, which delivers about 75 per cent of Togo's energy, and the 65MW capacity Nangbeto hydroelectric dam on the Mono River in eastern Togo could not meet demand. Electricity blackouts were widespread in the capital, Lomé, and other major cities, and hampered business.

The authorities bought 14 diesel generators with a total capacity of 14MW which are already operating. In addition, a 15-20MW hydroelectric plant has been proposed in Adjarala. Lastly, the West African Gas Pipeline project between the Nigerian National Petroleum Corporation, Société Beninoise de Gaz, Volta River Authority of Ghana and Société Togolaise de Gaz could provide some additional 100MW. The pipeline has been built and only the surface infrastructure is missing. It is not clear when it will be operational due to the lack of agreement on pricing. Togo will remain vulnerable to shortages until the the West African pipeline is working.

Half of the bridges damaged by the flooding in 2008 have already been rehabilitated by Chinese investors. Nine bridges still need to be rebuilt, as well as the roads to Burkina Faso and Benin and in the city of Lomé.

The quality and maintenance of urban roads is very low. The development of mineral deposits is constrained by the disappearance of railways. The rehabilitation and extension of the central north-south railway was to take place in 2008 and 2009. The deep sea port in Lomé hopes to attract more regional trade once planned upgrading in 2009 is completed.

The authorities have become more concerned with the environment, after a severe degradation of fauna and flora in recent decades. Action depends on external funding so the government is looking to the private sector. The 2001 National Environment Action Plan (PNAE) and the 15-year National Environmental Management Programme (PNGE) were updated in 2008 to harmonise with other action. A National Action Plan against Desertification has also been created.

Innovation and ICT

Only 12.5 per cent of the population of about 6 million people has access to a mobile or landline telephone, compared to 28.4 per cent in Africa as a whole. There are about 120 000 land lines. The few fixed lines installed in major urban areas use mostly copper wire which is a target for thieves. The national operator, Togo Telecom, is connecting to Code Division

Multiple Access (CDMA) wireless technology in an attempt to reduce infrastructure costs.

Togo Telecom has been developing Asymmetric Digital Subscriber Line (ADSL) technology since 1992, which allows higher speed fixed-line internet connections using traditional copper cables. Internet connections are also possible through satellite communications (Very Small Aperture Terminals or VSATs) provided by CAFE Informatique. Togo Telecom and CAFE Informatique are the only Internet Service Providers (ISPs) in Togo. CAFE Informatique, which was created in 1997, was the first ISP in West Africa.

International communications are provided by Togo Telecom and CAFE Informatique, both with satellite technology offering 64/128/256 kilobits per second (kbps), but at relatively high prices. Togo Telecom has 4 000 users, mostly government agencies, households, and small businesses. CAFE Informatique has 400 users, mainly larger companies.

Togo and Benin are creating a 165 kilometre optical fibre link which will enable mobile phone operators and communications institutions to benefit from the international submarine cable off the African west coast, SAT3. This project, led by Togo Telecom, is intended to reduce high rates for international connections using satellite connections and bring them into line with Benin, Cote d'Ivoire, Mali and Burkina Faso which are already connected to SAT3. In practice however, the decrease in prices is likely to be moderate since SAT3 is dominated by a consortium which imposes very high prices on non-members.

Mobile phones account for 89 per cent of the total connections, 98 per cent are prepaid consumers. There are two mobile phone operators, state-owned Togo Cellulaire, operational since September 1997, and Moov, a private company belonging to Atlantique Télécom and Etisalat. It has been operational since December 1999. In 2008 Togo Cellulaire covered 65 per cent of the country and 85 per cent of the population, while Moov covers 45 per cent of the country and 70 per cent of the population.

Togo Cellulaire has 60 per cent of the market share with 627 409 subscribers and an annual growth rate of 19 per cent. Moov has a smaller share but has increasing its annual growth rate to 32 per cent in 2008.

The technology used for mobile phones is the Global System for Mobile communications (GSM), the European standard, which allows voice and SMS services. The General Packet Radio Service (GPRS) and the Enhanced Data rate for GSM Evolution (EDGE) technologies are going to be launched by Togo Cellulaire and Moov, which will enable internet access through mobile phones.

In Togo the fixed-line operator remains state-owned while neighbouring countries, such as Côte d'Ivoire, Ghana and Nigeria have partially privatised their operators. However, in all cases the fixed-line penetration rates were below 1.7 per cent of the population in 2008.

Togo lags behind its neighbours in the number of cellular licenses issued and in penetration rates. In 2008 an average of five licenses were granted in Benin, Côte d'Ivoire, Ghana and Nigeria compared to only two in Togo. There is a relationship between the degree of competition, penetration rates, and prices. Indeed, the cellular penetration rate in the neighbouring countries in 2008 was on average 29 per cent, while in Togo it is only 11 per cent. Because of its smaller customer base, Togo has higher cellular tariffs than its neighbours.

The regulatory framework has been approved by the International Telecommunications Union (ITU). Togo created the Autorité de Réglementation des Secteurs de Postes et de Télécommunications (ART&P) in 1998. The agency is separate from the Ministry of Telecommunications and Postal Services but reports to the ministry. The ART&P staff was increased from 20 in 2005 to 33 in 2008, but they still cannot cope with the workload.

By statute, Togo's regulatory agency is autonomous. However, the head of the agency is also a member of the Ministry of Communications and Postal Services, and potential political interference is a clear threat. New entrants (including the state-owned cellular operator) are penalised against the traditional state-owned fixed-line operator.

In October 2001, CAFE Informatique was granted a licence to provide voice over IP services through the fixed-line operator Togo Telecom, but seven years later this connection is still not regularly available. Consequently, communications between Togo Telecom and CAFE Informatique are done through an international circuit. Moov is also obliged to go through Togo Telecom when communicating with Togo Cellulaire. Under this configuration, even if Moov and Togo Cellulaire want to develop GPRS and EDGE technologies, Togo Telecom does not have the capacity to support these communications through its network.

Togo Telecom also has a monopoly over outgoing international traffic. This penalises consumers as Togo Telecom's connections are of low quality. This affects Moov which part belongs to the Etisalat group which has an international satellite gateway successfully operated in other countries where it is present: Benin, Burkina Faso, Niger, Cote d'Ivoire, and Gabon.

CAFE Informatique and Moov tried to circumvent Togo Telecom by sending international traffic through their VSATs for two months in 2007. They were fined by the ART&P. Moov and CAFE Informatique have since requested a licence for international outgoing communications. Beyond the fact that these two operators are subject to high tariffs for international calls, the service is unreliable. In the case of Moov, only 28 per cent of outgoing international communications reach their destination. Another example of the lack of cooperation between operators is the refusal of Togo Cellulaire to share infrastructure with Moov, particularly antenna towers. Togo Telecom, which uses CDMA wireless, is upgrading to build a fully wireless network based on this technology despite the fact that it does not have a full licence – an example of the privileged position of the state-owned firm with the regulatory authority.

All service providers are expected to contribute to a universal service. Initially the ART&P requested a fixed percentage of each operator's revenues. However, the operators refused to make payments, fearing that the funds would be mis-used. The regulatory authority then required operators to either pay or provide services in an area identified by the ART&P. The operators have reacted favourably to this approach, making it a successful example of universal service implementation in Africa.

It is now possible to check bank accounts with mobile phones through an agreement between BTCI bank and Togo Cellulaire. Moov is negotiating with BAT and BTCI banks to provide a similar service. Regarding e-governance applications, the General States of Public Administration (EGAP) is automating and making its administrative procedures digital to increase the efficiency of revenue collection and expenditure tracking.

Political Context

The first parliamentary elections since the 2005 death of President Eyadema, who had ruled for more than 35 years, were held in October 2007. All parties joined the election which was won by the ruling Rassemblement du Peuple Togolais (RPT).

The RPT formed a government but there were tensions with the main opposition Union des Forces de Changement (UFC) which at first refused to accept the result. A national consultative process has begun to establish a reconciliation commission. The next presidential election is scheduled for 2010.

Since the international community judged the election fair and transparent, donor support has been restored by the European Union, Togo's Paris Club of creditors, the IMF, the World Bank and the UN Development Programme (UNDP). However, donors are concerned with the slow pace of macroeconomic and structural reforms and a possible increase in social tensions if living conditions are not improved in the medium-term.

Social Context and Human Resources Development

The political crisis, a fall in public investment and the reduction in external aid since the beginning of the 1990s has held back social expenditure and progress. The UNDP Human Development Index in 2005 was 0.512, little changed from its level in 1995. Togo is ranked 152nd of 177 countries.

An Interim Poverty Reduction Strategy Paper released in April 2008 was the basis of an April 2008 arrangement with the IMF for a Poverty Reduction and Growth Facility. The paper estimates the costs to achieve the Millennium Development Goals (MDGs) for 2008/10 at about 514 billion CFA francs. Some 53 per cent of the cost would be financed domestically, 35 per cent externally, with financing for the remaining 12 per cent as yet unidentified. The explicit commitment of the Togolese authorities to implementing necessary policies to achieve the goals is important since at the current rate of progress only those for universal primary education, maternal health and HIV could be achieved by 2015.

According to a 2006 Core Welfare Indicators Questionnaire (CWIQ) household survey, the poverty level is about 61.7 per cent. About 80 per cent of the poor are rural. The survey revealed that living conditions worsened between 2000 and 2006 because of low income from farming, inadequate financing for education and health, and a lack of access to safe drinking water.

Public education services cannot satisfy growing demand. There are teacher shortages and facilities are overburdened. The share of GDP allocated to education fell from 5.9 per cent in 1990 to 2.5 per cent in 2008. As a result, private schools enrol more students than public institutions, including "Local Initiative Schools" in rural areas that rely on community financing and family support. More than 40 per cent of schools in the Savanes, the poorest region, are of this type. These institutions are expensive for poor families however.

Despite these problems, Togo has high enrolment rates compared to other West African countries, though it faces education challenges. The gross primary school enrolment rate has decreased from 97.9 per cent in 2005/06 to 97.1 per cent in 2006/07, mainly due to lower female participation. Between 2005/06 and 2006/07, the number of primary schools has decreased 8.8 per cent and the number of teachers by 6.8 per cent. In that period, the total number of students in secondary education decreased by 10.1 per cent and the number of teachers by 12.5 per cent. In contrast, the number of students in tertiary education has increased 11.3 per cent.

The government wants to reduce the repetition rate from 24 to 13 per cent for primary education and from 28 to 19 per cent for secondary education by 2010. The high repetition and dropout rates are the main problems for primary and secondary schools in Togo.

Public health is also insufficient in terms of medical staff, supplies and infrastructure. Like education, this sector is constrained by expenditure mismanagement, low public investment and a fall in foreign aid. Even though in geographical terms accessibility is satisfactory with nearly ninety per cent of the population living no more than 5km from a health facility, a 2006 Multiple Indicator Cluster Survey (MICS) revealed that only a quarter of the population used health services. The survey also showed that nearly 75 per cent of the population stays away from modern facilities because of the cost.

According to the same survey, maternal mortality remains high at 478 deaths per 100 000 live births, against an MDG target of 118. The infant mortality rate has improved from 80 per thousand in 1998 to 77 in 2006 but remains high, while the MDG target is 26.6. HIV prevalence among the sexually active population has decreased from 6 per cent in 1999 to 3.2 per cent in 2006, relatively close to the MDG target. Thanks to donor assistance, the percentage of children under five sleeping under treated mosquito nets has increased from 15 per cent in 2000 to 41 per cent in 2006. The prevalence of malaria in this age group has dropped from 36 per cent in 2000 to 19 per cent in 2006.

To strengthen the health sector the government plans to recruit 700 health workers, purchase new equipment, and rehabilitate or build new infrastructure in rural areas. A 2007/10 National Strategy against HIV aims to increase the amount of antiretrovirals (ARV). Currently, 7 822 of the 25 000 HIV positive people receive ARV treatment. Although there is no current epidemic in the country, malaria and cholera are endemic.

Togo has relatively high unemployment and underemployment rates, which together amounted to 32.9 per cent of the active population in 2006. There is an acute shortage of civil servants whose numbers have declined from 34 736 in 1994 to 31 083 in 2007.

There are not enough highly educated staff to make full use of official development assistance although technical assistance programmes are expected to ease this problem, which is also slowing structural reforms.

In the private sector, there are some positive trends. From 2006 to 2007, the number of employers increased by 8.5 per cent and the number of workers increased by 7.4 per cent. In addition, the minimum wage, which had not changed since 1990, was increased on 1 August 2008 from 13 757 CFA francs to 28 000 CFA francs per month. The retirement age was increased to 60 in 2008. But the government still says that large numbers of public employees will retire by 2010.

Tunisia

key figures

• Land area, thousands of km²:	155
• Population, thousands (2008):	10 169
• GDP per capita, PPP valuation, USD (2008):	7 506
• Life expectancy (2008):	74.0
• Illiteracy rate (2008):	22

Tunisia


MEDITERRANEAN SEA
La Galite
Strait of Sicily
Sicilia (Sicile)
ITALY
Bizerte
Menzel Bourguiba
Ariana
La Goulette
Béja
Bardo
TUNIS
Ben Arous
Isola di Pantelleria
ITALY
Sousse
Kairouan
Isole Pelagie
ITALY
Kasserine
Sfax
Gafsa
Iles Kerkennah
MEDITERRANEAN SEA
Gabès
Ile de Djerba
ALGERIA
LIBYA
Commercial Port
Petroleum Port
Fishing Port
Airport
Divided Highway
Main Road
National Capital (745 000 In. 2007)
over 200 000
over 100 000
over 50 000
0 km
30
60
90 km

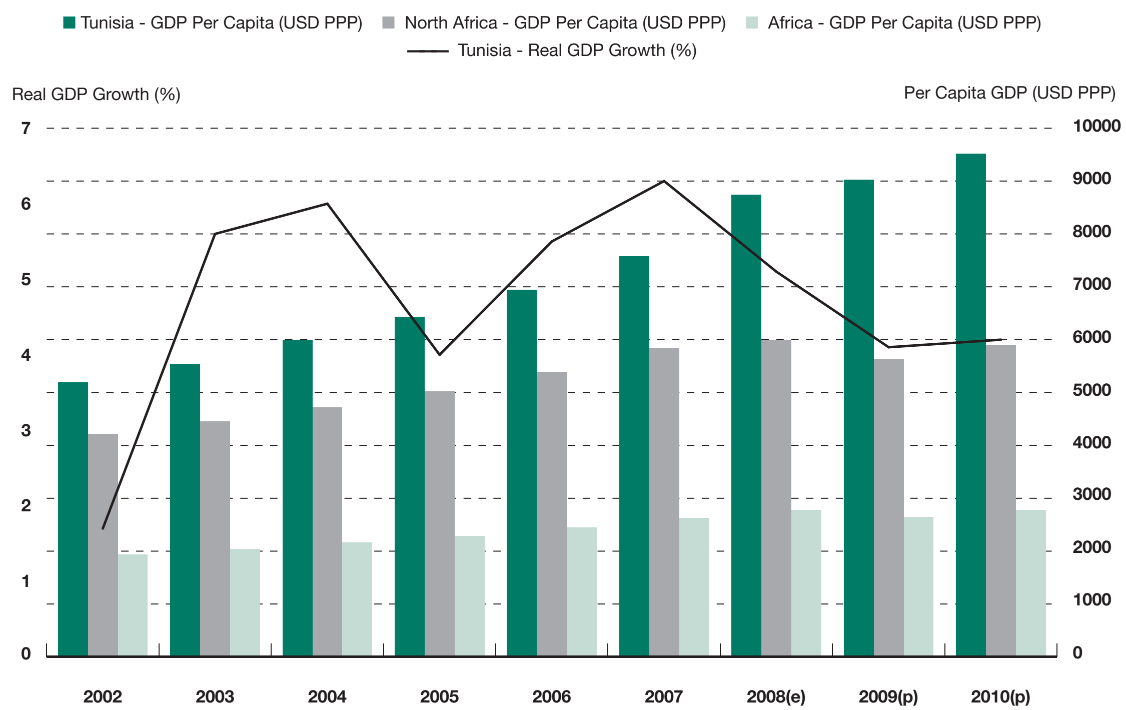
The recent downward revision of the gross domestic product (GDP) growth estimates for 2008 and 2009 suggests that the Tunisian economy will feel the negative effects of the economic crisis that is affecting developed countries, particularly in Europe. The real GDP growth rate fell considerably, from 6.3 per cent in 2007 to an estimated 5.1 per cent in 2008; it is expected to fall again in 2009 (4.1 per cent) and rebound slightly in 2010 (4.2 per cent). In spite of the fall-off in growth, the economy weathered the shocks resulting from rising oil and food prices in 2008. The consumer price index rose by only 5 per cent, mainly as a result of continued subsidies for basic food commodities and fuel.

The information and communication technology (ICT) sector is booming, supported by a proactive policy aimed at making Tunisia a knowledge economy. ICT sector value added grew by 17.7 per cent in 2008.

In a bid to open up new markets in Africa, Tunisia is pushing for integration of the Maghreb countries.

Despite the economy's relatively strong resistance to external shocks, Tunisia faces a number of challenges. The first is unemployment, which exceeded 14 per cent in 2007 and affects a growing number of higher education graduates. The second challenge remains full convertibility of the currency, which requires a robust financial sector and

Figure 1 - **Real GDP Growth and Per Capita GDP**
(USD/PPP at current prices)



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

StatLink http://dx.doi.org/10.1787/571007077502

healthy balance of payments and will enable Tunisians to freely move their capital abroad. The third consists in further developing the private sector and improving the business environment, both of which are essential to attracting foreign investment. In this respect, Tunisia is the highest-ranked African country in the World Economic Forum's 2008 competitiveness ranking, although it fell several notches overall, from 32nd out of 134 countries in 2007 to 36th in 2008.

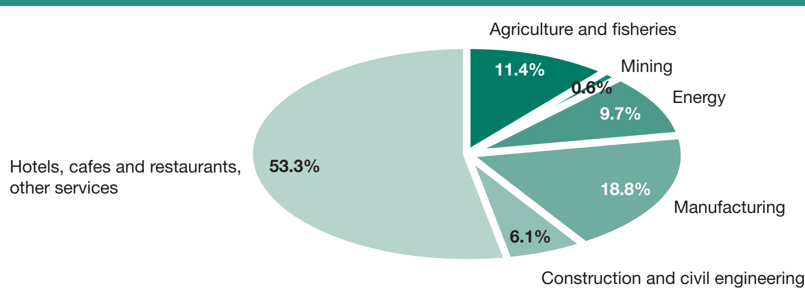
Recent Economic Developments

In early 2009, the international financial crisis had not yet affected Tunisia's financial sector. Housing loans account for less than 10 per cent of all loans, as against some 87 per cent in the United States. Moreover, Tunisia's financial institutions hold a very low proportion of foreign assets and do not employ the techniques that caused the crisis, namely instruments that dissociate the real and financial spheres, such as securitisation and structured products. On the Tunis stock exchange, the share of market capitalisation held by non-Tunisians is only about 25 per cent, and US investments in Tunisia are very small. In addition, measures have been taken to limit risk. For example, the Central Bank of Tunisia (BCT) reduced the share of financial investments placed with international banks from 75 per cent of total reserves before the crisis to 39 per cent in November 2008, and has stopped drawing on the international financial markets until the end of 2009. The resources required to cover the 2009 central government budget of TND 17.2 billion (Tunisian dinars) will be raised exclusively from the local market and the international financial institutions.

The effects of the crisis should be felt primarily in the real sector, particularly tourism and textiles, which are being hit by the fall in global demand. This situation led to the creation of a national commission in October 2008 to monitor international economic conditions and their possible repercussions on the Tunisian economy. Real GDP growth is estimated at 5.1 per cent in 2008, down from 6.3 per cent in 2007, and was driven by increased tourism revenue and the rise in oil, gas and phosphate prices. Because of the international financial crisis and the economic slowdown in Europe, it is projected to fall to 4.1 per cent in 2009 and 4.2 per cent in 2010.

The year 2008 was marked by declining value added in unskilled labour-intensive activities. The agriculture and fisheries sector, which contributes 9.6 per cent of GDP, recorded negative growth in 2008 (-0.5 per cent, as against 3.3 per cent in 2007), because of drought. As the rains were late in coming, the 2007/08 cereal crop fell to 12 million quintals from 17 million the previous year. Only 150 000 tonnes of olive oil were produced in 2008/09, down 25 per cent in comparison with 2007/08. Tunisia is the world's fourth largest olive oil producer (an annual average of 200 000 tonnes) and second largest exporter after the European Union (EU); the sector accounts for 44 per cent of agricultural exports and 20 per cent of agricultural employment. Livestock

Figure 2 - **GDP by Sector in 2007** (percentage)



Source: Institut national des statistiques data; estimates (e) and projections (p) based on authors' calculations

StatLink http://dx.doi.org/10.1787/572752585805

farmers faced problems of milk overproduction and storage, indicating that efforts to export the surplus need to be stepped up.

The agricultural sector is projected to pick up in 2009 with growth of 2.8 per cent, as a consequence of the measures taken to cope with the surge in cereal prices. These measures involve: increasing output by raising cereal prices by over 20 per cent, easing lending criteria and providing free irrigation water to cereal producers in irrigated public areas; encouraging farmers to increase cereals hectarage and yield per hectare, and establishing new contact centres allowing them to address their concerns; and expanding scientific research on varieties of cereals and pulses resistant to drought and disease.

The mining sector (1.1 per cent of GDP) also shrank in 2008 (-3.8 per cent), after two years of positive growth. The sector's difficulties were due to depletion of reserves and the volatility of world prices. The wholly state-owned Compagnie des phosphates de Gafsa (CPG) is the world's fifth largest phosphate producer, averaging 8 million tonnes annually; it works seven open cast mines and one underground mine.

In the hydrocarbons sector, which contributes 7.9 per cent of GDP, the real growth rate was also negative (-5.6 per cent) in 2008. Tunisia produces 3 million tonnes of crude oil a year, exports 2.5 million and imports over 1 million. Hydrocarbon reserves are estimated at 838 million barrels of oil equivalent. Tunisia meets only 46 per cent of its own requirements because of its low refining capacity, but prospecting activity is picking up. Over the period covered by the 11th development plan (2007-11), the state plans to grant 44 new exploration permits and authorise drilling of some 75 oil wells. Several foreign companies were granted such permits in 2008, and as a result, investment in hydrocarbons shot up from USD 423 million (United States dollars) in 2005 to over USD 2.1 billion in 2008. The government projects output of 8.4 million tonnes of oil equivalent in 2009 (5.6 million in 2005), in addition to natural gas (estimated at 2 million tonnes of oil equivalent in 2012). The national power and gas utility STEG (Société tunisienne de l'électricité et gaz) plans to connect 340 000 new customers to the public gas network in various parts of the country and to replace heavy fuel oil with natural gas in the mining region of Gafsa, in southeastern Tunisia.

The textile, clothing and leather sector continues to feel the repercussions of the dismantling of the Multifibre Arrangement (MFA), China's accession to the World Trade Organization and the Central and Eastern European countries' accession to the EU. Value added fell by 1 per cent in 2008 and is expected to do the same in 2009. The sector is putting up some resistance to its Asian competitors, however, as less output and fewer jobs have been lost than expected. It employs over 200 000 people and contributes about 5 per cent of GDP on average. More than three-fourths of businesses in the sector produce only for export, and nearly 96 per cent of textiles exports go to Europe (EUR 2.9 billion [euros] in 2007), or 36 per cent of total manufacturing exports. Entrepreneurs in the sector have sought to leverage their geographical proximity to Europe and a rapid transition to high-quality production.

Other sectors of the Tunisian economy turned in satisfactory performances in 2008. Manufacturing industry grew by 5.3 per cent, driven by the mechanical and electrical engineering (12 per cent) and agribusiness (7.6 per cent) industries. In 2008, manufacturing contributed 18.5 per cent of GDP, including the share of the textiles, clothing and leather sector (4.2 per cent of GDP, down from 4.6 per cent in 2007).

The services sector, which contributes approximately 40 per cent of GDP, recorded strong growth in 2008 (8.5 per cent), largely due to the strong performance of ICT (up 17.7 per cent) and financial institutions (9.6 per cent). The ICT sector's contribution to GDP was 10 per cent in 2008 and is expected to reach 13.5 per cent in 2012, in line with the government's target. Despite the emergence of ICT as a strategic sector for Tunisia and the proliferation of French-language call centres, tourism remains the mainstay of the Tunisian economy. The sector grew 4.5 per cent in 2008 (3.5 per cent in 2007) as 7 million tourists visited the country, generating EUR 1.78 billion in revenue.

Table 1 – **Demand Composition**

	Percentage of GDP (current prices)		Percentage changes, volume			Contribution to real GDP growth		
	2000	2007	2008(e)	2009(p)	2010(p)	2008(e)	2009(p)	2010(p)
Gross capital formation	**27.3**	**25.6**	**9.3**	**8.9**	**5.8**	**2.0**	**2.0**	**1.4**
Public	4.4	6.0	7.0	5.0	5.0	0.4	0.3	0.3
Private	22.9	19.6	10.0	10.0	6.0	1.7	1.8	1.1
Consumption	**76.3**	**76.7**	**5.1**	**5.4**	**3.5**	**4.1**	**4.4**	**2.7**
Public	15.6	14.7	8.4	5.1	6.8	1.2	0.8	1.0
Private	60.7	62.0	4.4	5.5	2.8	2.9	3.6	1.8
External demand	**-3.6**	**-2.3**				**-1.1**	**-2.3**	**0.1**
Exports	44.5	55.8	3.0	5.8	5.5	1.4	2.6	2.5
Imports	-48.2	-58.1	5.1	10.2	4.7	-2.5	-4.9	-2.4
Real GDP growth						**5.1**	**4.1**	**4.2**

Source: Institut national des statistiques data; estimates (e) and projections (p) based on authors' calculations.

StatLink http://dx.doi.org/10.1787/576352207201

In 2009, however, tourism will likely be hurt by the international crisis.

Household consumption remains the main driver of growth and occupies a central place in Tunisia's development strategy. It accounted for 62 per cent of GDP in 2007 and 2008, and is projected to grow by 5.5 per cent in 2009. Public consumption is relatively high and should also continue to rise, in line with the government's objective of countering the negative social impact of the crisis. Its growth rate, however, is projected to drop from 8.4 per cent in 2008 to 5.1 per cent in 2009 and 6.8 per cent in 2010.

Gross fixed capital formation is projected to increase by 8.9 per cent in 2009, as huge real estate and tourism projects mounted by companies based in the United Arab Emirates get under way. The Banque de financement des petites et moyennes entreprises (BFPME), a semi-public bank specialising in small and medium-sized businesses, plans to finance more than 200 projects in 2009. Two recent developments should encourage foreign investment: the abolition of various prior permissions required for acquisition of small and medium-sized enterprises and for the purchase or lease of land and premises in industrial and tourist areas; and the increase (from 20 to 30 per cent) in the quota of output that offshore companies can sell on Tunisia's domestic market.

Macroeconomic Policies

Over the last several years, Tunisia's cautious fiscal and monetary policies have secured macroeconomic stability and earned the confidence of foreign investors.

Fiscal Policy

The fiscal deficit increased to an estimated 3 per cent of GDP in 2008 (2.8 per cent in 2007) and should continue to rise (3.2 per cent in 2009 and 3.3 per cent in 2010). The increase in 2008 reflects the fact that subsidies on basic consumer goods and fuels, which account for about 0.7 per cent of GDP, were raised to offset the impact of high world prices. These subsidies are expected to continue in 2009 in spite of the projected decline in oil prices. The leading factor behind the budget deficit, however, is operating expenditure incurred to cushion the effects of the crisis.

Certain products, such as milk, have not been subsidised since early in 2008. Customs duties and taxes on imports of products such as pasta and edible

Table 2 - **Public Finances** (percentage of GDP at current prices)

	2000	2005	2006	2007	2008(e)	2009(p)	2010(p)
Total revenue and grants[a]	**25.4**	**23.8**	**23.8**	**23.9**	**23.8**	**23.5**	**23.2**
Tax revenue	21.3	20.9	20.5	20.9	20.7	20.3	20.1
Grants	0.1	0.2	0.1	0.1	0.2	0.2	0.2
Total expenditure and net lending[a]	**27.9**	**26.8**	**26.5**	**26.8**	**26.9**	**26.7**	**26.6**
Current expenditure	19.9	20.4	20.1	20.1	20.8	21.0	21.0
Excluding interest	*16.6*	*17.6*	*17.4*	*17.5*	*18.4*	*18.7*	*18.7*
Wages and salaries	11.6	12.1	11.8	11.6	11.6	12.1	12.1
Interest	3.3	2.8	2.7	2.6	2.4	2.3	2.3
Capital expenditure	7.4	6.4	6.1	5.9	6.0	5.6	5.6
Primary balance	**0.9**	**-0.2**	**0.0**	**-0.3**	**-0.6**	**-0.8**	**-1.1**
Overall balance	**-2.4**	**-3.0**	**-2.7**	**-2.8**	**-3.0**	**-3.2**	**-3.3**

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

StatLink http://dx.doi.org/10.1787/578016518446

oil have been reduced or eliminated. The pump prices of vehicle fuels were raised twice in 2008 – they rose by nearly 21 per cent in less than 30 months – to reduce the cost of subsidies and to encourage energy savings. Hydrocarbon price subsidies cost TND 1 billion in 2008, as the central budget was based of an oil price of USD 75 per barrel. An energy-saving programme applied to all sectors of activity should reduce consumption by 20 per cent by the year 2011.

Rationalisation of expenditure is proving difficult in a context of economic crisis and high unemployment. For example, the goal of reducing the wage bill from 12 per cent to 10 per cent of GDP, as recommended by the Bretton Woods institutions, will be difficult to achieve owing to the relatively high inflation rate in 2008 and the government's target of 80 000 net jobs created annually.

Overall, current expenditure accounted for 20.8 per cent of GDP in 2008, up from 20.1 per cent in 2007. It is expected to remain high in 2009 (21 per cent of GDP) as a result of assistance to agriculture and election-related spending. The government does not wish to reduce current expenditure, which it regards as essential to social stability, but over the years it has been obliged to curb capital expenditure to keep the deficit within reasonable limits.

Central government revenue is declining slightly each year as a percentage of GDP, owing to the policy of dismantling tariff barriers and the association agreement with the EU, both of which entail a decline in customs revenue. Total revenue fell from 23.9 per cent of GDP in 2007 to 23.8 per cent in 2008, and should drop further in 2009 (23.5 per cent) and 2010 (23.2 per cent). To make up for the lost revenue, the authorities are planning to broaden the base and lower the rate of company tax, simplify value added tax (VAT) and review the tax incentives granted to priority and offshore activities.

Part of the proceeds from privatisation were used to pay down debt, reducing the public debt ratio from 53.7 per cent of GDP in 2006 to 45.1 per cent in 2008, with a further decline to 44.7 per cent projected in 2009. In spite of this trend, public debt is relatively high compared to those of other emerging countries. The proportion of the debt exposed to exchange rate and refinancing risk has been considerably reduced in recent years, however, thanks to efficient management.

Monetary Policy

The monetary authorities, whose chief priority is inflation control, are moving towards an inflation targeting policy compatible with gradual liberalisation of the capital account. Soaring world prices for commodities and oil drove consumer price index inflation up from 3.1 per cent in 2007 to 5 per cent in 2008. In response to these inflationary pressures, the central bank raised the level of mandatory reserves from 3.5 to 5 per cent in November 2007 and to 7.5 per cent in April 2008, but announced in January 2009, in the context of the financial crisis, that it would ease the mandatory reserve requirement again in order to improve banks' liquidity. Interest rates have been constant since mid-2006 and thus have fallen in real terms. In view of the subsequent decline in the price of oil and certain commodities, the inflation rate is projected at 2.9 per cent in 2009 and 3.1 per cent in 2010.

Until the late 1990s, the monetary authorities sought to target the real effective exchange rate (REER), but since 2000 the BCT has cut back its intervention in the foreign exchange market, in line with its medium-term goal of shifting to a free float. Under this more flexible regime, the REER has tended to depreciate owing to persistent negative shocks to the terms of trade and the increased openness of the economy under the association agreement with the EU. The depreciation of the currency made exports more competitive. The authorities consider this managed float phase as an intermediate step that should lead to a floating exchange rate and full convertibility of the dinar. Between December 2007 and December 2008 the dinar depreciated by 3.6 per cent again the euro, but appreciated by nearly 11 per cent against the US dollar.

External Position

In accordance with the 1995 association agreement between Tunisia and the EU, movement of industrial goods between the two shores of the Mediterranean has been free since 1 January 2008. Negotiations on liberalisation of services and agriculture are under way, as a prelude to totally free trade in 2010. Tunisia has also shown interest in the plan to create the Mediterranean Union, which should entail new commitments in the fields of foreign trade and scientific research. Tunisia was granted the status of an "advanced partner" of the EU in December 2008. After absorbing the shock of competition from Asian countries, Tunisia is striving to accelerate trade and financial integration among the Maghreb countries and to enter new markets in Africa. It is counting on this integration process to attract job-creating foreign direct investment (FDI).

In this respect, Tunisia could take better advantage of the Agadir free trade agreement, the first such agreement among the southern Mediterranean countries (Egypt, Jordan, Morocco, Tunisia and, Turkey), which offers access to a market of 120 million consumers. Although the integration process of the Arab Maghreb Union (AMU), comprising Algeria, Libya, Mauritania, Morocco and Tunisia, has been stalled since 1994, the member states have nevertheless scheduled the start-up of their regional bank for 2009, at the urging of the International Monetary Fund (IMF). Tunisia and Libya have signed several co-operation agreements. Since 2007, the two countries' currencies can be freely

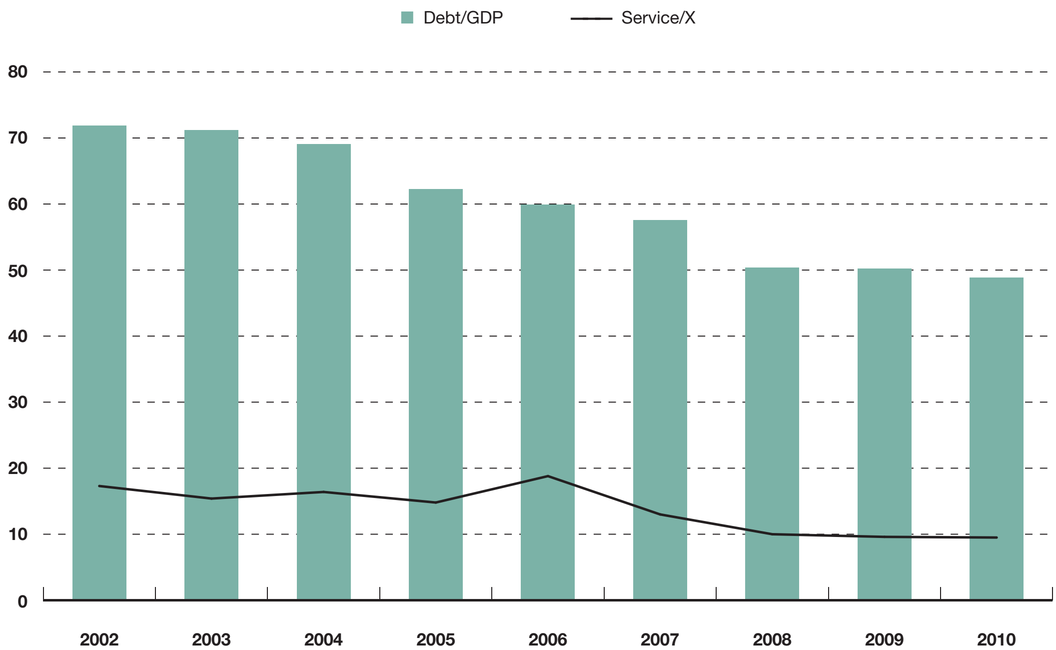
Table 3 - **Current Account** (percentage of GDP at current prices)

	2000	2005	2006	2007	2008(e)	2009(p)	2010(p)
Trade balance	-11.6	-6.7	-8.1	-8.1	-8.4	-7.6	-6.5
Exports of goods (f.o.b.)	30.0	36.5	37.6	42.6	44.7	38.0	38.5
Imports of goods (f.o.b.)	41.6	43.3	45.7	50.7	53.1	45.6	45.1
Services	8.0	6.3	5.9	5.9	5.1	4.7	4.3
Factor income	-0.9	-1.0	-0.3	-0.9	-1.3	-0.8	-0.7
Current transfers	0.3	0.4	0.5	0.5	0.5	0.5	0.4
Current account balance	**-4.2**	**-1.0**	**-2.0**	**-2.6**	**-4.2**	**-3.2**	**-2.5**

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

StatLink http://dx.doi.org/10.1787/580220452074

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



Source: IMF.

StatLink http://dx.doi.org/10.1787/574160781283

exchanged, restrictions on movements of goods and people have been lifted and air services have increased.

The average most-favoured nation-tariff rate should be cut from 25.3 per cent in 2008 to 15 per cent in 2011, and the number of rates is to be reduced from nine in 2008 to seven in 2009. Non-tariff barriers to trade, such as technical inspections, are being identified with a view to rationalisation. Customs procedures were simplified by the new customs law code in 2008, and standards and regulations are being harmonised with those of Europe.

In 2008, the volume of exports grew 3.6 per cent, while imports of goods and services rose by 6.7 per cent. In value terms, the increase in imports (21.2 per cent) is due to higher prices for energy and basic food commodities, while exports benefited from high prices for hydrocarbons and phosphates, Tunisia's main export products. Trade in goods is conducted mainly with the EU, which absorbs nearly 80 per cent of Tunisia's exports, and with the AMU countries (7.7 per cent of exports). The trade deficit with non-Arab Asian countries (China, India, Indonesia, Hong Kong, Japan) has been increasing. Imports from China, particularly mechanical and electrical appliances, are rising fast. The overall trade deficit amounted to 8.4 per cent of GDP in 2008 but should fall to 7.6 per cent in 2009 with the relative decline in import prices.

Remittances from expatriate Tunisians account for a growing share of the current account balance. In 2007, Tunisian emigrants repatriated an estimated TND 2.21 billion, of which TND 1.7 billion was in the form of cash remittances. These transfers, which have more than doubled in seven years, accounted for 5 per cent of GDP and 23 per cent of national savings in 2007. Over 85 per cent of transfers come from Europe, primarily France, which is home to some 600 000 Tunisians. Owing to the steady appreciation of the euro against the dinar, these funds are Tunisia's fourth largest source of foreign exchange. In addition to money transfers, Tunisian expatriates have invested nearly TND 386 million in the last 20 years, mainly in service industries. The flow of remittances may be slowed by the economic crisis in Europe.

FDI in 2008 is estimated at USD 1.6 billion, up from USD 1.5 billion the previous year. Large-scale construction projects totalling USD 30 billion are under way or in the planning stage. The capital for these stems mainly from the Arab Gulf countries, particularly United Arab Emirates companies engaged in huge real estate and infrastructure projects.

A three-step process to liberalise the capital account was initiated in 2005. The authorities are currently preparing for the third phase, which should lead to full liberalisation of money capital and full convertibility of the dinar. This requires, first, liberalisation of portfolio investment abroad by Tunisian residents and of loans granted by residents to non-residents, and second, a robust financial system and balance of payments. Ideally, Tunisians will be able to move their capital freely around the world by early 2010, although the crisis may well delay the process by prompting the authorities to be cautious.

The debt ratio fell to 51.8 per cent of GDP in 2008 (54.9 per cent in 2007) and is projected to drop further to 51.2 per cent in 2009. The debt sustainability analysis reveals no signs of fragility. Tunisia has never rescheduled its debt or accumulated arrears to financial institutions. Debt service as a percentage of exports fell from 13 per cent in 2007 to 9.9 per cent in 2008, with 13.4 per cent projected for 2009. These fluctuations in the debt ratio are due to changes in foreign exchange parities.

Structural Issues

Private Sector Development

Although structural reforms are beginning to bring results, improving the business climate and continued strengthening of the banking sector are still priorities. In particular, they are needed to encourage private sector development, which is a matter of strategic importance: the growth targets in the 11th plan can be achieved only with a dynamic private sector capable of meeting the challenges of employment, investment and globalisation.

In the 2008 World Economic Forum competitiveness index, Tunisia came in 36th out of 134 countries in terms of overall and business climate competitiveness, downgraded from 32nd place in 2007. In the World Bank's *Doing Business* report, by contrast, Tunisia rose 15 places in 2008 over 2007 (from 88th to 73rd out of 181 countries). In spite of the progress achieved, the time required to start a company is still fairly long (11 days), and the country has poor ratings on employing workers (113th), paying taxes (106th) and protecting investors (142th).

To improve the business climate, a new law on private initiative was promulgated in December 2007. It is intended to promote business creation by simplifying procedures, facilitating financing and reducing taxes. In addition, customs formalities are being considerably simplified. In order to develop private entrepreneurship, development partners are extending lines of credit to commercial banks for the financing of small and medium-sized enterprises. For example, the European Investment Bank approved EUR 200 million in late 2007, and Italy EUR 36.5 million in July 2008 for the textile and clothing sector.

Banks' balance sheets showed further improvement. Non-performing loans accounted for 17.3 per cent of total loans at year-end 2007, down from 19.2 per cent in 2006, and loan provisions increased from 49.2 to 53.8 per cent over the same period. The authorities' objectives of reducing the ratio of non-performing loans to 15 per cent and raising the provisioning of these loans to 70 per cent in 2009 will probably be achieved. In addition, prudential regulations applicable to purchase of real property have been tightened. The banking system generally complies with the Basle I principles.

Other Recent Developments

The Tunisian government has divested 216 public and semi-public enterprises since the privatisation programme was launched in 1987. These disposals brought in TND 5.8 billion, of which approximately 90 per cent was in the form of foreign investment. In 2008 ExxonMobil Tunisia was sold to Libya Oil Holding and a call for expressions of interest was issued regarding the sale of a 51 per cent stake in the national drilling contractor Compagnie tunisienne de forage (CTF). In the energy sector, construction of the Oued Al Kebir dam near Gafsa, a TND 19 million project, will begin in 2009. This major hydraulic project, with a retention capacity of 25 million cubic metres, will benefit 250 farmers who work some 5 000 hectares of land. The Islamic Development Bank granted Tunisia a EUR 122 million loan to build two 126 -megawatt (MW) power plants in the centre-west and south of the country, both of which should be operational in 2010. In addition, Tunisia has opted for a civil nuclear programme and is currently engaged in a feasibility study for a nuclear plant with initial capacity of 700 MW. This plant could be operational in 2020. Tunisia has ratified the Non-Proliferation Treaty and allows unscheduled inspection of nuclear installations.

In the transport sector, planning is under way for two regional projects: the Maghreb motorway and the feasibility study for the Maghreb high-speed train connecting Tripoli to Casablanca via Tunis and Algiers. At the national level, a 152 kilometre motorway from Sfax to Gabès is to be built. Construction of the Enfidha airport, 75 kilometres south of Tunis, is well under way. The airport will begin operating in 2009 with a capacity of 5 million travellers and projected revenues of USD 67 million. In addition, the deep-water port should be completed in 2023 and 2 000 hectares will be set aside for a large business park. A USD 25 billion building complex is planned on the shores of the Lac Sud (South Lake), and another (Bled El Ward, USD 10 billion) in the northern suburbs of Tunis. The Tunis sports complex is scheduled for completion in 2015. The African Development Bank announced on 3 March 2009 that it would allocate an additional USD 500 million to Tunisia for public works projects in 2009.

Nine hundred working-class housing developments benefited from the construction of 98 sewage treatment plants and a considerable network of wastewater channels that treat over 250 million cubic metres per year. The rate of connection to the sanitation system is estimated at 87 per cent, and that of environmental deterioration is only 2.1 per cent, of which 0.6 of a percentage point relates to deterioration of water resources – a rate very close to that of developed countries. Environmental protection, and particularly energy management, has become one of the government's priorities.

Tunisia is undertaking reforms to ensure that the coming liberalisation of trade in agricultural products with the EU does not take place at the expense of smallholders. In addition to more efficient use of water resources, the authorities are striving to enhance food security and competitiveness. The upgrading programme will concern some 100 farms over the 2009-11 period and about 2 350 between 2012 and 2016.

Innovation and ICT

The ICT sector, and more specifically the software, services and multimedia industry, is one of the pillars of Tunisia's development strategy. The country is a world leader in terms of promoting ICT and the importance of ICT in government policy. In 2008 Tunisia was ranked 35th by the World Economic Forum in terms of technological capability, accessibility and regulation; it came second among the Middle Eastern countries, after the United Arab Emirates. The recent dynamism of the sector is reflected in the indicators in Table 4. The telecommunications sector now accounts for about 10 per cent of GDP, as against only 3.9 per cent in 2001.

Tunisia's telecoms infrastructure is among the most modern in Africa. The telecommunications network is equipped with high-speed multifunctional switches that handle voice, Internet and multimedia traffic simultaneously. The telephone network is completely digitised and covers the entire country. Tunisia Télécom continues to enjoy a monopoly on the fixed-line telephony segment and not to use cross-subsidies. The

Table 4 - **ICT Sector Indicators**

	2007	2008	Percentage change
No. fixed-line subscribers per 100 people	12.33	12.11	–1.8
No. mobile subscribers per 100 people	75.94	81.08	+6.8
No. Internet subscribers per 100 people	2.45	3.67	+49.8
No. ADSL subscribers per 100 people	1.11	1.66	+49.5
No. Internet users per 100 people	16.68	23.25	+39.4
No. PCs per 100 people	7.7	8.2	+6.5
No. websites	5 796	6 417	+10.7

Source: Authors' calculations based on Ministry for Communication Technology data (online).

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two mobile telephone operators (Tunisia Télécom, which has 56 per cent of the market, and Tunisiana) share some cell towers – though this is not required by the telecommunications regulator (Instance nationale des télécommunications) – but the basic infrastructure is still owned by Tunisia Télécom. Rural telephony uses wireless local loop (WLL) technology and Tunisia Télécom's Mobirif mobile network, and runs on the global system for mobile communication (GSM) standard (approximately 41 000 subscribers in 2007). Tunisia also has two international gateways, submarine cable links and digital space links and is participating in satellite telecommunications projects.

Internet service is available country-wide, with seven public and five private service providers. Internet access through asymmetric digital subscriber line (ADSL) technology is spreading to cover the entire country, as is the use of very small aperture terminal (VSAT) satellite communication technology. The worldwide interoperability for microwave access (WIMAX) network was introduced in 2007, along with voice over Internet protocol (VoIP) service. In 2008, the indicators relating to Internet activity were as follows: international Internet bandwidth with capacity of 3 100 megabits per second, 379 200 Internet subscribers, 2 400 000 Internet users and a data transmission network using various technologies: integrated services digital network (ISDN), X.25, Frame Relay and ADSL (167 300 subscribers as of August 2008).

In the radio and television broadcasting sector, the coverage rate of television channels increased to over 99.5 per cent, radio audio quality improved and work began on a digital terrestrial broadcasting network regarded as the core of the country's future digital television system. The authorities have developed 30 cyberparks and a service quality assurance programme (international certifications include International Organisation for Standardisation and Capability Maturity Model Integration certification) in order to land subcontracts. With over 190 call centres, most of them European, Tunisia is in second position after Morocco in the market for offshore French-language call centres. These centres, which currently employ about 17 000 young higher education graduates, enjoy low call rates and exoneration from company tax, in accordance with the national goal of reducing unemployment among tertiary graduates.

The fixed-line telephony monopoly is slowing Internet penetration in households and keeping prices high. National fixed-line rates range from 14 to 20 millimes (thousandths of a dinar) per minute, depending on the time of day, while mobile rates range from 120 to 180 millimes per minute. Tunisia Télécom charges TND 30 a month for broadband Internet access (1 megabit per second) via the fixed-line network. According to a study published in January 2009, the price of ADSL in Tunisia compares favourably with that charged in other Arab countries. Since 2005, instead of increasing its rates, Tunisia Télécom has included VAT of 6 per cent in the price of phone cards.

At the legislative level, Tunisia elected to open its market to competition, granting a GSM licence to Orascom in 2002 and a satellite telecommunications licence to Divona Télécom in 2004 and by changing the legal status of the Office national des télécommunications from that of a non-administrative public entity to that of a business corporation (société anonyme). In 2006, Tunisia Télécom transferred 35 per cent of its capital to Tecom-Dig, and the government issued a call for tenders for a second combined (i.e. fixed-line and mobile) telephony licence, to be awarded in the second quarter of 2009. Tunisia Télécom pays 5 per cent of its revenue to the Ministry for Communication Technology to finance an ICT development fund, used to expand the use of ICT in business, schools and universities.

The state and public enterprises account for over 80 per cent of total ICT sector revenue. They are also the leading actors in promoting ICT in the private sector, with an upgrading programme offering subsidies of 70 per cent for software and related services and 25 per cent for hardware. Banks are currently reluctant to finance the sector, however, as the sums involved are considerable and there is no immediate return on investment. The bulk of the financing for investment in the broadband network and bandwidth therefore comes from the government, via Tunisia Télécom. Plans for 2009/10 include additional ADSL lines and new broadband networks linking international installations to the new SEA-ME-WE 4 undersea cable, which runs for 20 000 kilometres from France to Singapore.

Online government services have improved service provision, encouraged exports and helped to foster a digital culture. Many administrative services are provided online, through applications such as the e-government programme, online sector plans, e-commerce, distance education, remote health services provision, the civil status management system (Madania), the administrative and financial management system used by civil servants and local authorities (INSAF), the system used to manage and track the central government budget (ADEB), the customs information system (SINDA) and the system for managing orders from foreign missions (RACHED). Other completed projects include the "single declaration" system for foreign trade, introduced to facilitate electronic transactions (electronic signatures and payments are allowed).

Although the ICT sector is growing, its export capacity remains limited, as it can provide only a narrow range of specialised services (e.g. applications for mobile technology) and lacks an abundant, highly skilled labour force. Moreover, ICT firms are generally small (300 out of 345 have fewer than ten employees), which prevents them from undertaking large-scale software development projects. Most of these firms specialise in hardware sales and maintenance (68 per cent of the market), which does little to further Tunisia's ambition to become a strategic investment location for big international software companies.

According to the latest household survey (2005), Tunisians spent on average TND 66.787 on ICT use, or 3.67 per cent of their total spending on goods and services. There are several programmes aimed at limiting the impact of the digital divide between rich and poor and between rural and urban areas. From 2001 to late 2007, the "family computer" project enabled 62 000 low and middle-income families to buy computers in instalments. Tunisian households can also subscribe for Internet service at a moderate price (TND 10 per month for 15 hours). The USD 3 billion Tunis City Communications project, aimed at establishing an international communication university and a technology centre, started up in February 2009.

Political Context

The ruling Rassemblement démocratique constitutionnel (RDC) has a firm grip on state institutions and services. Opposition parties have now entered the Chamber of Deputies, with 20 per cent of 189 seats.

Incumbent President Zine El Abidine Ben Ali, in office since 1987, has been nominated as the RDC's candidate in the October 2009 presidential election. His investiture for a fifth term was made possible by a constitutional amendment raising the allowed maximum number of consecutive terms to five. Four of the country's nine legal opposition parties have also nominated their candidates.

Social Context and Human Resources Development

Tunisia is expected to achieve all of the Millennium Development Goals by 2015. The overall poverty rate in this country of 10 million inhabitants was 3.8 per cent in 2007, as compared to 4.2 per cent in 2000 and 6 per cent in 1990. This declining trend is due to the indexing of the poverty reduction target to the economic growth target. Studies have shown that growth contributed to the decline in poverty from 1980 to 2000. The government also played a role through social transfers, which in 2007 amounted to 58.8 per cent of the budget (19 per cent of GDP). This sustained effort has brought improvement in household living conditions, particularly in rural areas. Average social transfers per family rose from TND 278 in 2006 to TND 302 in 2007.

Unemployment declined from 15 per cent in 2001 to 13.9 per cent in 2008. In 2009, however, the authorities will have to cope with 80 000 additional job-seekers, two-thirds of them holding tertiary degrees. To absorb this supply of labour, the government is counting on increased flexibility and on a better match between the education and training system and the needs of the market, with skilled labour being steered to sectors with high employment potential, such as various forms of engineering, ICT and applied languages. It also aims to simplify the legislation on business creation to encourage entrepreneurship among young graduates. Nevertheless, labour regulations, designed to protect workers, are particularly rigid.

Tunisia is one of the most advanced countries in the region where women's rights are concerned. Gender parity is respected in access to health care and education. However, women make up only 26 per cent of the working population.

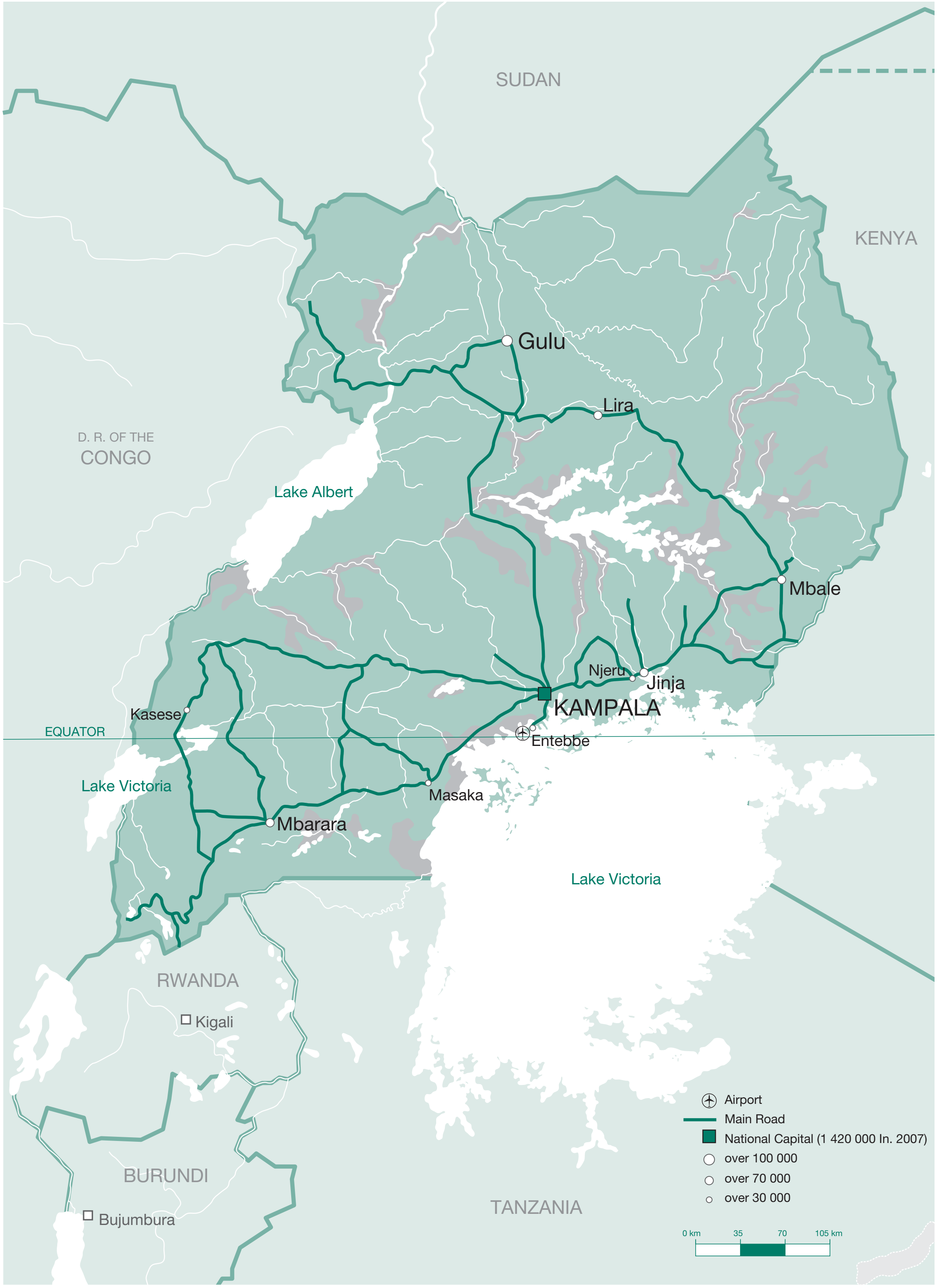
The education budget, which includes higher education, is the largest item in the overall budget (28 per cent of central government current expenditure), and has been for many years. The enrolment rate is 97.3 per cent at the primary level and 83.2 per cent in secondary education. The authorities are now faced with falling enrolment in primary schools, some of which are closing, whereas the number of tertiary students is growing exponentially (it is projected to rise from 370 000 in 2008 to 478 000 in 2011). Moreover, higher education is going through the "bachelor's-master's-doctorate" (*licence, mastère et doctorat*) reform, which seeks to increase flexibility and ensure that labour market requirements are better taken into account.

Health care is accessible to all at a reasonable price, but an effort needs to be made to improve the quality of patient services and to relieve the congestion in the public sector. Health and social security indicators improved in 2007 over 2006: life expectancy at birth rose from 73.6 to 74.0 years, and the coverage of salaried employees by the various social security systems rose from 90.4 per cent in 2006 to 91.9 per cent in 2007. Similarly, infant mortality declined from 21.1 to 19.8 per 1 000 live births and the number of people per physician from 1 043 in 2003 to 968 in 2007. In addition, the family planning programmes launched in the 1960s have helped to control the birth rate, which stands at 19 per 1 000 inhabitants and has not moved since 2003. The rate of population growth slowed from 1.08 per cent in 2004 to 1 per cent in 2006, the lowest rate of all Arab and African countries. The rate of HIV prevalence is low (0.1 per cent), allowing Tunisia to concentrate on preventive education and to distribute free treatment to those infected.

Uganda

key figures	
• Land area, thousands of km²:	197
• Population, thousands (2008):	31 657
• GDP per capita, PPP valuation, USD (2008):	939
• Life expectancy (2008):	52.7
• Illiteracy rate (2008):	26

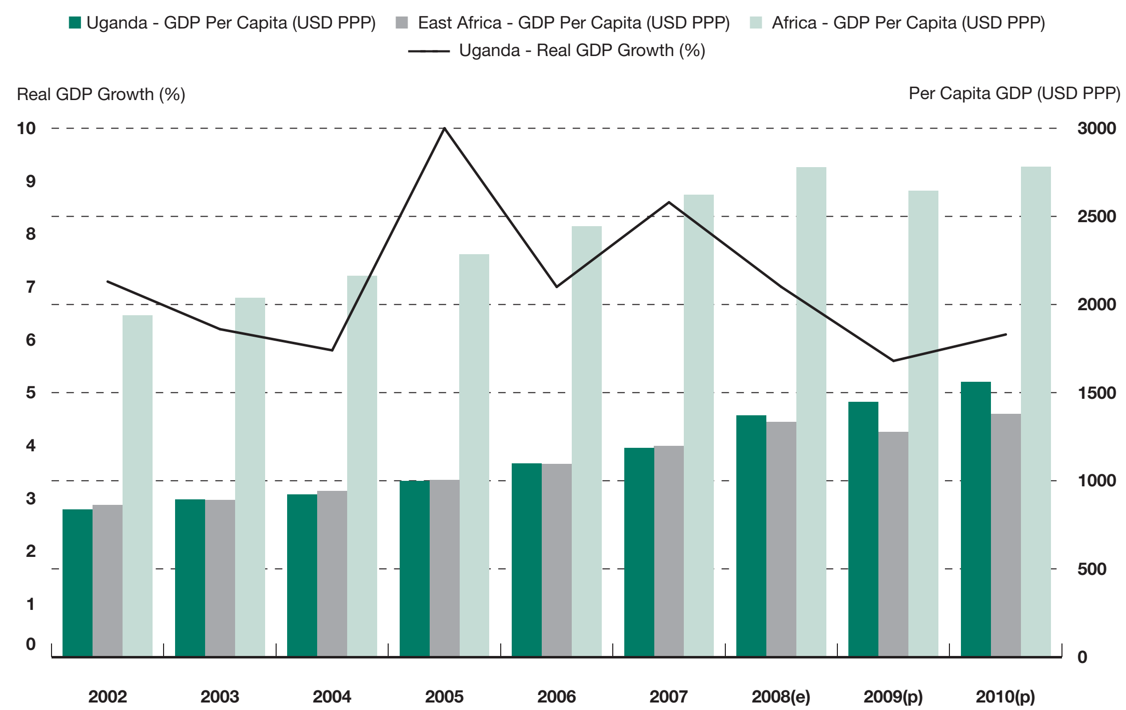
Uganda


SUDAN
KENYA
D. R. OF THE
CONGO
Lake Albert
Gulu
Lira
Mbale
Njeru
Jinja
KAMPALA
Kasese
EQUATOR
Entebbe
Lake Victoria
Masaka
Mbarara
Lake Victoria
RWANDA
Kigali
BURUNDI
Bujumbura
TANZANIA
Airport
Main Road
National Capital (1 420 000 In. 2007)
over 100 000
over 70 000
over 30 000
0 km
35
70
105 km

THE UGANDAN ECONOMY GREW AN IMPRESSIVE 7 per cent in 2008 despite the turmoil in the world economy and regional instability. Growth has been led by the service and industrial sectors, while agriculture has stagnated. Numerous challenges include post-election violence in Kenya at the beginning of 2008, which disrupted the crucial trade link with Mombasa port, the depletion of fish stocks in Lake Victoria, soaring oil prices in the first half of the year and most recently the worsening global slump. The global downturn threatens the Ugandan financial system, dampens demand for exports and reduces remittances from abroad. As a consequence of these shocks, growth is expected to slow to 5.6 per cent in 2009 before recovering to 6.1 per cent in 2010. High fuel and food prices pushed inflation up to an estimated 12 per cent in 2008. The government is pressing ahead with a five-year National Development Plan (NDP) focusing on infrastructure and agricultural development in a bid to increase exports and remove constraints to further growth. Uganda continues to be a leader in social progress in Africa with poverty reduction and improvements in health and education but much remains to be done.

The impressive growth of recent years should raise Uganda to middle-income country status.

Figure 1 - **Real GDP Growth and Per Capita GDP**
(USD in PPP at current prices)



Source: IMF and Uganda Bureau of Statistics (UBOS) data; estimates (e) and projections (p) based on authors' calculations.

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Recent Economic Developments

Uganda faced numerous challenges in 2008. The unrest in Kenya and the rise in fuel prices increased transport costs on the Mombasa port route and for rural produce sold in the cities. Manufacturers relying on diesel power generators further increased the oil import bill. The construction of the Karuma Hydroelectric Dam and the planned Bujagali Dam should reduce electricity shortages and the pressure on oil use.

Rising world food prices were on balance positive since the country is a net food exporter and much of the population does not depend on purchased food. The deepening world recession has, however, cut demand for Ugandan exports, reduced remittances and led to capital outflows. So far Uganda has withstood these shocks well but the full impact is likely still to come.

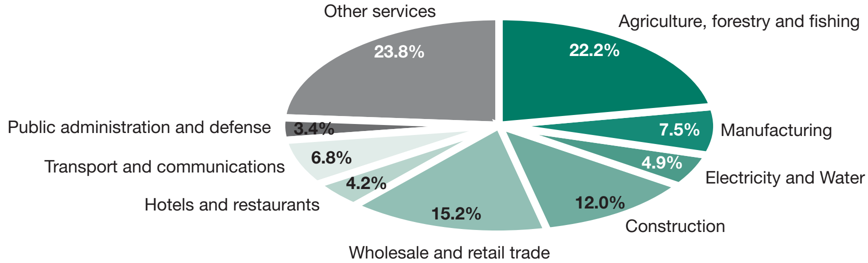
Growth continued to be driven by the service sector, which accounts for about half of GDP and is estimated to have expanded 9.8 per cent in 2008, up from 9.0 per cent in 2007. Sector growth has been led by financial services, transport and communications, especially mobile phones. The financial services sector has so far been relatively untouched by the credit crunch in the developed world. The wholesale and retail trades posted strong growth of 14.7 percent in 2007 and were expected to have done as well in 2008.

The primary sector (agriculture and fishing), accounting for 22 per cent of GDP in 2007, continued largely to stagnate, growing 1.7 per cent in 2007 after contracting 1.8 per cent in 2006. This reflected the effects of floods in eastern Uganda and a persistent decline in catches due to chronic overfishing, especially of Nile Perch in Lake Victoria. Fisheries output fell 5.9 per cent in 2007. Production of coffee, the main cash crop, is estimated to have grown 16 per cent in 2008 in response to a nearly 20 per cent increase in world prices, the adoption of higher-yielding varieties and favourable weather conditions. Cotton, another significant cash crop, fared badly, with export volumes down 19 per cent. Food production is estimated to have grown about 2.1 per cent in 2007, following a decline of 3.9 per cent in 2006, thanks largely to the restoration of peace in the north and northeast. Agriculture is a priority in the NDP and the government has increased funding for the National Agricultural Advisory Dissemination Services (NAADS) by 62 per cent.

The industrial sector (manufacturing, construction and mining), accounting for 23 per cent of GDP, is estimated to have grown 7 per cent in 2007, up from 6.4 per cent in 2006. The discovery of commercially viable oil deposits has prompted hopes that Uganda will soon become a net oil exporter.

In 2008, growth was mainly driven by private consumption given its large share of GDP. Investment growth also remained strong, with private and public investment rising by an estimated 17 per cent and 15 per cent respectively. Private investment growth was led by construction. Consumption growth is expected to slow in the next two years, with private

Figure 2 - **GDP by Sector in 2007** (percentage)



Source: Authors' estimates based on Uganda Bureau of Statistics (UBOS) data.

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Table 1 – **Demand Composition**

	Percentage of GDP (current prices)		Percentage changes, volume			Contribution to real GDP growth		
	2000	2007	2008(e)	2009(p)	2010(p)	2008(e)	2009(p)	2010(p)
Gross capital formation	**19.0**	**22.6**	**16.5**	**3.0**	**10.0**	**3.5**	**0.7**	**2.2**
Public	5.8	5.1	15.0	3.0	10.0	0.7	0.2	0.5
Private	13.2	17.5	17.0	3.0	10.0	2.7	0.5	1.7
Consumption	**92.3**	**92.3**	**7.7**	**5.3**	**7.0**	**7.1**	**4.9**	**6.5**
Public	14.6	11.9	4.7	2.0	4.2	0.5	0.2	0.4
Private	77.6	80.4	8.1	5.7	7.3	6.6	4.7	6.0
External demand	**-11.2**	**-15.0**				**-3.6**	**0.1**	**-2.5**
Exports	10.9	16.1	2.5	1.9	2.4	0.4	0.3	0.4
Imports	-22.2	-31.1	13.3	0.7	9.6	-4.0	-0.2	-2.9
Real GDP growth						**7.0**	**5.6**	**6.1**

Source: Source: Uganda Bureau of Statistics (UBOS) data; estimates (e) and projections (p) based on authors' calculations.

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consumption falling from an estimated 8.1 per cent in 2008 to 5.7 per cent in 2009 before recovering to 7.3 per cent in 2010.

Public consumption growth will fall from 4.7 per cent in 2008 to 2 per cent in 2009 then rise to 4.2 per cent in 2010. Gross public and private investment growth are each expected to slow sharply to 3 per cent in 2009 before rebounding to 10 per cent in 2010. Exports expanded at a disappointing 2.5 per cent rate in 2008 and growth is expected to remain low in the next two years, reflecting adverse global economic conditions.

Macroeconomic Policies

Macroeconomic policies in Uganda aim to achieve strong real GDP growth of at least 7 per cent, inflation below 5 per cent, a competitive exchange rate and adequate foreign reserves. The IMF shares these goals as outlined in the Policy Support Instrument (PSI) that Uganda agreed in December 2006. A review of the program, completed in January 2009, concluded that Uganda's economy has continued to thrive due to sound macroeconomic policies although the current global financial crisis and economic downturn pose some downside risks. The review noted that the fall in international food and fuel prices at the end of 2008 may help curb inflation. It cautioned against immediate cuts in current expenditures in the event of revenue shortfalls. It noted that the banking industry is sound but warned that tight supervision to forestall risk was needed in light of the rapid expansion in bank lending and the significant share of foreign currency loans in bank portfolios.

Fiscal Policy

In 2008, the government focused on infrastructure development, including roads and energy, while seeking to reduce dependence on donor support. These goals will continue to guide fiscal policy in the coming years.

Total revenue and grants are estimated at 18.3 per cent of GDP in 2007/08, up from 18 per cent in 2006/07, but are projected to decline to 16.7 per cent in 2008/09 and 15.5 per cent in 2009/10. The tax to GDP ratio rose from 12.4 per cent in 2006/07 to an estimated 12.8 per cent in 2007/08 but is expected to fall back in the next two years as the economy slows. Significantly, the government reported a five per cent drop in tax revenue for the last quarter of 2008. Total expenditure is estimated to have increased from 19.9 per cent of GDP in 2006/07 to 20.5 per cent in 2007/08, mainly due to increased capital investment in infrastructure. It is projected to decline to 19 per cent and then 18.1 percent in the next two years. The overall public deficit is estimated to have increased to 2.2 per cent of GDP in 2007/08 from 1.9 per cent in 2006/07. The shortfall will likely widen to 2.4 per cent and 2.6 per cent in 2008/09 and 2009/10.

Since a large part of the economy is untaxed, especially the informal and subsistence agricultural sectors, it is not easy to increase tax revenue. The experience with the Local Services Tax (LST) for funding local government, introduced in July 2008 after more than a year of delays, illustrates the difficulties. It was hoped LST would reduce the pressure on the national budget by extending the tax take into the informal sector but instead it has become more of a burden for an already overtaxed small formal sector.

So far, reducing dependence on donors has been slow, with the percentage of grants to GDP remaining unchanged at 5.1 per cent in 2007/08 but the outlook is for declines in the following two years.

Multilateral debt reduction initiatives, including HIPC, have brought down the ratio of debt to GDP from a high of 63.7 per cent in 2003 to an estimated 12.5 per cent in 2008 although it may increase slightly again in 2009 and 2010. Domestic debt, however, jumped more than six-fold to more than 1 billion dollars between 2000 and 2007.

In response, the government has established specific debt sustainability benchmarks so as not to jeopardise Uganda's B+ credit rating. It limits the domestic debt to GDP ratio, and the ratio of domestic interest costs to total domestic revenue, to less than 15 per cent. The domestic debt to total private credit ratio is fixed at 100 percent.

Monetary Policy

The Bank of Uganda (BoU) is responsible for monetary policy, aiming firstly to control inflation and then maintain stability in the financial markets. To allow for flexibility in dealing with short term currency flows and unexpected shifts in money demand, the BoU adopted Net Domestic Assets (NDAs) in 2008 as the interim operating target while continuing to monitor base money growth. The BoU continues to sell Treasury bills and bonds, and to a smaller extent foreign exchange to carry out its sterilisation functions. It also offers Repurchase Agreements (REPOs) to smooth intra-auction liquidity. The BoU has also adjusted the re-discount rate and the bank rate.

Table 2 - **Public Finances** (percentage of GDP at current prices)

	1999/2000	2004/05	2005/06	2006/07	2007/08	2008/09(e)	2009/10(p)
Total revenue and grants[a]	**16.2**	**19.4**	**17.7**	**18.0**	**18.3**	**16.7**	**15.5**
Tax revenue	10.2	11.8	12.3	12.4	12.8	12.3	11.9
Grants	5.5	7.4	4.9	5.1	5.1	4.0	3.2
Total expenditure and net lending[a]	**23.0**	**20.1**	**19.9**	**19.9**	**20.5**	**19.0**	**18.1**
Current expenditure	10.4	12.5	12.8	12.2	12.7	11.4	10.4
Excluding interest	*9.4*	*11.0*	*11.4*	*11.1*	*11.4*	*10.2*	*9.4*
Wages and salaries	4.0	4.8	4.8	4.7	4.5	4.0	3.7
Interest	1.0	1.5	1.4	1.1	1.3	1.1	1.0
Capital expenditure	8.4	7.7	7.2	7.2	8.3	7.9	7.8
Primary balance	**-5.8**	**0.7**	**-0.8**	**-0.8**	**-0.9**	**-1.2**	**-1.7**
Overall balance	**-6.8**	**-0.8**	**-2.2**	**-1.9**	**-2.2**	**-2.4**	**-2.6**

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

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Base money supply grew 16.7 per cent in 2007 as the BoU accommodated rising food and fuel prices but inflation consequently jumped to 11.8 per cent in 2008 from 6.1 per cent in 2007. This is more than double the government target of 5 per cent but inflation is expected to fall in 2009 and 2010 as the economy cools and fuel costs fall in line with the decline in world oil prices.

Despite the fiscal deficit and spike in inflation, interest rates increased only slightly. Yields on 2-year government bonds rose 0.3 points to 13.8 per cent between 2006 and 2008. Likewise, the commercial banks' weighted average interest rates remained largely stable, edging up from 19.4 per cent in 2006 to 19.9 per cent in 2007. However, these levels still imply high real interest rates, even by East Africa region standards, reflecting the lack of efficiency in the financial system.

Since the early 1990s, Uganda has operated a flexible exchange rate. The Uganda shilling appreciated strongly at the end of 2007 and early 2008 due to favorable terms of trade and higher capital inflows. The depreciation in late 2008 returned its value to 2007 levels and the global financial crisis could lead to further weakness in 2009 and 2010.

External Position

Exports of coffee, the main traditional cash crop, jumped 32 per cent in 2007 and are estimated to have increased 23 per cent in 2008 due to higher prices and increased production. Fish exports are likely to have fallen 11 percent in 2008. Despite an overall improvement in prices, export receipts as a percentage of GDP declined to 11.1 per cent in 2008 from 15.5 per cent in 2007. Further falls to 10.9 per cent and 9.9 per cent of GDP are expected in 2009 and 2010.

In marked contrast, imports rose 35 per cent in 2008, primarily due to record oil prices, pushing up the import to GDP ratio from 21.8 per cent in 2007 to an estimated 23 per cent in 2008. As a result, the trade deficit is projected to have risen from 6.3 per cent of GDP in 2007 to 11.9 per cent in 2008, with a continued weak outlook for 2009 and 2010. The overall current account balance is estimated to have deteriorated sharply from a deficit of 2.8 per cent of GDP in 2007 to a shortfall of 9.8 per cent in 2008, with prospects for 2009 and 2010, though better, still grim. This outcome reflects weak terms of trade and a slump in remittances from 786 million USD in 2007 to USD 489 million in 2008, with projections for 2009 even worse.

The anticipated expansion of the East African Community (EAC) customs union, with Rwanda and Burundi joining Uganda, Kenya, and Tanzania, should boost intra-regional trade. In addition, a meeting between the EAC, the Common Market for Eastern and Southern Africa (COMESA) and the Southern African Development Community (SADC) in 2008 considered the possibility of merging the three regional blocks, which would increase the region's bargaining power in negotiations with the EU over Economic Partnership Agreements (EPAs). Currently, Uganda is

Table 3 - **Current Account** (percentage of GDP at current prices)

	2000	2005	2006	2007	2008(e)	2009(p)	2010(p)
Trade balance	-7.4	-7.3	-9.3	-6.3	-11.9	-9.1	-10.1
Exports of goods (f.o.b.)	7.5	10.1	10.8	15.5	11.1	10.9	9.9
Imports of goods (f.o.b.)	15.0	17.4	20.1	21.8	23.0	20.0	20.1
Services	-3.8	-1.3	-2.7	-3.2	-3.4	-3.5	-3.2
Factor income	-2.5	-2.5	-2.2	-1.9	-1.7	-1.8	-1.7
Current transfers	8.4	11.0	10.7	8.7	7.1	7.1	6.1
Current account balance	**-5.4**	**0.0**	**-3.5**	**-2.8**	**-9.8**	**-7.3**	**-8.9**

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

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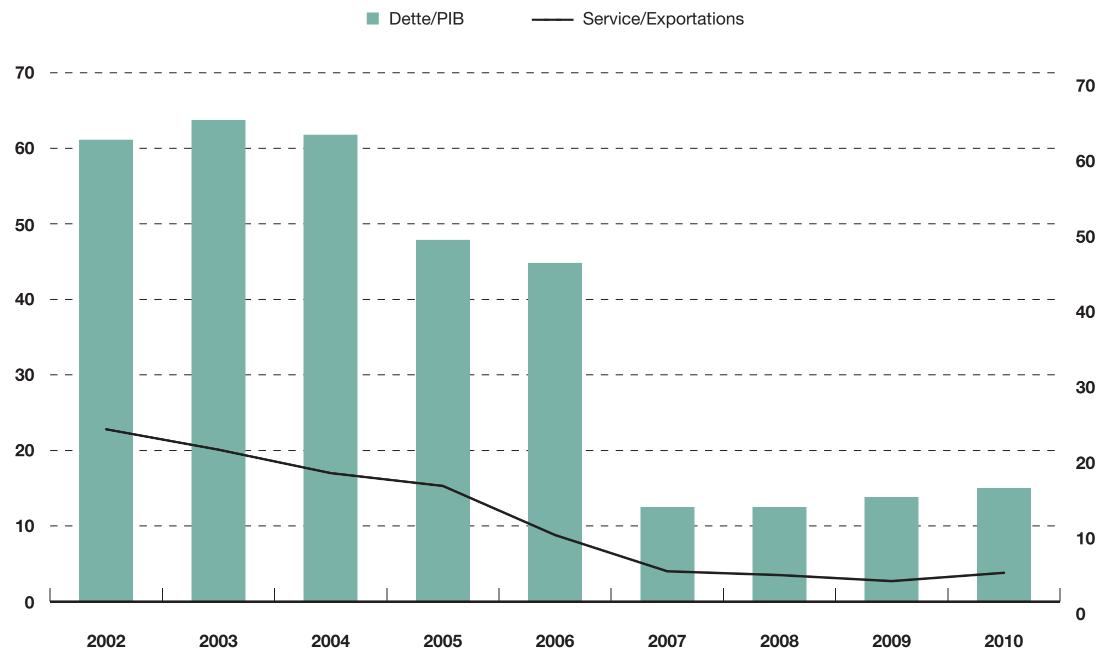
Figure 3 - **Stock of Total External Debt** (percentage of GDP) **and Debt Service** (percentage of exports of goods and services)



Source: IMF.

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negotiating an EPA under the EAC, which would guarantee duty-free and quota-free access for goods from EAC countries to the EU market. In return, the EAC would open its markets to goods from the EU gradually — after 15 years, 80 per cent of goods from the EU would have free access to the EAC, with the remaining 20 per cent exempted from liberalisation. Uganda also hopes to build on the success of the Everything But Arms (EBA) agreement with Europe to increase its exports to the EU, especially for agricultural products.

Capital inflows, largely of Foreign Direct Investment (FDI) and official loans, have more than financed the current account deficit, creating a surplus in the balance of payments and raising the stock of international reserves to about five months of imports of goods and services by the end of 2008. FDI is estimated to have increased from USD 432.6 million (2.5 per cent of GDP) in 2007 to USD 536.6 million in 2008 (2.7 per cent) but prospects for 2009 and 2010 are uncertain due to the global financial crisis. The largest recipient industry for FDI was telecommunications, followed by oil and gas.

Most of Uganda's external debt is owed to multilateral organisations (80.4 per cent of total foreign debt in 2007) with the three main donors being the International Development Agency (IDA) of the World Bank (50.4 per cent of total debt), the African Development Bank (AFDB) (8.4 per cent), and the European Investment Bank (7.6 per cent).

Structural Issues

Private Sector Development

In order to improve the business climate and foster growth, the government adopted a number of measures in 2007 and 2008, among them implementation of national trade and industrial policies; setting up a credit reference bureau; preparation of commercial laws including mortgage, tourism and ICT sector legislation; development of a national export strategy and putting in place 24-hour auto-processing customs systems at main border crossings.

Six new private commercial banks opened between March 2007 and March 2008. As a result, the number of bank branches increased from 160 to 213, with the deposit base growing 26 per cent and loans 49 per cent. In March 2008, non-performing loans came to 3.9 per cent of credit extended and all banks exceeded liquidity requirements. The government created the Microfinance Support Centre (MFSC) to channel funds to microfinance institutions to lend to farmers. A number of local and regional firms listed on the Uganda Stock Exchange (USE), the biggest of which was an IPO by Safaricon, a telecommunications company operating in Kenya which attracted a considerable number of investors. In the year to June 2008, the stock market capitalisation increased 36 per cent while the benchmark all-share index rose 21 per cent. The USE index then fell some 20 per cent between September and December 2008 in the wake of the global financial crisis. A Central Depository System is planned in 2009 to facilitate automated trading.

Other Recent Developments

Since the start of the privatisation process in 1993, and especially since the establishment of the Privatisation and Utility Sector Reform Project (PUSRP) in 2001, 122 state-owned enterprises have been sold off. Thirty-six remain government-owned. The opening of the USE has encouraged many of these groups to go public. As of 2008, seven formerly state-owned enterprises had listed on the stock exchange. The performance of such privatised companies has been mixed, with success stories being British American Tobacco, Hima Cement Ltd and Rwenzori Highland Tea Co. Ltd. Others have floundered, however, including Uganda Spinning Mills, Lira Ltd and Uganda Railways. The latter is now run by Rift Valley Railways (RVR) which has so far failed to meet its investment commitments and faces a possible concession cancellation due to breach of contract on capitalisation of the company. Some firms initially experienced difficulties but are recovering, including the Dairy Corporation, which opened the first milk powder plant in Uganda in May 2008, and Air Uganda, which is enjoying impressive growth under the recent ownership of the Aga Khan Fund for Economic Development (AKFED).

Inadequate infrastructure due to lack of investment is a major constraint to further growth, particularly for electricity and roads. The government has prioritised infrastructure development with investment in the road network and the completion of hydroelectric power plants. To improve management of road construction projects, USD 700 million was allocated to the Uganda National Road Authority in 2008. By the end of the year, more than 20 road projects were underway or due to start soon, and many others were under consideration, including the construction of the Northern Transport Corridor linking the country with Tanzania to the south and Sudan to the north. The government is providing about 70 per cent of the funding with the remainder coming from donors, including the EU, the AFDB and the World Bank. Some resources failed to be utilised due to absorption capacity constraints.

The government is also developing a plan for the expansion of the national rail network, including links between northern Uganda and southern Sudan and between western Uganda and the eastern Congo. Resources were also allocated for the purchase of a new ferry boat for Lake Victoria on the southern route to Tanzania to replace the *MV Kabalega*, which sank in 2004. There are also several EAC regional initiatives to foster road and railway links.

Construction of the Bujagali Hydropower project, funded by AKFED, the AFDB and World Bank, began in 2007 and is expected to be completed by January 2011. The government is also planning a 700 MW hydropower station at Karuma and a 100 MW station at Isimba, funded by donors and private-public partnerships.

The government's efforts to promote agriculture, a longstanding goal, are centered on the Plan for Modernization of Agriculture (PMA). NAADS, created in 2001, was designed to provide services and inputs such as fertilisers, high-quality seeds and credit but it has been criticised for inadequately serving farmers. In response to these criticisms, in 2007 the president called for improvements. The government also increased investment in agro-processing and marketing while the Land Reform Bill of 2008 aims to improve farmers' security of tenure, giving them greater security in seeking larger loans.

The government is also increasing support to rural micro-credit institutions, especially Savings and Credit Cooperative Organizations (SACCOs) and their central structure, the Uganda Cooperative Savings and Credit Union (UCSCU). In 2008, government targets included linking the SACCOs through a nationwide network, strengthening UCSCU regional offices and their lending capacity and providing new legal guidelines for them. As of 2007, about 107 out of 757 SACCOs had received financial assistance from the government.

Innovation and ICT

The core telecoms infrastructure network in and around Kampala is relatively well developed, with some fibre optic infrastructure and microwave links. Phase One of the National Backbone Infrastructure (NBI) initiative ended in 2008 after covering Kampala with 900 km of high-capacity fibre optic cables. Phase Two is slated to cover an additional 1 500 km by the end of 2009. Uganda is connected to the international phone network and the worldwide web through satellite links. Internet access technology includes dial-up, ISDN, ADSL, leased lines, Wireless IP, VSAT and WIMAX. Infrastructure, including antenna towers and fibre optic cables, is shared among operators. Telecom standards are benchmarked against International Telecommunications Union guidelines and include environmental impact assessments of new construction sites. GSM covers more than 80 per cent of the population. Internet infrastructure, however, is largely limited to the cities and rural locations depend primarily on VSAT applications.

The frequency band used for radio communication is CDMA, GSM and WIMAX, but GSM is privileged for mobile phone communications. It is now possible to roam across borders in the EAC and for some networks, roaming extends to Southern, Central and West Africa.

The Uganda Communications Commission (UCC) is the regulatory body for telecommunications, broadcasting and postal services. The UCC is accountable to parliament and the Ministry of ICT. It is responsible for issuing licences. The UCC is funded by a levy on operators' Gross Annual Revenues.

There are two fixed line operators — MTN and UTL — and four GSM mobile operators — MTN, UTL, Zain and Warid. The government has a 31 per cent stake in UTL but the rest are privately owned. Interconnection fees between operators are not regulated by law but commercially negotiated. The fixed line operators do not provide cross subsidies to their mobile units and fixed services are subject to price caps. Mobile handsets are imported and subject to 10 per cent tax while there is a 30 percent levy on mobile phone usage.

Each service provider has a range of products and customer options, including fixed-call costs within specific zones and charges per second. There are peak, off-peak and discount calls. The 2008 national average per minute cost of intra-network and inter-network calls was UGX 309.89 (USD 0.15) and UGX 379.8 (USD 0.19) respectively.

The advent and continued growth of mobile phone use has greatly increased access to telecommunications. In 1995, when mobiles were first introduced, there were 38 972 fixed telephone lines. As of June 2008, there were 160 768 fixed lines and 6 140 822 mobile subscribers. The mobile phone penetration rate rose to 21.3 per cent in June 2008 from 18.7 per cent a year earlier. Internet subscribers grew from 11 000 to 15 000 during 2007.

Cellular operators are in the process of establishing mobile-enabled financial services following approval of the electronic transfer bill by the BoU but Parliament has not yet considered the legislation. Farmers use mobile phones to discuss business and obtain information on farm gate/producer prices but do not at present carry out commercial transactions via mobile phones. Rural Internet accessibility is supported through a Universal Service Fund (USF), with a number of projects underway, including Internet Points of Presences, Internet Cafes, ICT Training Centres, Web Portal, Public Pay Phones, Multi-purpose Community Telecentres, School ICT Laboratories, Health Care ICT Facilities, and Call Centres. Due mainly to illiteracy, the use of voice calls predominates over text messages, even though texting is often cheaper.

New ICT enterprises and training facilities have proliferated in the form of handset sellers and airtime vendors such as Midcom and Simba Telecom. ICT-related courses such as telecommunication engineering are offered at universities, as at the Makerere University IT centre and the ICT incubation park of the Uganda Investment Authority.

Political Context

In 2006, in the first multi-party elections since President Yoweri Museveni's National Resistance Movement (NRM) came to power, the president was returned to office and the NRM won a majority in parliament. Since then, political activity has been minimal. There have been a few by-elections to fill vacant parliament seats, some of which have proved contentious with accusations of fraud between the ruling NRM and the opposition. Infighting has continued in almost all of the major opposition parties.

The government has moved to promote good governance by allowing civil society organisations to participate more in planning and the budget process. Decentralisation is progressing but the issue of funding for local governments remains problematic.

The Anti-Corruption Court was created in 2008 and an Audit Unit for government spending is being established in the Auditor General's office. Nevertheless, corruption is still perceived as widespread and the government has come under pressure to take action.

At the end of 2008, the war with the Lord's Resistance Army (LRA) broke out again when the armies of Uganda, Sudan and the Democratic Republic of Congo (DRC) attacked the rebels in the DRC's Garamba National Park. The LRA leader Joseph Kony has refused to sign the Comprehensive Peace Plan that had been under discussion for two years, insisting that his indictment by the International Criminal Court (ICC) first be dropped. The fleeing rebels have caused severe instability in the DRC and in the areas bordering Sudan.

Social Context and Human Resources Development

The proportion of the population living below the national poverty line declined from 56 per cent in 1992 to 31.3 per cent in 2006 and the country is expected to meet the target of halving the poverty rate by 2015. In the North, however, poverty remains high at 60.7 per cent.

Child nutrition has also improved. According to official figures, between 1991 and 2007 the number of underweight children fell from 23 per cent to 16 per cent, with vitamin A supplement intake rising from 37 per cent to 70 per cent and a 100 per cent increase in household consumption of iodised salt.

With the ongoing success of the Universal Primary Education (UPE) program introduced in 1997, MDG 2 is likely to be met. The percentage of the budget allocated to education has increased significantly over time and was estimated at 16.1 per cent of total government expenditure in 2007 or about 3.2 per cent of GDP. There has been considerable progress in building classrooms, recruitment of teachers, with special needs education included and school feeding programs provided in selected areas.

Primary school enrollment more than doubled from 3.1 million children in 1997 to 7.2 million in 2006 but completion rates have been less satisfactory. A law passed in 2008 makes attendance compulsory and parents face up to seven years in prison if their children are not in primary school. The pupil-teacher ratio remains very high, at 57 to 1 in 2007, only a slight improvement from 59.4 in 2000. Class sizes remain large at 72, down from 84 in 2004. By the end of 2007, there were 954 328 pupils in secondary schools, up from 683 609 in 2003. Enrollment in tertiary institutions stood at 134 145 in 2006 and is expected to increase further.

The proportion of girls in primary schools improved from 44.2 per cent of pupils in 1990 to 49.8 per cent in 2006. The ratio of 15 -24 year-old literate women to men is about 0.92. The share of women in wage employment in the non-agricultural sector is 28.9 per cent while 30 per cent of Members of Parliament are women.

Government expenditure on health has steadily increased from USD 3.46 per capita in 1995 to almost USD 9.0 per capita in 2006. Investment has been focused on construction of local Health Centres, and equipping them with adequate staff and medicines to reduce the distances patients must travel to get care. The government allocated about nine per cent of its budget to health in 2007, or 1.8 per cent of GDP. While health indicators are still weak, investment has brought some notable improvements. Infant mortality has declined from 122 deaths per 1 000 live births in 1991 to 73.3 in 2008 but this is still well short of the MDG 4 target of 31. Similarly, under-five mortality has declined but not enough to put Uganda on track to meet the target by 2015. The percentage of child deliveries in health facilities increased from 22.6 per cent in 2001 to 41 per cent in 2005. The prospects of achieving MDG 5 look slim and although maternal mortality fell from 505 per 100 000 live births in 2000 to 435 in 2006, this remains far short of the 2015 target of 131.

According to national authorities, the target for HIV/AIDS has already been met, with prevalence falling from a high of 18 per cent in 1992 to an estimated 6.4 per cent in 2008 thanks to government initiatives. Further progress is possible, especially in combating the higher prevalence among women and in rural areas. New infection rates are highest among adults aged 35-45 years but have declined considerably among 20-25 year-olds. Infections are now occurring more in married than unmarried persons due to extra-marital sex and the reluctance of married people to using condoms. There are also concerns that the recent stagnation in prevalence rates are a consequence of Uganda's shift from the Abstain, Be faithful or use a Condom (ABC) policy towards US-backed abstinence-only programmes that discourage comprehensive sex education and condom promotion. The easier accessibility to anti-retroviral treatments may also have led to complacency about the danger of HIV/AIDS.

The government, in partnership with donors, has maintained its efforts at controlling and preventing HIV/AIDS through Information Education Communication (IEC), Prevention of Mother-to-Child Transmission (PMTC), infection control, care and support including Anti-Retroviral Therapy (ART), and monitoring and evaluation. Free anti-retroviral drugs have been available in Uganda since 2004. Recently, the US President's Emergency Plan For AIDS Relief (PEPFAR) has enabled 130 000 patients, out of an estimated 312 000 who lack access, to obtain treatment.

Unfortunately, progress in combating malaria and TB has been less successful. Malaria remains the leading cause of morbidity and mortality in Uganda, accounting for 52 per cent of outpatient department (OPD) attendance and 30 per cent of in-patient admissions to health centres. The disease is endemic in 95 per cent of the country and has become resistant to most standard drug treatments, prompting the government to change the drug combinations three times since 2002. The Ministry of Health has instituted a number of measures to curb malaria, notably the home based management of fever (HBMF) program, initiated in 2002, which provides free malarial treatment through community carers. Insecticide treated nets (ITNs) are increasingly available, even in rural areas. The re-introduction of DDT spraying, for indoor use only, has been controversial on environmental grounds.

A number of epidemic outbreaks have occurred in recent years including Ebola, Hepatitis E, Cholera and Marburg. In November 2007, the authorities confirmed an outbreak of a new strain of the Ebola virus in

Bundibugyo Disrict, with a confirmed total of 149 cases and 37 deaths. An outbreak of hepatitis E in northern Uganda in May 2008 resulted in 7 123 confirmed cases and 114 deaths.

The government has made progress in formalising environmental protection through the creation of the National Environmental Management Authority (NEMA) but here has been little progress in reversing, among others, declining soil fertility, deforestation, pasture degradation, falling fish stocks and water pollution caused by industrial discharges and domestic water use.

Clean water access, however, has improved sharply from 21 per cent coverage in 1992 to 64 per cent in 2008. Access remains low in rural areas, however, and the availability of latrines is poor. Only 40.9 per cent of households had a private covered pit latrine by 2006, another 33.2 per cent shared a covered latrine with others, and 12.3 per cent used uncovered pit latrines. About 75 per cent of rural and 60 per cent of urban households lacked hand washing facilities after toilet use.

Uganda does not have specific targets for MDG 8, although the Poverty Eradication Action Plan (PEAP) (2004-08) and the NDP promote partnerships for the realisation of development targets.

Uganda has devoted great effort and achieved substantial successes towards achieving some MDGs, including HIV/AIDS and UPE but more efforts are needed to sustain progress and meet others. The highest population growth rate in the world (3.2 per cent per year) and the 20-year insurgency in northern Uganda have been handicaps. It is hoped that with the implementation of the Peace, Reconciliation and Development Programme in northern Uganda, planned for 2009, the north will catch up with the rest of the country. Other problems include inefficient management of the social budget and inadequate resources. Officially, the jobless rate is estimated at just 3.2 percent but it is much higher if disguised unemployment is counted. Even university graduates find it difficult to obtain jobs outside the public sector, which absorbs some 50 per cent of them. The unemployment rate of recent university graduates is estimated in 2008 at about 32.2 per cent in the capital Kampala and 23 per cent nationally.

Progress in the Millennium Villages Project (MVP), a pilot project in the village of Ruhiira in southwestern Uganda supported by the Millennium Promise, UNDP and the Columbia Earth Institute shows that the MDG goals can be met. The MVP seeks to provide a model for eradicating extreme poverty and promoting development at the community level.

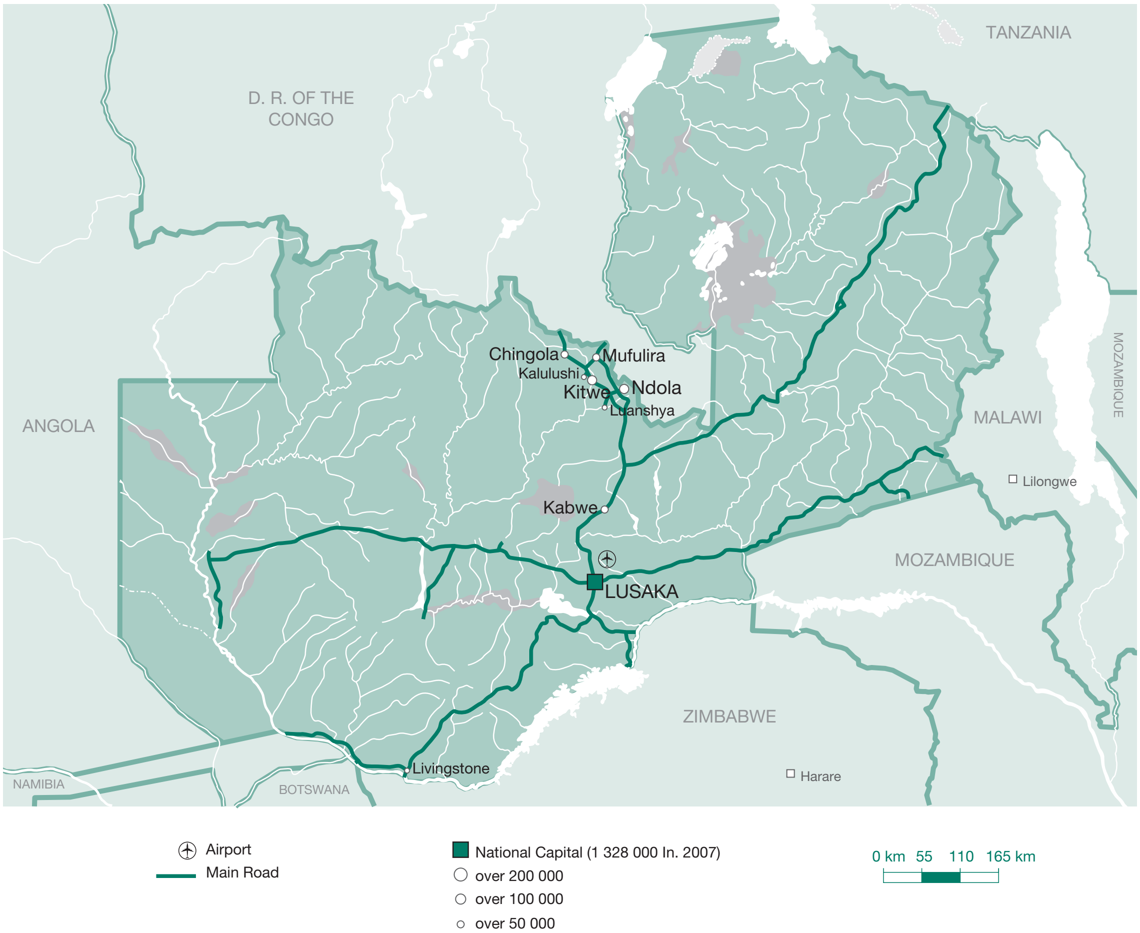
Under the PEAP, the focus was on economic management, production, competitiveness and incomes, security and conflict resolution, governance and human development, with large investments in education and health. With substantial progress in these areas, there has been a shift in emphasis to transport and energy infrastructure, agriculture and rural development, and improvement of service delivery, while still maintaining high spending on education and health. Important challenges remain in promoting long-term growth and development, including raising agricultural productivity, boosting export diversification and increasing employment.

Zambia

key figures

• Land area, thousands of km²:	743
• Population, thousands (2008):	12 620
• GDP per capita, PPP valuation, USD (2008):	1 359
• Life expectancy (2008):	45.5
• Illiteracy rate (2008):	n.a.

Zambia


TANZANIA
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MALAWI
MOZAMBIQUE
ZIMBABWE
NAMIBIA
BOTSWANA
Chingola
Mufulira
Kalulushi
Kitwe
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Luanshya
Kabwe
LUSAKA
Livingstone
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Airport
Main Road
National Capital (1 328 000 In. 2007)
over 200 000
over 100 000
over 50 000
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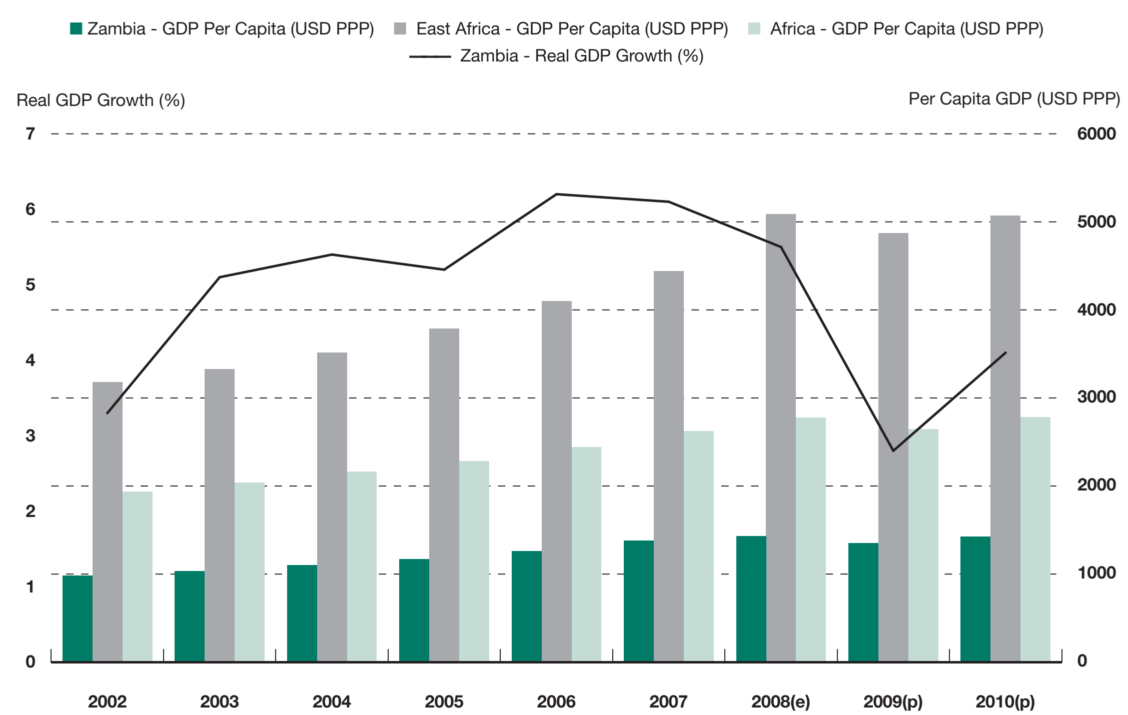
In 2008, Zambia's growth declined to 5.5 per cent from 6.21 per cent in 2007 due mainly to the sharp decline in copper prices. A further reduction in growth to 2.8 per cent is expected for 2009 due to the global recession. The increase in food and oil prices overall were the main causes of the substantial increase in inflation in 2008, which reached 16.6 per cent year-on-year in December. For 2009 and 2010, average inflation is expected to decline to single-digit levels as oil and food prices are expected to remain at their levels of end 2008.

Other events in 2008 were overshadowed by the passing away of President Levy Mwanawasa in August 2008 after 3 months of serious illness. This and the ensuing elections generated some uncertainty regarding policy continuity and entailed the delay of important decisions. Election-related expenditure, together with the worsening of the international economy in the second half of 2008, brought about a higher-than-planned budget deficit of 2.1 per cent, expected to stay at around the same level in 2009 and 2010.

Soaring food and oil prices have raised the cost of living and driven the inflation rate to 13 per cent.

Figure 1 - **Real GDP Growth and Per Capita GDP**
(USD/PPP at current prices)



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

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Recent Economic Developments

Economic performance was dramatically different in the first and second halves of 2008. In the first half, the Zambian economy was mainly affected by the steep increase in international commodity prices. On the one hand, increases in the prices and production of copper boosted export revenues. On the other hand, the steep increases in oil and food prices reduced purchasing power and raised production costs. The rise in copper prices also caused a sharp appreciation of the Zambian kwacha, weakening the performance of non-traditional exports.

In the second half of 2008, the situation was reversed with a sharp decline in copper prices and a corresponding depreciation of the kwacha. It took several months for the decline in oil prices to translate into lower fuel prices, and the food-price inflation continued to rise through to the end of the year and even in the beginning of 2009, when overall inflation began to drop.

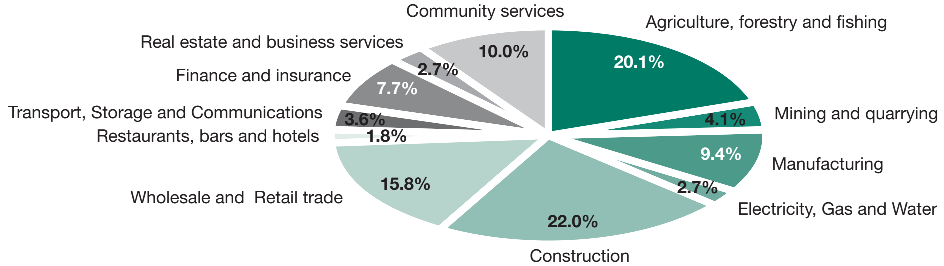
Despite a lower overall GDP growth in 2008 of 5.5 per cent, down from 6.2 per cent in 2007, some sectors grew faster than in 2007. The mining and quarrying sector benefited not only from very high prices in the first half of 2008 but also from increased production volumes as new investments started to produce results and the sector incurred fewer problems with flooding. At the end of 2008, however, when copper prices slumped further, mining firms started to put mines on maintenance and cut back on workers. Some older mines with high production costs were closed. Total copper output is nonetheless expected to increase in 2009, as production from the new Lumwana Copper mine will exceed the output reductions of the older mines. Two new copper smelters will also begin operations, processing copper ore from the Democratic Republic of the Congo (CDF) as well as from mines in Zambia.

Transport, storage and communication was the fastest-growing sector in 2008 with communications expanding at a rate of 21 per cent and air transport at 14 per cent. Other transport sectors also grew thanks to increasing copper exports, but this growth slowed down in the last quarter due to a reduction in trade and tourism. The latter was jeopardised by the January 2009 bankruptcy of Zambian Airlines, which also posed a threat to domestic air transport.

Growth in the construction industry slowed to 5 per cent. This was partly due to the slowdown in investment in mining, and partly to the very high price of cement. Manufacturing, wholesale and retail, as well as finance and insurance, grew faster in 2008 than in 2007.

Agricultural value added contracted in 2008 by 4 per cent due to unfavourable weather conditions. All major crops were affected, including maize, soya beans, wheat, tobacco and sorghum, and this contributed to the increase in domestic food prices

Figure 2 - **GDP by Sector in 2007** (percentage)



Source: Authors' estimates based on Central Statistical Office data (preliminary data.

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throughout the year. Commercial farms, which have grown substantially since 2000, also faced some problems: high costs of fuel and other inputs, and stagnation in domestic demand. The poultry sector, for example, was forced to reduce production as costs for feed, heating and transport increased.

The effect of rising world food prices were not fully and immediately passed on to the Zambian markets as both exports and imports of maize were banned during 2008. Due to problems of fertiliser distribution and the flooding of usually unaffected areas in early 2008, maize production in 2007/08 was only 1.14 million metric tonnes, compared to 1.37 million metric tonnes in 2006/07. It was not until December that the Food Reserve Agency (FRA) began to sell maize below the purchase price. Thus, mealy-meal prices continued to rise until December 2008, and only started to decline in early 2009 with the lifting of the import ban. These measures constitute a subsidy to all consumers, irrespective of need, and prevent farmers from benefiting from higher world market prices.

On the demand side, growth was driven by private investment, which grew by 13 per cent for the year as a whole, especially in the first half of 2008 when investment in the mining sector continued to grow. In addition, investment in manufacturing increased quite substantially. Private investment pledges increased from 1.4 billion US dollars (USD) in 2007 to USD 9.5 billion in 2008 (Jan-Nov). After mining (USD 6.6 billion), energy and manufacturing were the most important sectors. The investments pledged in 2008 are expected to create 25 597 jobs, most of them in the mining, manufacturing and financial sectors.

Public investment and public consumption in particular both increased as well, but private consumption only grew by around 4 per cent in real terms since purchasing power was constrained by high food and oil prices. Exports grew slower than imports, resulting in a negative contribution to growth from external demand. For 2009, total investment is forecast to decline due to a drop in private investment, especially in the mining sector. Both public and private consumption are forecast to increase only slightly, in line with budget restrictions and lower income due to the financial crisis. For 2010, growth of consumption, investment and exports is expected to pick up, provided the world economy starts to recover at the end of 2009.

Table 1 – **Demand Composition**

	Percentage of GDP (current prices)		Percentage changes, volume			Contribution to real GDP growth		
	2000	2007	2008(e)	2009(p)	2010(p)	2008(e)	2009(p)	2010(p)
Gross capital formation	**17.4**	**22.2**	**11.5**	**-1.3**	**5.0**	**4.0**	**-0.5**	**1.8**
Public	7.9	5.6	7.0	4.0	5.0	0.6	0.4	0.4
Private	9.6	16.7	13.0	-3.0	5.0	3.4	-0.8	1.3
Consumption	**96.9**	**72.6**	**6.5**	**2.4**	**3.7**	**5.3**	**2.0**	**3.0**
Public	9.5	18.9	12.3	1.3	3.5	2.6	0.3	0.8
Private	87.4	53.7	4.4	2.8	3.7	2.6	1.7	2.2
External demand	**-14.4**	**5.2**				**-3.8**	**1.3**	**-0.7**
Exports	27.1	39.6	7.6	-4.4	4.1	3.0	-1.8	1.5
Imports	-41.5	-34.3	12.2	-5.2	4.0	-6.8	3.1	-2.2
Real GDP growth						**5.5**	**2.8**	**4.1**

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

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Macroeconomic Policies

Fiscal Policy

In 2008, fiscal policy was slightly expansionary with revenues somewhat lower than expected and spending somewhat higher, mainly due to the unexpected elections and to some of the measures taken to cope with the food crisis. Other unanticipated expenditures included the costs of a larger-than-planned 15 per cent increase in civil-service wages and the need to finance the Zambia Electricity Supply Corporation (Zesco) power-rehabilitation project. These increases were only partly offset by reduced spending in other areas. The resulting fiscal deficit amounted to 2.1 per cent of GDP instead of the projected 0.9 per cent.

In 2008, a new fiscal regime for the mining sector was introduced that included an increase in the corporate tax to 30 per cent, in mineral royalties to 3 per cent and in tax withholding to 15 per cent. In addition, a variable profit tax of up to 15 per cent was introduced, as well as a windfall-profits tax to be applied if copper prices reach certain thresholds. Furthermore, an export levy of 15 per cent on the export of copper concentrates was introduced to encourage local value addition. Additional revenues from these measures were estimated at USD 415 million for 2008, but only one-third of that amount was realised. The government has agreed to negotiate with mining companies, which claim that the new regime threatens their viability, especially as copper prices fell below production costs in several mines in December 2008. Despite these measures, government revenues were lower than expected, due mainly to the decline in the price of copper in the second half of 2008, as well as to the failure of some mines to comply fully with the new tax regime.

In 2009, government plans to increase revenues only marginally, but these might also decline to some extent if the effects of the financial crisis on the economy are stronger than anticipated. As a percentage of GDP, revenues are planned to increase from 23.1 per cent in the 2008 budget to 25.5 per cent in the 2009 budget and then to 24.3 per cent in that of 2010. A number of tax reductions and exemptions have been announced for the 2009 budget, namely an increase in the threshold for income tax, VAT exemptions for some agricultural equipment and a revision of the mining-tax regime, including in particular the removal of the windfall tax. On the other hand, other taxes have been increased: for example, export levies for cotton seed have been raised from 15 to 20 per cent to encourage local processing. A budget deficit of around 2.3 per cent of GDP is expected in 2009, to be mainly financed through domestic borrowing. With a very large informal sector the tax base is quite narrow, underscoring the need to mobilise domestic resources beyond taxation of the mining sector.

To mitigate the impact of rising food and fuel prices, the government reduced excise duty on fuel, increased support for the agricultural sector and subsidised the price of maize, the major staple. The Fertiliser Support Programme (FSP) and the Food Reserve Agency (FRA) are the two most important budgetary instruments for agricultural policy. The FRA buys food from farmers during harvest season and then releases it to the market during the lean season to stabilise prices and guarantee a market for producers. Although the Fifth National Development Plan (FNDP) had planned to phase out the FSP by 2009, allocations were actually increased in 2008. This was partly due to high fertiliser costs on the international market and the number of beneficiaries' rising from 150 000 to 200 000. Performance of the FSP, however, was quite limited because of weak targeting and late distribution of fertiliser.

The government plans to increase expenditure slightly more than revenue but it is still expected to increase as a share of GDP to 27.9 per cent in 2009. The government plans to restrain from increasing government consumption mainly in the areas of employee compensation and the purchase of goods and services (especially travel abroad and training). Spending on strategic programmes, however, especially capital expenditure, is to be increased in line with the priorities of the FNDP. The budget share slated to grow the most is the one for support to economic sectors, transport and agriculture in particular. The budget share for education is also to be slightly increased

Table 2 - **Public Finances** (percentage of GDP at current prices)

	2000	2005	2006	2007	2008(e)	2009(p)	2010(p)
Total revenue and grants[a]	**28.9**	**23.0**	**42.9**	**21.2**	**23.1**	**25.5**	**24.3**
Tax revenue	23.0	17.0	16.1	17.5	18.0	19.2	18.6
Grants	5.7	5.6	26.0	2.9	4.4	5.6	4.9
Total expenditure and net lending[a]	**29.5**	**25.6**	**24.3**	**24.1**	**25.2**	**27.9**	**27.3**
Current expenditure	15.3	18.7	19.0	18.9	21.0	22.8	22.3
Excluding interest	*12.3*	*16.1*	*17.1*	*17.2*	*19.6*	*20.9*	*20.5*
Wages and salaries	5.3	7.6	7.2	7.6	8.2	8.7	8.4
Interest	3.0	2.7	1.9	1.7	1.4	1.9	1.8
Capital expenditure	10.0	7.0	4.1	4.1	4.2	5.0	4.9
Primary balance	**2.5**	**0.0**	**20.5**	**-1.3**	**-0.8**	**-0.4**	**-1.2**
Overall balance	**-0.5**	**-2.6**	**18.6**	**-3.0**	**-2.1**	**-2.3**	**-3.0**

a. Only major items are reported.
Source: Ministry of Finance and National Planning data; estimates (e) and projections (p) based on authors' calculations.

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in order to continue building and rehabilitating classrooms, to recruit 15 000 teachers by 2011 and to procure necessary school supplies. The budget share for health, on the other hand, is to remain close to constant and the share for social protection is projected to decline substantially from an already low level despite the expected rise in poverty due to the food and financial crises.

Monetary Policy

Year-on-year monthly inflation rates increased throughout 2008 from 8.9 per cent in December 2007 to 16.6 per cent in December 2008. The annual average for 2008 was 13 per cent. Inflation was mostly driven by rising food prices, especially towards the end of the year when a 20 per cent increase in food prices was recorded. It was not until January 2009 that food prices began to decline somewhat. In addition, the sharp depreciation of the kwacha in the second half of 2008 caused the prices of imports to increase, more than offsetting the decline in global oil prices.

In October 2008, the global financial crisis began to affect Zambia as investor confidence waned and a reduction of portfolio investment ensued. This coincided with the presidential elections, which may also have increased uncertainty. The government was thus unable to roll over a substantial amount of government securities when they matured. This development created some liquidity problems and restricted government borrowing through securities. As a result, although local banks in general are very sound and by January 2009, none of the affiliates of foreign banks had been affected by the problems of the parent companies, the credit crunch has been felt in Zambia.

The increase in liquidity caused by the kwacha depreciation in the second half of 2008 was another source of inflationary pressure. The difficulties of sterilising this liquidity at a time when government securities were under-subscribed made it difficult for the Bank of Zambia (BoZ) to control inflation. The BoZ only intervenes in the currency market to stabilise the exchange rate, which was extremely volatile in 2008, but it does not attempt to influence the exchange rate.

External Position

Trade was roughly balanced for 2008 as a whole. A trade surplus in the first half of the year gave way to a deficit in the second half due to the decline in copper prices, as copper accounts for around 60 per cent of export earnings. The appreciation of the kwacha in the first half of the year also hampered non-traditional exports, which did not fully recover later, when the currency depreciated, because transport costs remained high. Some smaller exporters in the horticultural sector might have also lost market shares as competitors from other countries stepped in. A further decline in exports is expected in 2009, mainly because the increase in copper production will not be sufficient to offset the fall in copper prices, but starting in 2010, exports are expected to rise on the assumption that international demand will pick up and that the kwacha will remain at its current level. Imports are also expected to decline to some extent in 2009 due to lower world market prices of food and fuel, but a sizeable trade deficit is expected. On the other hand, the services trade deficit is expected to remain small in 2009 – after having contracted significantly in 2008 – as mining- and transport-related services imports are expected to fall.

In 2008, Zambia entered into a new low-access, three-year Poverty Reduction and Growth Facility (PRGF) arrangement with the IMF for the amount of Special Drawing Rights (SDR) 48.9 million, which aims at ensuring fiscal prudence, at reducing poverty, as well as at preserving macroeconomic stability and debt sustainability. It will focus on improving expenditure management and budget execution, making revenue collection more efficient and effective, strengthening monetary operations and deepening the financial sector, implementing a debt-management strategy, and strengthening policies in the energy sector.

Most donors have assured the government that they do not intend to reduce their Official Development Assistance (ODA) flows. Total grants are expected to increase from ZMK 2.3 billion in 2008 to almost 3 billion in 2009. The share of budget support has been increasing in the recent years to reach 27 per cent of total grants in 2009. ODA accounts for around 14 per cent of Zambia's Gross National Income (GNI).

The Government of Zambia has a policy to avoid new external public debt as much as possible and mainly only enters into highly concessional loan agreements for infrastructure development. The stock of domestic public debt has continued to increase as a result of continuing to issue government securities to finance the deficits. Public domestic borrowing is expected to increase from 1.4 per cent of GDP in 2008 to 1.6 per cent of GDP in 2009, but to fall below 1 per cent thereafter. The government plans to settle arrears to suppliers and pension funds in the 2009 budget, which will reduce the debt stock. It also aims to refinance short-term securities with longer-dated ones in order to reduce rollover costs. Private-sector external debt remained roughly constant during 2008, with short-term debt comprising only 15 per cent of the total.

Zambia's international reserves increased beyond the target of approximately 20 per cent of imports in 2008. This rise occurred in the first half of 2008, when the increases in oil and food prices were more than offset by the increase in copper prices. In the second half of 2008, however, reserves declined due to the fall in copper prices and the uncertainty caused by the president's illness.

The launch of the Common Market for Eastern and Southern Africa (COMESA) Customs Union,

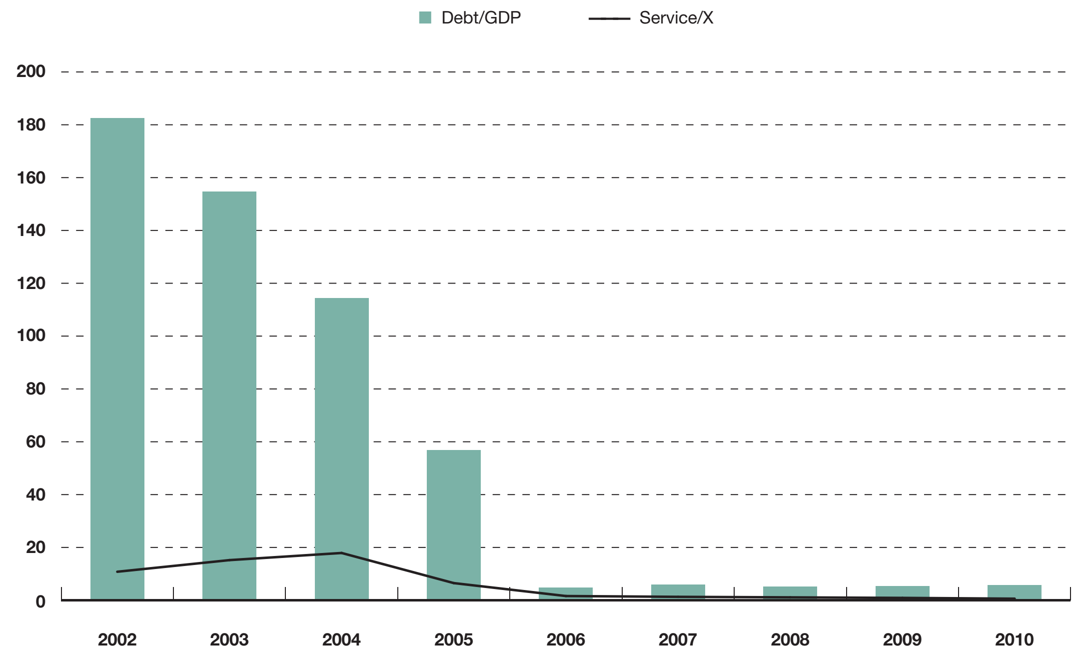
Table 3 - **Current Account** (percentage of GDP at current prices)

	2000	2005	2006	2007	2008(e)	2009(p)	2010(p)
Trade balance	-6.8	0.7	10.9	7.2	0.3	-9.7	-8.6
Exports of goods (f.o.b.)	23.4	30.4	35.1	36.6	33.2	25.6	26.1
Imports of goods (f.o.b.)	30.2	29.7	24.2	29.3	32.9	35.4	34.8
Services	-6.9	-2.7	-3.3	-5.5	-1.8	-1.8	-1.8
Factor income	-5.1	-7.9	-8.7	-10.7	-9.5	-9.5	-11.7
Current transfers	0.4	1.5	2.1	2.2	2.0	4.1	4.9
Current account balance	**-18.4**	**-8.4**	**0.9**	**-6.7**	**-9.1**	**-17.0**	**-17.3**

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

StatLink http://dx.doi.org/10.1787/580231241377

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



Source: IMF.

StatLink http://dx.doi.org/10.1787/574265027024

which was scheduled for 1 January 2009, has been postponed to June 2009 because there are a few unresolved issues related to categorising a number of products according to tariff bands, to the introduction of a new tariff band at 5 per cent and to the lists of sensitive products.

In 2008, Zambia submitted a market-access offer and initialled the interim Economic Partnership Agreement between the European Commission (EC) and the Eastern and Southern Africa (ESA) region. It is expected that the interim agreement will be signed in 2009 while negotiations for the final agreement continue. Some contentious issues for Zambia include the rules of origin, where regional cumulation of origin will be restricted to the ESA group instead of being applied to all African, Caribbean and Pacific (ACP) countries. Another issue is the limitations on entering into bilateral negotiations with large emerging market countries as the EC is insisting on Most Favoured Nation (MFN) treatment.

Substantial progress has been made in Zambia on implementing the Paris Declaration on Aid Effectiveness. For example, in the area of ownership, Zambia upped its rating following the finalisation of its Fifth National Development Plan (FNDP) in 2006 and the introduction of a Medium Term Expenditure Framework (MTEF). This improvement in alignment was partly due to increased budget support involving 17 donors and to a division of labour agreed among donors with assignments as lead, active and background roles in each sector. In addition, the use of public financial management systems increased substantially. Harmonisation among donors improved thanks to greater application of sector-wide approaches (SWAPs), a reduction in the number of donor missions and the introduction of a three-month, mission-free period. Managing for results also improved with the annual publication of FNDP progress reports including a measurement of indicators, but data collection still needs to be made better. Mutual accountability has been strengthened by the establishment of an Independent Monitoring Group in 2008.

Structural Issues

Private Sector Development

Marked improvements were achieved in 2008 in the World Bank's Doing Business categories "starting a business" and, most of all, "registering property". No progress was made, however, in the areas of "getting credit" and "protecting investors", and overall, in *Doing Business 2009,* Zambia was placed one rank lower than in 2008. A review of all business licenses was carried out in 2008. As a result, close to 100 of the number of licenses currently required are to be eliminated in 2009, scrapping licenses with no legal basis and merging different licenses. Furthermore, a reform of labour and immigration laws is being envisaged.

The Zambia Development Agency, which is responsible for investment and export promotion, has been focusing its activities on Asia, taking advantage of the frequent visits of delegations from China, India, Malaysia, South Korea and others, with positive results. For example, a Multi-Facility Economic Zone (MFEZ), currently being developed with Chinese assistance, is expected to accommodate 60 enterprises and create more than 6 000 jobs. It will focus on the Information and Communication Technology (ICT) sector, both hardware and software. A Malaysian investor has agreed to begin the production of handsets in 2009 and to set up a private vocational school that will provide skilled personnel for software development. Firms established in the MFEZ are to benefit both from the provision of infrastructure and special tax holidays.

The establishment of land banks was decided in 2008, and implementation of this decision should start in 2009. Land banks are essentially registries of land that is suitable for different types of commercial farming and can be made available to investors within 14 days. Such land is supposed to not be under cultivation, which applies to a large portion of Zambia's arable land. Ownership will be transformed from customary tenure of local chiefs to government ownership, and the government can then sell the land. This approach is expected to attract private commercial farms in the production of sugar, cotton and other non-traditional export products.

The BoZ tightened supervision of commercial banks in 2008 by introducing risk-based supervision including full disclosure of information and limits to daily trading. In 2008, a new foreign bank, Nigeria's Access Bank, opened branches in Zambia, and First National Bank of South Africa obtained a banking licence for Zambia in January 2009, bringing the total number of commercial banks to 15. Despite significant competition in the banking sector, interest-rate spreads have increased further from their already very high levels. Nonetheless, bank lending to the private sector continued to increase, in particular to households and the agricultural sector. In addition, some commercial banks have introduced new products tailored to the needs of small-scale businesses.

The stock market performed well in the beginning of 2008 but declined thereafter. Market capitalisation declined from USD 4 827 million at the end of 2007 to USD 4 678 million, or 47 per cent of GDP, in November 2008. The number of listed companies increased to 20, but new Initial Public Offerings were cancelled in the second half of 2008.

Other Recent Developments

The implementation of the Public Expenditure Management and Financial Accountability (PEMFA) Reform Programme is making progress but is behind schedule. To improve cash management, a user manual with guidelines on the operation of the financial-management information system was finalised in 2007 and has been widely distributed since. Training activities in the areas of accounting, revenue collection, fiscal policy, among others, have been stepped up.

Some weaknesses persist, however, in the areas of budget planning, preparation and implementation, budget execution and procurement, financial reporting, and audit. To improve transparency, the Ministry of

Finance and National Planning (MoFNP) publishes on its website a table comparing public expenditure against budget releases on a quarterly basis.

The implementation of the Integrated Financial Management Information System (IFMIS), which is an integral part of PEMFA, has been delayed due to the takeover of the software provider. Its piloting in several ministries has been rescheduled to 2009.

Infrastructure development, most particularly in rural areas, is one of the main needs for Zambia's development. Most of the infrastructure is still state-owned and poorly managed. There are nonetheless a number of donor-funded projects planned to improve critical infrastructure. One of these is a North-South transport/transit corridor connecting southern African ports via the copper belt in Zambia and CDF to Dar es Salaam (Tanzania). The project is part of the Aid for Trade initiative overseen by a COMESA-EAC-SADC Joint Task Force. It aims at removing the main bottlenecks to trade flows within the region by reviewing regulatory, administrative and infrastructural constraints to transport and transit as a whole.

In 2008, there was a huge electricity deficit leading to frequent load shedding. Upgrading of the Kafue Gorge hydropower station will be completed in 2009 and will add 210 MW capacity to the current 1 700 MW. There are further plans to increase generation but these will only increase capacity in the longer term. Further efforts are therefore needed to rationalise usage as well. Electricity tariffs are among the lowest in southern Africa despite a 27 per cent increase in 2008. The plan is to raise tariffs to cost-recovery levels by 2010, which would more than double tariffs for private customers. The plan includes charging four times more for peak-time electricity than for off-peak consumption and continuing to expand the metering of customers. Energy-saving measures like tax exemptions for energy-saving light bulbs are estimated to have the potential to reduce household demand by 10 per cent. The slower growth of demand for electricity from the mining sector is also expected to ease shortages in 2009. Efforts to improve the efficiency of the electricity provider, Zesco, are making slow progress through such measures as reducing the staff-to-customer ratio to bring the share of personnel-related expenditure down to less than 50 per cent, as per an agreement between the Government of Zambia and donors.

The electrification rate in rural areas is only 3.1 per cent, which also hampers the spread of ICT. There has been very little investment in transmission and distribution in the past years, but programmes to increase rural electrification that also include off-grid solutions using small dams and solar power are under way. Implementation of the Increased Access to Electricity Services Project is scheduled to start in 2009 and is expected to reach 65 000 new customers, increasing rural electrification to 5 per cent.

In addition to keeping up the FSP and FRA, agricultural policy will continue to focus on scaling up extension services, market access, improving rural infrastructure, especially roads and irrigation, and better management of livestock and fisheries. The development of the livestock sector, which has a potential for growth, has been hampered by the failure to control the spread of diseases. A new Ministry of Livestock and Fisheries was set up in January 2009 to give more attention to the sector. The budget allocation for agriculture increased to 6.5 per cent in 2009 after it had declined from 8.8 per cent in 2007 to 5.8 per cent in 2008. This still falls well short of the African Union and New Partnership for Africa's Development (AU/NEPAD) target of 10 per cent.

Innovation and ICT

ICT infrastructure consists mainly of a microwave backbone and microwave trunk routes to major provincial centres providing analogue transmission. More recently, a digital microwave network and a domestic satellite system to provide telephone services to remote rural areas were installed. The parastatal electricity provider Zesco has completed the installation of 1 700 kilometres of backbone fibre cable along the railroad lines, which is used for fixed and mobile telecommunication, as well as for the Internet. The telecommunications incumbent, Zamtel, is installing

5 000 kilometres of fibre optical cables country-wide to provincial towns at a cost of USD 48 million in 2008-09. A connection to the undersea cable is envisaged for 2010. Lower frequencies are reserved for rural connectivity, as they are more efficient over longer distances. New mobile-telephony technologies like broadband and 3G have been installed and are available for leasing. Three satellite earth stations owned by Zamtel provide international telephone services. The capacity is not, however, adequate to satisfy demand, leading to frequent difficulties in making international calls.

The existing infrastructure covers around 72 per cent of the population. Mobile services are available in all district capitals. In 28 per cent of rural areas, however, there is no access to mobile service. Providers are planning to extend coverage to 77 per cent of the population by the end of 2009. Some rural areas are very sparsely populated making the installation of infrastructure very costly, so in terms of area covered, the share is well below 50 per cent. Teledensity in Zambia is still low: the ratios per 100 inhabitants were 0.77 for fixed-line subscribers, 22.66 for mobile subscribers and 0.14 for Internet users at the end of 2007. The vast majority of mobile subscribers (98 per cent) use prepaid tariffs.

Communication is one of the priorities in Zambia's FNDP, and in 2007, a National ICT Policy was adopted, covering a broad range of issues. A new ICT Bill is being discussed as the current ICT law dates back to 1994 and needs updating. Zambia was one of the first African countries to establish an independent telecommunications regulator, the Communications Authority of Zambia (CAZ). Its functions include issuing licenses and promoting competition among providers, promoting consumers' interests and ensuring that the benefits of the sector accrue to the nation at large. Although the National ICT policy calls for restricting regulation to the barest minimum, providers consider the capacity of CAZ to be inadequate, citing, for example long waiting periods for licensing. In addition, the regulatory framework is not technology-neutral and does not yet accommodate the convergence of technologies, but the new ICT bill is expected to remedy this shortcoming. The bill should also strengthen the role of CAZ through a clearer description of its roles and powers, as well as spelling out its obligations. For example, the time for granting or refusing a licence should not exceed one year. CAZ is entirely funded through license fees and a regulation levy on turnover imposed on service providers.

Private operators have not been allowed to provide interconnectivity despite the FNDP focus on regional and international connectivity intended to make Zambia a telecommunications hub for the sub-region. Provision of interconnectivity is not legally restricted but is hampered by prohibitive licensing fees. These fees were increased from USD 12 million to USD 18 million in 2008. At the end of 2008, Zamtel temporarily reduced fees for international calls by 40 per cent. Liberalisation of the international gateway was announced in the 2009 budget.

In 2008, CAZ also upgraded its monitoring equipment to ensure a better quality of service, e.g. in terms of the delivery time of text messages and of voice quality. It acknowledged that the quality of mobile services has been improved, but not enough with respect to completion of calls and accurate charges. CAZ is proposing to increase required compensation payments from operators for poor services. Currently the only sanction for non-compliance is the revoking of licences but the introduction of penalties is planned.

To reduce costs, mobile providers do share infrastructure, like masts, with each other and also with related infrastructure providers, such as railways. The providers can also agree on interconnection fees as CAZ will only set those fees if operators cannot agree, which last happened in 2002.

The fixed-line provider Zamtel provides approximately 90 000 lines throughout the country. Zamtel is still wholly government owned, but preparations for privatisation in 2009 are under way. Zamtel also provides mobile services but has a very low market share. Two private companies also provide mobile services. Zain (formerly Celtel) has a market share of around 80 per cent and MTN's is about 15 per cent. After some quarrels over interconnectivity, the three providers began to settle their disputes through moderation and discussions in 2005, which contributed to the rapid growth of the sector in the past 4 years. Tenders for a fourth mobile operator licence have been invited, but due to some legal issues arising from a previous tender, the licensing was delayed.

Internet access is provided by 19 private providers with Zamnet being the oldest, established in the early 1990s. There are around 1 000 telecentres in the country, most of them in urban areas. The new ICT law is expected to abolish licensing fees for telecentres.

Fees for both telecommunications and Internet use are relatively high compared to the regional average. This is partly due to a number of taxes: 10 per cent tax on airtime, 16 per cent VAT and 5 per cent regulatory fee. In addition, duties on imported equipment range from 5 to 25 per cent, resulting in an average of 43 per cent of user fees going to the treasury. Fees for a one-minute call for the largest provider are about USD 0.5 (peak) and USD 0.35 (off peak).

To improve rural access to information, CAZ will fund the establishment of around seven telecentres in 2009 as a pilot project. These telecentres are meant to be self-sustainable by combining Internet with other services. Consultations with mobile operators to provide services in remote areas are also under way and 20 per cent of the regulation levy has been made available to subsidise these efforts.

The use of ICT for various purposes other than communication is expanding rapidly. Transfer of money through mobile phones and payment of some bills is now possible. Financial institutions also use Internet bandwidth for their operations. The government is planning to install its own network in 2009 in order to provide more reliable email and Internet services for ministries and government agencies as part of the IFMIS project. At the same time, most ministries plan to significantly revamp their websites or launch new ones to provide services to the general public such as information on policies, downloadable forms and sectoral data, among others.

Government and other organisations are using ICT to provide factual information to the public, for example on weather and climate, and on agricultural markets. Farmers have access to free text messages, for example, on current local prices at different locations. This service partly uses information from the Ministry of Agriculture and is sponsored by Zain the biggest mobile service provider.

The Ministry of Agriculture also has an early-warning system, where coded information is sent via mobile text message from district agricultural co-ordinators on issues such as the status of crops, pests and diseases, or flooding, and processed in Lusaka. Through this system, the ministry gets up to date information about the area affected by problems and can react much faster and more appropriately.

Zambia participates in the Pan-African e-Network, an AU/NEPAD initiative, which links African hospitals and universities with one another and with Indian universities. It is envisaged to include rural clinics in this network to enable remote diagnosis of medical problems.

Political Context

President Levy Mwanawasa passed away in August 2008 after suffering a stroke at the end of June. According to the constitution, a new president had to be elected within 90 days. A presidential election took place in October, which the former vice-president, Rupiah Banda, won with 40 per cent of the closely contested vote, against 38 per cent for the opposition Patriotic Front (PF) leader, Michael Sata. Before the elections, there was a contest over the nomination of the candidate within the ruling party. The elections were mostly peaceful and rated free and fair by regional and international observers, but voter turnout was markedly low with only 45 per cent of registered voters going to the polls. In addition, there were some weaknesses in voter registration, as the time for preparing the polls was very short. The PF launched a legal challenge and demanded a recount in 78 of the 180 constituencies.

Rupiah Banda was officially sworn in on 2 November as new president, and installed a new cabinet and changed some key ministers, including the Minister for Finance and National Planning. His term will only run for the remainder of the five-year term of the previous president, which ends in 2011. The death of the president caused delays in several important areas. For example, review of the constitution was slowed down and the first draft of the budget was not produced until January 2009. It is also likely that the transition reduced the ability of the government to react to the impact of the financial crises.

The new president has repeatedly declared that he will continue the fight against corruption. The Anti-Corruption Commission received more than 2 000 corruption complaints from the public in 2008. The majority of these complaints were against government officials. However, due to a weak legal system not many higher-level officials have been convicted. Zambia was thus ranked as the 17th most corrupt country in the world in 2007 by Transparency International. Nevertheless, with Freedom House reporting gains towards more political freedom in Zambia, especially thanks to a better functioning of the judiciary, there are good prospects for improvement, especially if the new constitution strengthens the autonomy of the Anti-Corruption Commission and the Office of the Auditor General. In 2008, an Ethics Code for public service was developed, and ethics committees were established. The Ethics Code will make civil servants accountable for their actions and should help to increase efficiency in the public sector. The government also reiterated its commitment to the continued enhancement of transparency in the mining sector by implementing the guidelines of the Extractive Industries Transparency Initiative in the 2009-11 MTEF.

Rejection by the cabinet of the Decentralisation Implementation Plan in 2008 has slowed progress in decentralisation. Whereas the Ministry of Local government and Housing wanted to promote local capacity building and as a parallel process, deployment of functions from line ministries, the majority in the cabinet was of the opinion that capacity building should come first. Capacity building was performed in the area of finance and audit for local councils.

Dissemination of information by government and participation of the private sector and civil society in decision making are improving, especially through sectoral advisory groups, which provide a forum for discussion among stakeholders from government, the private sector and civil society.

Social Context and Human Resources Development

Zambia is on track to meet four of the seven United Nations Millennium Development Goals (MDGs) and has the potential to meet a fifth. In 2007, the latest year for which data on social indicators is available, significant progress had been made in education, in reducing maternal and child mortality, as well as in HIV prevalence and to a lesser extent in fighting poverty.

According to national sources, the percentage of the population living on less than USD 1 per day was estimated at 64 in 2006, having declined during the first half of the decade. Poverty is likely to have worsened in the past two years, however, due to the increase in food prices, especially maize, and the lay-off of mine workers. With respect to malnutrition and hunger, the number of underweight children was cut in half between 2001/02 and 2007, down from 28.1 per cent to 14.6 per cent, which indicates that actual hunger had decreased. The indicators for long-term malnutrition, however, like the percentage of stunted children, have not changed much. A Public Welfare Assistance Scheme (PWAS) is in place to support households in the lowest income decile whose members are not able to work. The PWAS mainly provides support for food, shelter, education, health and clothing. The number of beneficiaries increased from 95 000 in 2001 to 111 000 in 2007. The funds can only cover 2 per cent of the population, however, whereas in many districts 10 per cent would be eligible. In parallel, a cash-transfer system has been set up on a pilot basis in five districts, which will be expanded to ten districts in 2009. The system is targeted towards poor households whose members do not have the ability to generate income. The Welfare Assistance Committees system at the community, area and district level provides the infrastructure, which could be used to scale up social protection if additional finance could be secured.

There has been substantial progress in the provision of education between 2003 and 2007. The number of basic schools increased from 5 773 to 8 013, the net enrolment ratio in grades 1 to 9 increased from 78.8 per cent to 94 per cent (for both male and female students), completion rates increased from 38 per cent to 47 per cent, and the number of teachers increased from 41 500 to 56 900. Five thousand new teachers were recruited in 2008. Disparities in attendance by gender persist, however, especially at secondary and tertiary levels, as do differences between rural and urban areas.

Significant progress has been achieved in the health sector. Both infant and under-five mortality rates declined by around 30 per cent between 2001 and 2007. Even maternal mortality declined from 729 in 2001 to 449 per 100 000 live births in 2007. This level is still very high compared to the African average. This may partly be due to the skewed allocation of the health budget, where the poorest, most remote and least urbanised provinces receive the lowest per capita releases from the Ministry of Health. Likewise, half the country's medical professionals are based in Lusaka, another third is located in other urban centres, leaving only a very small share for rural areas. To reverse this trend, training of community health providers is being stepped up.

For the first time since the HIV/AIDS epidemic began, adult HIV prevalence recorded a slight decrease, down from 15.5 per cent in 2001 to 15.2 percent in 2008. This can be attributed to improvements in testing and counselling – now available in all districts – a growing use of condoms and an increasing availability of antiretroviral (ARV) therapy. Prevalence is much higher in urban areas, especially in the Copperbelt. The government admits that there is need to strengthen gender-sensitive HIV/AIDS awareness, to intensify prevention efforts and to strengthen prevention and treatment capacities in rural areas. A national HIV/AIDS prevention strategy was drafted in 2008 and is expected to reinforce these efforts.

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African Economic Outlook

COUNTRY NOTES: VOLUMES 1 & 2

***A companion volume to* African Economic Outlook: Overview**

The international financial crisis increases the relevance of this annual publication jointly published by the African Development Bank, the OECD Development Centre and the United Nations Economic Commission for Africa (UNECA). Decision makers in African and OECD countries, such as aid agencies, investors, NGOs and government officials of aid-recipient countries, will all find the analysis critical to their activities.

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The AEO project is generously supported by the European Commission and combines the knowledge of the African Development Bank and the UNECA on African economies with the expertise accumulated by the OECD, which produces the *OECD Economic Outlook* twice yearly.

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