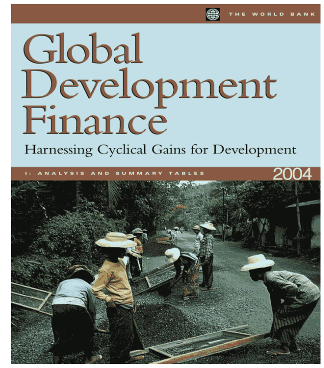


# Sub-Saharan Africa

## GDF 2004 Summary

**Global Themes**

- The global economic environment affecting capital flows to developing countries improved in 2003. Global growth gained momentum in the second half of the year as the locus of economic activity shifted towards business investment spending. Renewed confidence in international financial markets led to a considerable decline in risk spreads in bond markets and fueled a strong rally in equity prices. Worldwide, GDP growth increased from 1.8 percent in 2002 to 2.6 percent during 2003; it is projected to rise to 3.7 percent in 2004. But the global economy is emerging from the pervasive slowdown of recent years facing major macroeconomic challenges – including large fiscal deficits in many advanced economies and a large current-account deficit in the United States - which could have a critical bearing on the outlook for developing countries and the availability of external capital to finance their development.

- Developing countries as a group are markedly outperforming the high-income countries. Developing countries' GDP grew 4.8 percent in 2003, compared to a 2.1 percent advance in the high-income countries. The low-and middle-income countries are on track this year to match, or even surpass, the record 5.2 percent growth achieved in 2000, before the global slowdown. Since 2000, the developing world has been a net exporter of capital to the advanced economies. For developing countries as a whole, foreign-exchange reserves rose about $276 billion in 2003, bringing total reserves to $1,227 billion—equivalent to nearly four times their short-term external debt. This buildup reflects a precautionary reaction to the costly crises of the 1990s, as well as broader factors related to trade and exchange rates. It underlines the strong financial interdependence between developed and developing countries.

- Official development assistance is still an important source of external finance for many countries. But, as private capital flows have grown, official aid flows have risen only slightly, and remain below the levels needed to achieve the Millennium Development Goals (MDGs). Political developments and changes in attitudes are dramatically altering the landscape for official flows. Net official development assistance did increase to $58 billion in 2002, but half of the $6 billion rise reflects debt relief donor agencies, rather than increased resources provided directly to developing countries. Moreover, the increase represents little progress toward meeting the commitments for higher aid made at the 2002 Monterrey conference.

- From 1992 to 2003, total international investment in developing countries' infrastructure is estimated to have been $622 billion—an average of $52 billion a year or 3.8 percent of total gross domestic investment in the developing world. Infrastructure needs in developing countries remain largely unmet—1.1 billion people lack access to safe drinking water, 2.4 billion are affected by inadequate sanitation, 1.4 billion have no power, and telecommunication links are five times less dense than in the developed world. Worldwide, future demand for infrastructure is likely to come mainly from the developing world. The bottlenecks in assuring a healthy flow of capital from international markets to developing-country infrastructure are related to policies, institutions, and regulation. Multilaterals can play a crucial role in providing risk-mitigation instruments (including guarantees and political risk insurance) and promoting the development of local capital markets. Efforts also need to be taken to develop a strong institutional framework for the protection of creditors' rights, effective covenants, and reliable avenues of legal enforcement and remedy. No single solution will fit all sectors and all countries.

- Developing countries' international trade is equivalent to about one-half of their gross national income. Trade finance supplies the liquidity needed to conduct trade, and governments can support it by ensuring a sound and efficient financial system. Finance linked to trade transactions may hold up better during crises than other forms of foreign borrowing for several reasons - lenders can rely on security arrangements linked to traded goods; supplier's information on their borrowers may limit contagion; suppliers have an incentive to support their customers during cyclical downturns; and, in some cases, governments have provided preferential treatment to trade finance in the context of rescheduling agreements. Trade credit from suppliers and customers appears to have held up better during crises than bank lending.

- The development community should view remittances as a welcome source of external finance and strive to improve the financial infrastructure supporting them. Workers' remittances have become a major source of finance for many developing countries. On an aggregate basis, they increased by more than 20 percent during 2001–03, reaching an estimated $93 billion in 2003, with more remittances being diverted to formal channels from alternatives—a result of efforts to curb money laundering. The increased focus on remittances resulted in better reporting of data in many developing countries.

**Regional themes**

- GDP growth in Sub-Saharan Africa slowed from 3.3 percent in 2002 to 2.4 percent in 2003, with a performance difference between oil and non-oil exporters.
    - The West African energy sector continued to grow, mainly due to resilient oil prices and strong investor interest. With steady new discoveries of oil reserves, African oil now accounts for 5.7 percent of global imports, up from 4.9 percent in 1994
    - In many other countries, adverse weather conditions dampened agricultural production and slowed domestic demand. There was also a fall in export volume growth, reflecting sluggish conditions in Western Europe.

- Growth is forecast at 3.4 percent in 2004, led by the oil exporters. For non-oil producing countries, currency realignments and increased demand should continue to support the upward trend in commodity prices - especially for metals.

- External finance comes mainly from bilateral grants ($13.9 billion in 2003) and FDI ($8.5 billion). Net private debt flows rose to $3.4 billion, with Angola, Ghana and Mali all contributing to the increase. However, South Africa remains the only significant country with access to international capital markets.

- While policy is moving in the right direction, investment risks remain high and business environments poor. Taxation, labor laws and work permits for expatriate staff have been identified as particular problems. Despite some progress in resolving some of the region's most egregious civil conflicts (Angola and Liberia), the situation in Democratic Republic of Congo, Somalia, Sudan and Zimbabwe remains unstable. HIV/AIDS continues to weigh heavily on productive capacity.

**Other key regional points to note**

- Over half of FDI to Sub-Saharan Africa is to the primary sector (mainly extractive industries). These industries tend to be heavily reliant on intercompany loans, which are a less stable source of financing FDI that repatriated earnings and equity.

- Sub-Saharan Africa is the largest recipient of official development assistance, accounting for 39.8 percent of allocated flows in 2002. There were substantial increases for Cote d'Ivoire ($0.9 billion), Democratic Republic of Congo ($0.5 billion) and Mozambique ($1.1 billion). However, for a majority of countries, the rise in ODA remains well below the level required to meet the Millennium Development Goals. The failure to reach agreement at the World Trade Organization talks in Cancun in 2003 on reducing agricultural subsidies and trade barriers makes finding additional sources of finance for the world's poorest countries especially urgent.

- The European Union, the United States and other donors have announced plans that, if realized, would increase aid to 0.29 percent of industrial countries' national income by 2006 (from 0.23 percent in 2003). G-8 countries pledged at the Kananaskis summit in 2002 (reaffirmed at the 2003 Evian summit) to spend at least 50 percent of new resources for development on African countries.

- African countries have engaged in a far-reaching process of improving their policies and institutions – and thus strengthening aid effectiveness. The New Partnership for African Development (NEPAD) aims to overcome the political and administrative obstacles to development projects, mainly by enhancing coordination between countries in the region and improving governance via a peer review mechanism. These steps should be encouraged.

## Sub-Saharan Africa outlook in summary, 1981-2004

| | 1981-90 | 1991-00 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003e | 2004f |
|---|---|---|---|---|---|---|---|---|---|
| **Real economy** | | | | | | | | | |
| *(percent change, unless stated)* | | | | | | | | | |
| Real GDP growth | 1.7 | 2.1 | 2.2 | 2.4 | 3.1 | 3.1 | 3.3 | 2.4 | 3.4 |
| Private consumption per capita | -0.9 | -0.8 | -1.5 | -0.4 | -1.7 | 1.1 | 1.4 | 0.3 | 0.9 |
| GDP per capita | -1.2 | -0.5 | -0.5 | -0.1 | 0.7 | 0.9 | 1.2 | 0.4 | 1.4 |
| Population | 2.9 | 2.7 | 2.6 | 2.5 | 2.4 | 2.2 | 2.1 | 2.1 | 2.0 |
| Gross Domestic Investment / GDP /a. | 18.6 | 17.2 | 18.4 | 18.2 | 18.4 | 19.1 | 19.7 | 20.4 | 20.9 |
| Inflation /b. | 9.6 | 9.5 | 8.2 | 6.0 | 7.8 | 6.4 | 5.4 | 4.2 | 4.0 |
| Central Gvt budget balance / GDP | -4.5 | -4.6 | -2.5 | -2.2 | -0.4 | -1.3 | -2.3 | -2.6 | -2.1 |
| Export Market Growth /c | 4.8 | 7.5 | 7.7 | 7.4 | 12.1 | 0.4 | 2.3 | 4.3 | 7.4 |
| Export Volume /d. | 1.5 | 4.3 | 4.0 | 3.9 | 5.1 | 3.2 | 1.9 | 1.7 | 5.1 |
| Terms of Trade / GDP /e. | -0.9 | 0.1 | -2.9 | 1.2 | 2.9 | -0.7 | 0.9 | 1.7 | -1.4 |
| Current Account / GDP | -2.7 | -2.3 | -5.5 | -3.0 | -0.6 | -3.1 | -2.8 | -2.6 | -3.7 |
| Workers Remittances ($ billion) | -- | 2.7 | 3.6 | 3.5 | 3.6 | 3.9 | 4.1 | 4.1 | -- |
| Memorandum items: | | | | | | | | | |
| GDP growth: Sub-Saharan Africa | | | | | | | | | |
| excluding South Afr. and oil-exporters | 2.3 | 2.8 | 3.8 | 3.5 | 2.0 | 3.8 | 2.7 | 2.5 | 4.6 |
| Oil Exporters | 1.8 | 2.1 | 3.1 | 1.0 | 4.0 | 3.0 | 4.0 | 3.8 | 3.8 |

| **External Financing and Debt** | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003e |
|---|---|---|---|---|---|---|---|---|---|
| *(billions of dollar unless stated)* | | | | | | | | | |
| Net inward FDI | 4.3 | 4.2 | 8.4 | 6.9 | 9.3 | 5.8 | 14.3 | 7.8 | 8.5 |
| Net inward portfolio equity flows | 3.0 | 2.4 | 5.6 | 8.7 | 9.0 | 4.1 | -1.0 | -0.4 | 0.5 |
| Net inward debt flows | 7.6 | 3.1 | 4.4 | -1.3 | -1.0 | -0.7 | -1.8 | -0.1 | 4.9 |
| From public sources | 3.5 | 2.0 | 1.4 | 0.4 | 0.3 | 0.6 | 0.2 | 2.2 | 1.5 |
| From private sources | 4.1 | 1.2 | 3.0 | -1.8 | -1.3 | -1.3 | -2.0 | -2.2 | 3.4 |
| Gross Market Based Capital Inflows | 7.8 | 7.8 | 7.9 | 6.4 | 10.0 | 11.6 | 9.9 | 9.0 | 15.3 |
| Total External Debt | 235.4 | 231.2 | 220.7 | 228.4 | 214.7 | 211.2 | 202.6 | 210.3 | 219.7 |
| Medium and Long Term | 194.7 | 188.6 | 179.8 | 186.0 | 173.7 | 178.1 | 170.9 | 181.2 | 190.9 |
| Short Term | 40.6 | 42.6 | 40.8 | 42.4 | 41.0 | 33.1 | 31.7 | 29.1 | 28.8 |
| Owed by Public Sector Borrowers | 182.9 | 178.3 | 171.0 | 177.7 | 163.3 | 166.7 | 158.5 | 168.7 | 174.8 |
| Owed by Private Sector Borrowers | 52.4 | 52.9 | 49.7 | 50.7 | 51.4 | 44.4 | 44.1 | 41.7 | 44.9 |
| Owed to Public Sector Creditors | 146.2 | 143.9 | 138.1 | 145.5 | 135.0 | 140.9 | 134.5 | 143.3 | 148.6 |
| Owed to Private Sector Creditors | 89.2 | 87.3 | 82.6 | 82.9 | 79.8 | 70.2 | 68.1 | 67.0 | 71.1 |
| Gross Foreign Exchange Reserves | 17.9 | 20.6 | 28.1 | 26.8 | 28.2 | 34.0 | 34.3 | 35.1 | 37.4 |

-- Not Available

*Note: e* = estimate, *f* = forecast.

a. Fixed investment, measured in real terms.

b. Local currency GDP deflator, median.

c. Weighted average growth of import demand in export markets.

d. Goods and non-factor services.

e. Change in terms of trade, measured as a percentage of GDP.

**External financing: Sub-Saharan Africa, 1997-2003**
*(billionsof dollars)*

| | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003e |
|---|---|---|---|---|---|---|---|
| Current account balance | -7.6 | -17.3 | -9.7 | -1.9 | -8.6 | -8.0 | -9.8 |
| as % GDP | -2.2 | -5.5 | -3.0 | -0.6 | -3.1 | -2.8 | -2.6 |
| **Financed by:** | | | | | | | |
| Net equity flows | 14.0 | 15.6 | 18.3 | 9.9 | 13.3 | 7.4 | 9.0 |
| Net FDI inflows | 8.4 | 6.9 | 9.3 | 5.8 | 14.3 | 7.8 | 8.5 |
| Net portfolio equity inflows | 5.6 | 8.7 | 9.0 | 4.1 | -1.0 | -0.4 | 0.5 |
| Net debt flows | 4.4 | -1.3 | -1.0 | -0.7 | -1.8 | -0.1 | 4.9 |
| Official creditors | 1.4 | 0.4 | 0.3 | 0.6 | 0.2 | 2.2 | 1.5 |
| World Bank | 1.7 | 1.3 | 1.1 | 1.5 | 1.8 | 2.2 | 1.9 |
| IMF | -0.5 | -0.3 | 0.0 | 0.1 | 0.1 | 0.5 | -0.2 |
| Others | 0.3 | -0.6 | -0.8 | -1.0 | -1.7 | -0.5 | -0.3 |
| Private creditors | 3.0 | -1.8 | -1.3 | -1.3 | -2.0 | -2.2 | 3.4 |
| Net M-L term debt flows | -0.4 | -1.3 | -0.6 | -0.2 | 0.1 | -0.5 | 4.3 |
| Bonds | 1.0 | 0.3 | 1.2 | 1.0 | 1.9 | 2.7 | 5.2 |
| Banks | -1.7 | -1.2 | -1.6 | -0.8 | -1.5 | -2.4 | 0.1 |
| Others | 0.2 | -0.3 | -0.2 | -0.5 | -0.3 | -0.8 | -1.1 |
| Net short-term debt flows | 3.5 | -0.5 | -0.6 | -1.0 | -2.0 | -1.8 | -0.9 |
| Balancing item * | -3.4 | 1.6 | -6.1 | -1.5 | -2.7 | 1.4 | -1.7 |
| Change in reserves (- = increase) | -7.5 | 1.4 | -1.5 | -5.8 | -0.3 | -0.7 | -2.4 |
| Memo items: | | | | | | | |
| Bilateral aid grants (excluding technical co-operation grants) | 9.6 | 10.1 | 9.9 | 10.0 | 10.0 | 13.0 | 13.9 |
| Net private flows (debt+equity) | 17.0 | 13.8 | 17.0 | 8.6 | 11.3 | 5.2 | 12.4 |
| Net official flows (aid+debt) | 11.0 | 10.6 | 10.2 | 10.6 | 10.3 | 15.1 | 15.4 |
| Workers' remittances | 3.7 | 3.6 | 3.5 | 3.5 | 3.9 | 4.1 | 4.1 |

*Note* : e = estimate

a. Combination of errors and omissions and net acquisition of foreign assets (including FDI) by developing countries